

**UNITED STATES-SOUTH AFRICA RELATIONS:
PRESENT AND FUTURE**

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HOUSE OF REPRESENTATIVES,
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COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C.

The Subcommittee met, pursuant to notice, at 2 p.m., in room 2200, Rayburn House Office Building, Hon. Edward R. Royce (Chairman of the Subcommittee) presiding.

Present: Representatives Royce, Campbell, Payne, Hastings, Meeks, and Lee.

Also present: Representative Gilman.

Mr. ROYCE. Today's hearing of the Subcommittee on Africa will now come to order.

Today the Subcommittee will look at the bilateral relationship between the United States and South Africa, one of the most important relationships our country has in Africa.

Since it made its exceptional transition to a nonracial democracy, U.S. relations with South Africa have considerably broadened. No longer dominated by apartheid, the U.S.-South Africa agenda now tackles issues of security, health, and the environment. With the U.S. being South Africa's largest trading partner and South Africa being the dominant buyer of America's exports to Africa, economic issues have a heightened prominence. Needless to say, the new agenda, while challenging, is most welcome.

The U.S.-South Africa Binational Commission, up and running for 4 years now, indicates the importance of South Africa to the United States. South Africa faces many challenges. Its economy is struggling. It faces a serious crime problem, which we will hear about. In these areas, it is in the U.S. interest to work with the new government of Thabo Mbeki through the Binational Commission for a better future in South Africa.

Within Africa, the U.S. has given South Africa exceptional attention. While it is important that this not come at the expense of other African countries, South Africa's potential and importance warrants this attention. Today the Subcommittee will have a chance to better appreciate the challenges and opportunities of our important relationship with South Africa.

Before proceeding, I would like to acknowledge the death of Julius Nyerere, the former president of Tanzania. He died last night in a London hospital. Nyerere is a man who defined his age, who will be remembered for his opposition to colonialism, and his opposition to apartheid, as well as his modest lifestyle.

Mwalimu, Swahili for teacher, which he was commonly called, remained active in public life after leaving office in 1985. At the time of his death, he was working to resolve the conflict in Burundi. Our condolences go to the Nyerere family and to the Tanzanian people.

I will now recognize the ranking member of the Subcommittee for an opening statement.

Mr. Payne?

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

Mr. PAYNE. Thank you very much, Mr. Chairman, for calling this very important hearing on South Africa. I, too, would like to mention former president of Tanzania, Julius Nyerere, the father of the independence movement. Today Africa has lost a great man. Commonly referred to as "The Conscience and Teacher of Africa," President Nyerere was one of the leaders who led the drive to end the white minority rule in South Africa and Rhodesia and to stop apartheid.

In 1979, he defied the OAU and sent troops to Uganda in outrage of Idi Amin's policies in Uganda. He has been at the forefront of helping countries in this region and has used diplomatic skills to end the war in Burundi and in the Congo. President Nyerere was among only a handful of African presidents to voluntarily leave office. I had the privilege of meeting President Nyerere for the first time in 1972 and have been a long admirer of his ever since.

Like former president Nyerere, President Nelson Mandela is also universally regarded not as a hero but almost a saint. His refusal to enact vengeance on those who mistreated him goes beyond the tight-lipped resentment of a statesman. He, as you know, invited his jailor to his inauguration.

Black South Africans had no democratic rights, no possibility of bringing about any peaceful change. They didn't even have basic human rights, as was made very obvious by the appalling massacre at Sharpeville in March 1960. The police fired indiscriminantly into an African crowd, killing 67 and wounding another 186, most of them shot in the back.

Far from being repentant about this atrocity, the South African government became more repressive and declared the ANC to be illegal. After 5 years that culminated with the 1994 elections, the ANC, under the leadership of President Nelson Mandela, and now under the presidency of Mr. Mbeki, is moving South Africa from an oppressive apartheid regime to give birth to a new democratic movement.

South Africa has a diversified and productive economy and functioning democracy. Nevertheless, the legacy of racial inequality is still a problem. Let me share with you for a moment this report by the South African government.

Since 1994, more than 22,700 former liberation fighters and black homeland soldiers have been integrated into the South African national defense force. Pockets of tension and resentment clearly remains. In a confidential report that became public last year, military officials documented troubling disparities in the disciplining of black and white soldiers and the pay of men of the same rank, which is still unequal.

Moreover, unemployment is between 40 and 68 percent, with most black South Africans below the poverty line.

In conclusion, let me say that I am glad to see that several central banks have backed away from the plan to sell gold. When Congressman Campbell and I traveled to Zimbabwe for the funeral of vice president Joshua Nkomo, and to South Africa, they reiterated the problem with the gold sales and the IMF.

It has been reported that as many as 15 people are dependent on one South African gold miner. A possible layoff of 20- to 25,000 miners, would impact hundreds of thousands of people.

So, Mr. Chairman, once again, let me thank you for calling this very important hearing.

Mr. ROYCE. Thank you. I thank you, Mr. Payne.

Any other members wish to make an opening statement?

Mr. CAMPBELL. I do.

Mr. ROYCE. Mr. Campbell?

Mr. CAMPBELL. We are joined by the Chairman of the Full Committee. I will certainly yield if he has to speak first, but don't forget me.

Mr. GILMAN. I do have an opening statement, Mr. Chairman.

Mr. ROYCE. Mr. Chairman, if you would like to make a statement at this time. We will hear from Mr. Gilman of New York, Chairman of the full International Relations Committee.

Mr. GILMAN. Thank you, Chairman Royce, and I appreciate your Subcommittee's ongoing diligence and the wisdom of holding this hearing. There is a natural tendency for us to focus on the crisis of the day, and, regrettably, Africa seems to host a number of crises daily. This Subcommittee has not shied away from addressing the complex emergency situations in Congo, in Sudan, in Sierra Leone, Ethiopia, and Eritrea, among others.

But it would be a mistake to neglect crucial countries like South Africa simply because chaos does not currently reign there. It was not very long ago when South Africa was itself in political crisis. Hearing after hearing was held on the South African regime, and most analysts predicted that the end of apartheid would come only through bloodshed.

I remember when it became apparent that South Africa had developed nuclear weapons, and I shudder to consider what might have been. However, our relief at the positive developments in South Africa should not blind us to the serious challenges facing that nation and this region.

Unemployment continues to be a major problem there. Nearly everyone in South Africa works, but only half the working population has a regular job. The rest eke out a marginal living from 1 day to the next. The infection rate of HIV/AIDS is shocking, and it appears to be growing. The murder rate in South Africa remains 10 times as high as our own unacceptably high rate.

As if all of these challenges were not enough, it is now obvious that a rainbow coalition of transnational criminal organizations has set up shop in South Africa, threatening the very institutions of its hard-won democracy. I would like to focus for a moment on that topic.

I am very grateful to the Subcommittee for inviting Special Agent Jud Ray of the FBI's International Training and Assistance Unit to testify today. Agent Ray provided me with an excellent

briefing on the transnational crime situation in South Africa 2 years ago.

At that time, we discussed the value of establishing in Africa an international law enforcement academy, ILEA, modeled after the highly successful program in Budapest, Hungary. Sophisticated international criminal organizations cannot be fought without cooperation among national law enforcement agencies. But as with NATO armies, those crime fighting agencies must share a common understanding and approaches in order to cooperate effectively. That cannot happen overnight, and it cannot happen without some capacity building.

This Committee has urged the Department of State on numerous occasions to move forward with an ILEA Program before the Russian, Nigerian, Columbian, Italian, and Chinese mafias, all of whom are present in South Africa at this moment, become deeply entrenched.

I know that Assistant Secretary Rice recognizes the value of that program. We thank her for being here today. I know that she and the African Affairs Bureau at the State Department have been calling for this program, and I am now hopeful that it will soon become a reality. But why it has taken so long I, frankly, cannot understand. I hope that Secretary Rice and Agent Ray may be able to shed some light on this matter and be able to help us move along this project.

As one additional indication of the congressional support for this endeavor, I have offered language in a State Department reauthorization bill that directs the Secretary of State, in consultation with our Attorney General and our Treasury Department, to provide our Committee with a detailed operational plan for an African ILEA within 6 months.

Mr. Royce, Chairman Royce, members of the Subcommittee, distinguished witnesses, I thank you for your efforts here today. If I must depart before the completion of the hearing—I do have another hearing—I would ask that you allow me to submit additional questions for the record.

Thank you, Mr. Chairman.

Mr. ROYCE. Thank you, Chairman Gilman.

We will now go to Mr. Hastings of Florida for a brief opening statement.

Mr. HASTINGS. Mr. Chairman, thank you very much for holding this hearing. I would like to thank the witnesses who are appearing before us and with particular emphasis on Assistant Secretary for the Bureau of African Affairs, Secretary Rice, our good friend, who has done an extraordinary amount of work.

Sometimes hearings of this nature don't permit us to gain insight to the extraordinary information that she and the staff and others that work with her have gathered. Hopefully members will take advantage of opportunities to speak with Secretary Rice personally, who is an extremely accessible person, regarding matters ongoing.

Mr. Chairman, I have a specific interest today, and the Chairman of the Full Committee has alluded to it, as has my colleague, the ranking member of this Subcommittee, and that is the major problem of HIV/AIDS. I know that there are numerous issues of necessity we must address our concerns for.

I can't imagine any issue in South Africa, the whole continent of Africa, indeed, in the world, as pertinent as the issue of HIV/AIDS. I will be particularly interested in Secretary Rice's views in that regard once the questioning period begins.

I feel, Mr. Chairman, as true leaders of democracy, the United States must continue to encourage the new South Africa to remain committed to its current direction and continue in the areas of economic liberalization. We must continue to work with South Africa and build a nation which truly belongs to all.

I do urge that we be mindful, that in the period of time that I have been here we have continuously hammered the budget as it pertains to the continent of Africa. The DFA has usually \$700 million—\$513 million this year—but that doesn't include all of the moneys. But if we keep cutting, we are not going to look very good in the eyes of those who have the greatest need.

Thank you, Mr. Chairman.

Mr. ROYCE. Thank you, Mr. Hastings.

Mr. Campbell of California.

Mr. CAMPBELL. Mr. Chairman, I thank you for holding this meeting. I thank you for authorizing the travel that has allowed me and Congressman Payne in particular to visit Julius Nyerere, and I just wanted to have a few comments about him to start.

My thanks also go to the Chairman of the Full Committee, Mr. Gilman, who has authorized such travel and who has shown such a great interest in Africa, for which I am personally grateful.

Mr. Payne was unavoidably detained, and I do want to just put into the record that I did sing his praises at the earlier part of our hearing today in the markup. He is the original co-sponsor of both resolutions that passed, one dealing with Eritrea and Ethiopia, the other dealing with Somaliland, or the area of Somalia north, which formerly was called Somaliland. I give him tremendous credit for helping in that—in those two resolutions and teaching me so much about Africa.

My thoughts about Julius Nyerere are very short but from my heart. He welcomed us to our home. He had one title and that was "Mwalimu"—teacher. That was the title that mattered most to him, not president, not maximum leader, or any other military title. It was "Mwalimu," teacher.

He taught us—I think he taught Africa—commitment to human rights and a commitment to panafricanism, not that I or any of us agree with every aspect of his policy. The point is he cared to teach; he did not care to hold on to power. He succeeded in what he set out to do. So God rest his soul, and I yield back.

Mr. ROYCE. Thank you.

Mr. Meeks of New York.

Mr. MEEKS. Thank you, Mr. Chairman. Let me thank you for holding this hearing, and I want to join my colleague and friend, Mr. Hastings, in thanking the witnesses that are here to testify today, but, in particular, Secretary Rice, because I have found that she has always brought forth some very pertinent and formative information each time that we conduct these hearings. I want to say thank you to her.

Since the election of Nelson Mandela in 1994, we have seen South Africa blossom into an economic and political force. Yet, as

is the case with every new and emerging country, there comes growing pains, and South Africa proves to be no different under the new democratic republican regime that is now there in South Africa.

While she benefits from a billion dollar economy, yet she struggles with high unemployment and an unskilled labor force. After prevailing over apartheid for 40 years, South Africa is succumbing to one of the fastest-growing number of AIDS cases in the world, which threatens to wipe out some six million people over the next 10 years.

South Africa serves as a mediator across the continent of Africa. She is combatting a surge of high crime and corruption in her own backyard, and some of those similarities at times I draw to our own country.

Mr. Chairman, although we say that that looks grim, with the reference to the high crime and the unskilled labor force and unemployment, I believe that South Africa has a bright, bright future. Under the leadership and direction of President Mbeki, South Africa will and has taken giant steps in securing her economic future by signing a trade development and cooperation accord with the European Union.

I feel that the bill that we recently passed here in Washington with the African Growth in Opportunity Acts will also provide some additional strength for South Africa.

Second, additionally, South Africa has taken the aggressive and often controversial position of dealing with pharmaceutical companies in obtaining inexpensive, preventive drug treatment and medicines to combat the spread of AIDS. I think that we have an obligation to help them in that mission, so that they can get the kind of drugs that are necessary to prevent the spread of AIDS.

Not only does South Africa serve as a role model for other African nations, she continues to lead the Southern African Development Community (SADC) toward economic prosperity. We have an opportunity here in America to do the right thing toward South Africa. South Africa serves as a beacon of hope, a stabilizing force, to a war-torn and conflict-ridden continent.

As we enter the 21st century, the U.S. policy needs to reflect a more progressive and proactive role in strengthening and fostering economic opportunities and political partnerships so that South Africa continues on course toward global prosperity.

Again, Mr. Chairman, I thank you for conducting this hearing. I think that we will be able to go a long way.

Mr. ROYCE. Thank you, Mr. Meeks.

Ms. Lee of California?

Ms. LEE. Thank you, Mr. Chairman, and I would like to also thank you and our ranking member for calling this hearing.

I, too, am saddened today by the death of Julius Nyerere. As a very young student, I was deeply influenced by his leadership and his intellect, and I hope that all of us will remember him as we move forward in our overall development of our U.S. policy toward Africa, which I think is moving along in a very productive and positive fashion, thanks to Honorable Susan Rice and all of those who are helping us do this.

Like so many in this country, I have a long history of involvement with South Africa, primarily as an anti-apartheid activist during the height of the anti-apartheid movement. I was actually working for Congressman Ron Dellums, and, as we know, Ron played a pivotal role in bringing sanctions against the apartheid regime of South Africa, putting the United States, I would say, on the right side of history.

In 1994, as an international poll observer in South Africa, I had the humbling and incredible experience to witness the first free, peaceful, democratic elections in the country. It was really an opportunity for which I will always be grateful.

Now, of course, in the 106th Congress, we have all been engaged in debate on creating a comprehensive national trade policy with Africa. I believe that that time is long overdue, and I am pleased that as a part of our hearing today we will address U.S.-South Africa economic partnerships.

I also want to mention—and I mention this with pride—when I was in the California legislature, after many years of hard work and long hours, my home state of California opened the California Trade and Investment Office in South Africa, which is really the first state to do so subsequent to the end of apartheid.

The investment of California businesses in South Africa continues to expand. We continue to take trade delegations, friendship delegations, to South Africa, which are incredible successes.

Finally, let me just say in terms of our priorities, and in terms of economic partnerships, we must address, as my colleagues have said, in a substantial and comprehensive manner the pandemic of HIV and AIDS. We know that in South Africa there are 1,500 new recorded cases of HIV and AIDS each and every day. I had the privilege to travel to South Africa with the White House this year to look at the impact of HIV and AIDS on orphans. It is staggering what we found out.

So we have been working very closely with the Embassy of South Africa to understand the scope of this crisis in South Africa and to support creative courses of action to really help combat this disease.

I want to thank the Embassy of South Africa for supporting legislation, which is really the first country to support legislation that I have introduced, H.R. 2765, the Aids Marshall Plan for Africa. For this, again, I am thankful and grateful, and I think all of us here remain committed to fight the HIV and AIDS epidemic in South Africa.

Thank you, Mr. Chairman. Thank you, Mr. Payne, for this hearing. I think the future success of South Africa depends on so many interconnected factors, among them the health and security of the people of South Africa.

Thank you.

Mr. ROYCE. Thank you, Congresswoman Lee.

We will go to our first panel. We have Assistant Secretary of State for African Affairs, Susan Rice, who previously served at the White House as Special Assistant to the President and Senior Director for African Affairs.

Dr. Rice earned a master's and a Ph.D. in international affairs from Oxford University. She recently was invited to return to de-

liver the 1999 Braham Fisher Memorial lecture on America's Africa policy there.

Welcome, Dr. Rice. If you would keep your remarks to five to 10 minutes, we will put the full remarks in the record, but that way we will have more time for questions. Dr. Rice, thank you so much for joining us today.

STATEMENT OF HONORABLE SUSAN E. RICE, ASSISTANT SECRETARY, BUREAU OF AFRICAN AFFAIRS, U.S. DEPARTMENT OF STATE

Ms. RICE. Thank you very much, Mr. Chairman, members of the Committee. It is always a privilege and an honor to appear before this Subcommittee.

I would like to begin, if I might, by joining you in expressing our deep condolences and sadness at the loss of a tremendous international statesman today, former president Julius Nyerere. We will all miss his leadership tremendously. It was leadership that he never tired of giving to the international community up until his very last months. I want to pay particular tribute to his most recent contribution to regional peace and security, his efforts to bring about a lasting peace in Burundi.

The White House will be sending a high-level Presidential delegation to his funeral, the composition of which is still to be determined, but we intend to be well-represented on behalf of the United States, to share their sorrow.

I will try to keep my remarks as brief as I can. If I might just thank you for the opportunity to testify on South Africa. It is a nation whose remarkable transformation continues to command the world's attention and admiration. Five years ago, South Africa stood at the threshold of a new era when its people went to the polls to elect their first democratic parliament. It in turn, of course, chose Nelson Mandela to lead a government of national unity.

Now South Africa has entered a new and equally critical phase, and its resilient people again have put their best foot forward. The country's second democratic election on June 2nd marked a smooth and routine transfer of power, a critical indication of sustained progress in South Africa.

Our stake in South Africa's success is significant. For the United States, South Africa's leadership as a pluralistic, market-oriented democracy is critical to the achievement of our goals in Africa, especially integrating Africa into the global economy and combating transnational threats to our mutual security.

A half-decade after the end of apartheid there is general recognition, both inside and outside of South Africa, that the government of President Nelson Mandela and Deputy President Thabo Mbeki performed extremely well. The ANC-led government has fostered the difficult and lengthy process of national reconciliation, laid the groundwork for long-term democratic tradition, established a sound economic policy framework, and began to deliver essential social services to the previously disadvantaged majority.

President Thabo Mbeki's government now faces the difficult task of fulfilling his promise to accelerate the pace of the transition. Since taking office on June 16th, President Mbeki has taken deci-

sive steps to address the pressing issues of crime, economic growth, and job creation.

In public forums, he has taken a tough line against military governments, corruption, and misrule, statements which we, of course, applaud. At the same time, he stood by the government's macroeconomic policies embodied in the Growth, Employment, and Redistribution Program, or GEAR, that emphasized fiscal discipline, removal of capital controls, lower tariffs, and privatization of the parastatal sector.

U.S. policy seeks both to help South Africa consolidate its already remarkable progress and to strengthen our partnership in key areas of mutual interest. The most important of these key areas are the following: bolstering democratic institutions and processes, strengthening the institutional capacity of the South African government to develop socioeconomic policies, create jobs, and provide improved social services, working together diplomatically to prevent and resolve conflicts, cooperating to prevent the proliferation of weapons of mass destruction, working to open the South African and SADC markets to U.S. products and services, and to increase bilateral trade and to improve the climate for U.S. investment, helping South Africa develop an effective criminal justice system, supporting South Africa's pursuit of sustainable development, and, finally, supporting improvements to South Africa's health care system to ensure core needs of the majority are met, and to combat the spread of infectious diseases, particularly HIV/AIDS.

To help achieve those goals, the full panoply of the U.S. Government has been actively involved in providing support and training. The largest component of U.S. assistance to South Africa is, of course, USAID's efforts. Our current strategy being implemented under a 10-year, \$435 million program, seeks to ensure a sustainable transition.

The United States and South Africa, of course, have much in common—diverse and open societies, deep respect for democratic ideals and human rights, and a shared vision of a peaceful and prospering international community. Regular high-level contacts have been critical to the process of developing a strong U.S.-South Africa partnership.

President Mandela's visit to Washington in October 1994 led to the establishment of the U.S.-South Africa Binational Commission (BNC). This Commission has met six times since 1994 and now comprises nine Committees.

The BNC has been central to the process of renewing and strengthening our cooperation in many areas. Under its auspices, we have worked to open our markets, signed a trade and investment framework agreement, and established a Trade and Investment Council. We have negotiated a bilateral tax treaty and new pacts on civil aviation, extradition, and mutual legal assistance.

Two recently established BNC committees, one on defense and another on justice and anti-crime cooperation, have led in short order to rapidly expanding collaboration in these key areas.

Finally, in the area of foreign policy, South Africa has quickly emerged as one of Africa's leading political and diplomatic actors. The global scope of South African foreign policy notwithstanding,

much of the government's focus is closer to home with the Southern African Development Community (SADC) and the Organization of African Unity (OAU). South Africa appears determined to make both SADC and the OAU more relevant and effective. We strongly support its efforts in this regard.

In conclusion, Mr. Chairman, let me say that we consider our relationship with South Africa to be one of our highest priorities. But we all must be cognizant of the tremendous challenges still facing the country and its people. As President Mbeki said at his inauguration, "South Africa is at the dawn of the dawn, when only the tips of the horns of cattle can be seen etched against the morning sky."

In many ways, the task of democratic institution building in this country is only just beginning. Crime, HIV/AIDS, and economic disparity all threaten South Africa, just as our own social problems and violence threaten U.S. progress in the century to come. We are committed to supporting not only South Africa's domestic strides, but its strong role in the region and its positive contribution worldwide.

We look forward to strengthening and deepening our engagement with the new South Africa and its people. We believe their strength will ensure the success of their transition and the emergence of South Africa as one of the world's greatest powers and most respected leaders.

Thank you very much.

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

Mr. ROYCE. Thank you, Dr. Rice. I appreciate your summarizing your testimony as well.

Before finishing here, on behalf of the Subcommittee, let me just say a few words. I would like to wish you and Secretary Albright a productive visit to Africa next week. In particular, I believe that the Secretary's visit to Sierra Leone could be most helpful in helping that war-shattered nation along the road to peace.

As you know, the Subcommittee has taken a strong interest in Sierra Leone, and we look forward to hearing about your visit. Again, we thank you for coming here today.

There are a few questions that I would like to ask you, and then we will turn to other members of the Committee. But the first has to do with the signing this week of the South Africa-European Union trade development and cooperation agreement. This agreement will dismantle or reduce tariffs on about 95 percent of South African exports into Europe, and at the same time South Africa will scrap its duties on about 86 percent of the EU imports over 12 years.

I believe for South Africa that is a positive development, but concerns have been raised about this agreement disadvantaging American firms in South Africa. Does the administration share these concerns? And, if so, does it have a proposal to address this?

Ms. RICE. Thank you, Mr. Chairman. We support regional and bilateral trade agreements that are liberalizing as a matter of principle. But we will be watching implementation of the EU-South Africa free trade agreement very carefully to ensure that it is WTO consistent and that U.S. exporters and investors are not unfairly

disadvantaged. Our initial analysis of this agreement and its effects on U.S. exporters is, at present, underway.

As the President said during his trip to South Africa, we are very much open to the idea of exploring bilateral trade liberalization efforts with South Africa, including discussing a U.S.-South Africa free trade agreement at an appropriate juncture.

Mr. ROYCE. Let me ask you also about press reports that Danelle, a South African government-owned defense contractor, presently has a delegation in town, is preparing to sell weapons to Libya. How would such South African weapon sales to Libya, or other countries considered hostile to U.S. interests, impact our relationship with South Africa?

Ms. RICE. Mr. Chairman, we have seen the same reports that you have. This is an issue of concern to the United States. I do want to say that we have no information at present to confirm any sale by South Africa of such equipment to states that we consider pariah states. We continue to watch this situation very carefully. It is also obviously a subject that features regularly at the highest levels of our bilateral discourse with South Africa.

I would not wish to speculate about the effect of such a sale. We have a number of laws on the books that govern our relationship with states that sell such equipment to terrorist list states. Those laws are well-known to the government of South Africa, and we continue to look forward to constructive discussions with the government of South Africa aimed at fostering our shared interest in preventing proliferation of weapons to countries that could well misuse them.

Mr. ROYCE. Thank you. In your testimony, you mentioned that President Mbeki is serving as Chair of the Non-Aligned Movement, or Non-Aligned States. What is the significance of the Non-Aligned Movement to the United States?

Ms. RICE. I suppose I could go on at some length about that. I will try to be brief. The Non-Aligned Movement (NAM), historically has played a prominent role in international affairs. It has long been the voice of the developing world and countries who have felt that their political and economic interests have not been fully taken into account by some in the developed world.

It continues to be an important venue for policymaking and dialogue with the countries of the developing world. South Africa has taken its role as Chairman of the NAM very seriously, and we have been grateful for the opportunities we have had to work with South Africa in its role as Chairman of the NAM to pursue issues of mutual concern.

Mr. ROYCE. OK. Last, let me bring up a question which I have discussed with you before, which is the view that South Africa and many other gold-producing countries have with regard to IMF's gold sales to fund the highly indebted poor country initiative which the administration supports. As you know, the opposition comes from the fact that it would drive down gold prices and harm the economies that, in theory, it is designed to help.

This Subcommittee held a hearing on debt relief in the spring, and Treasury Department officials were dismissive of the concerns raised by the Committee members here at that time. How is the issue now being viewed by the administration, if I could ask?

Ms. RICE. As you well know, providing debt relief to the poorest countries remains an important priority for the administration. The IMF has been examining a whole range of options that would allow it to participate fully in the HIPC initiative. It is partly due to considerations of gold-producing countries, the United States and South Africa both being among them, that probably will lead compromise on the planned sale of 10 million ounces of IMF gold on the open market.

So, at present, this is being reevaluated has been shelved, and we look very much to the Treasury Department, of course, to provide specifics on future policy with respect to gold sales. But I don't see that as being an immediate concern with respect to funding of the HIPC initiative.

Mr. ROYCE. Thank you. Thank you, Dr. Rice.

I will go to Mr. Payne.

Mr. PAYNE. Thank you very much, Dr. Rice. I, too, appreciate the fine work that you have been doing and wish you good luck on your trip to Africa with the Secretary. I also have a question regarding Libya, but not as it relates to the sale of weapons.

Although Libya certainly has behaved as a pariah state for decades, and its leader, Mr. Gadhafi, has not been cooperative in world policies it appears to me that during the last 3 or 4 years there seems to have been a change in Libya's interest in moving back into the world society. South Africa has a relationship with Libya, and if Libya did show that it sincerely was interested in changing its ways, since in the past its engagement with many African countries have been not always been constructive, with Charles Taylor of Libya starting out in Libya etcetera,—but what do you think would be the prospects of Mr. Mandela having discussions with Mr. Gadhafi? Does the U.S. at this time feel that its policy on Libya might be changing?

Ms. RICE. Sir, I appreciate that the Subcommittee has jurisdiction over Libya. I am not the American official responsible for our policy toward Libya, and I would be remiss if I were to answer that question directly. I am happy to take it back, if you would be willing to provide it in written form, and ask the Near Eastern Bureau to provide an answer to it.

Mr. PAYNE. That is great. There is the question of pharmaceuticals, intellectual property, and the question of a conflict between South Africa and the alleged demands from the U.S. regarding that whole situation.

Could you try to clarify what the situation is now between the U.S. pharmaceuticals and South Africa, and the whole question of how AIDS victims can be assisted with the fact that the products that can combat AIDS are very expensive. There are certainly two sides to this issue, but what officially is the situation now between South Africa and the pharmaceuticals?

Ms. RICE. Sir, as you perhaps have seen, last month the U.S. Government and the South African government reached a satisfactory resolution to the dispute over the South African Medicines Act and pharmaceutical patents protection. This was a welcome development. Many in the administration worked hard with counterparts on the South African side to achieve.

The understanding that we have come to commits South Africa to honor fully its WTO commitments under the treaty respecting international property, while also affords South Africa the necessary flexibility to respond to its national HIV/AIDS health crisis. So this an amicable, and we believe very balanced, resolution to the issue and sets aside this contentious issue. We hope it will never again play a prominent role on our bilateral trade agenda.

There is a continuing dialogue between the U.S. and South Africa to ensure that the Medicines Act is implemented in a manner that is consistent with South Africa's WTO obligations and in a manner that ensures the safety and the efficacy of patented drugs. So I think we have good news in that regard. A lot of hard work has gone into it, and I believe the governments of both the United States and South Africa are satisfied with the result.

Mr. PAYNE. Thank you. I know President Mbeki was fairly involved in the agreement in the Congo. To your knowledge, is South Africa continuing to take the leadership in the cease-fire there, and, to your knowledge, is the cease-fire still holding? I know this is a little outside South Africa, but indirectly it does involve South Africa.

Ms. RICE. The South African government has played a highly constructive role at all stages in the effort to broker a peaceful resolution to the conflict in Congo. It did so under President Candela's leadership, and it has been very energetic in recent months under his leadership.

President Mbeki and his new foreign minister, Mrs. Zuma, have engaged almost full-time, it might seem to an outside observer, in shuttle diplomacy and other efforts to bring particularly the rebel factions to an agreement on the issues that divided them, and to enable the rebel leadership to finally sign the Lusaka agreement. Their efforts continue.

South Africa has made an important pledge to financially support the Joint Military Committee, which is an important element of the Lusaka agreement. It has expressed its willingness to participate in a U.N. peacekeeping effort there. We very much admire and are grateful for the contributions that South Africa has made and has promised to continue to make.

Regarding the situation in the Congo, there, of course, have been some cease-fire violations and some incidents, particularly over the last 10 days or so, but by and large, to a large extent, since the agreement was signed back in July, there have not been major violations of the agreement; certainly, none that have been sufficient for either side or any party to declare its unwillingness to adhere to the terms of the agreement.

Just earlier this week in Kampala was a very important meeting of the Joint Military Committee, where the parties to the conflict came together and made some important decisions that should lead to swifter implementation of key elements of the Lusaka agreement.

Mr. PAYNE. Thank you very much. I am really glad to hear that.

The third bell has rung, so I have to leave. Someone should be here in a moment, though, and I don't think we would have to have a recess. I ought to just increase aid to Africa by about—

Ms. RICE. Go for it.

Mr. PAYNE [continuing]. A couple hundred million dollars. When the Chairman comes back—

[Recess.]

Mr. ROYCE. Secretary Rice, again, we want to thank you very much for your testimony here today, we wish you well, you and Secretary of State Albright well, on your trip to Sierra Leone. That will conclude our first panel.

Mr. PAYNE. Mr. Chairman, would you yield just for—

Mr. ROYCE. I certainly will yield to the gentleman from New Jersey.

Mr. PAYNE. I just had a quick question regarding the overwhelming issue about crime. Has the South African government asked the U.S. Government for any assistance in fighting crime? Or do they have the capacity to do it, investigating and that kind of work? I know President Mbeki in his inaugural address spent a great deal of time on the issue of crime. Will that issue come up? Or have they made any request to us for assistance?

Ms. RICE. The issue of cooperation and countering crime, both domestic and internationally, is an increasingly important item on our bilateral agenda, so much so that the Vice President and then-Deputy President Mbeki agreed to create a justice and anti-crime cooperation Committee of the Binational Commission.

That Committee was inaugurated last February when the Attorney General herself went down to South Africa as part of the Binational Commission. She went back again to South Africa in June to lead the U.S. delegation to President Mbeki's inaugural, and she met just last month with her South African ministerial counterpart here in Washington to conclude two important agreements on cooperation and law enforcement matters.

There have been specific requests to the United States to help South Africa build capacity and train its police and enhance its law enforcement capability. A variety of U.S. Government agencies are on the ground actively pursuing that cooperation and providing assistance and training.

We have much to gain together by cooperating in this regard, and we look very much forward to it, and we share Chairman Gilman's interest in the rapid establishment of the international law enforcement academy in Southern Africa, which will enhance our ability to cooperate on crime matters not only with the government of South Africa but with countries in the entire subregion.

Mr. ROYCE. Thank you. We are going to go to Mr. Campbell of California for his questions.

Mr. CAMPBELL. Obviously, I apologize if they have been asked already, but the votes happen that way. I wanted to ask about ACRI and where we are on South Africa's participation in the Africa Crisis Response Initiative. Maybe you could give me an update. I was particularly interested in knowing if they might be willing to play a role, if Nigeria is playing a little bit less, maybe in the West Africa region. But if not, where are they on ACRI?

Ms. RICE. South Africa has made it plain that it intends to play an increasingly important role in international peacekeeping activity. This is a relatively new policy approach coming out of the white paper that they published in December 1998, and it has al-

ready been manifested in Lesotho, and we look forward to a South African role in the Congo.

But in terms of the African Crisis Response Initiative, the South Africans have maintained the position that they prefer that initiatives for training and capacity building in peacekeeping in Africa be conducted on a multilateral basis under the auspices of the U.N. or the OAU or SADC.

While we continue to talk at various levels and cooperate with the South Africans on peacekeeping activities—for example, our support for the Blue Crane exercise last year, and our bilateral military cooperation in other spheres—we are not at the stage where we anticipate a swift decision in South Africa to participate in the African Crisis Response Initiative.

That is, of course, their prerogative. We continue to discuss ACRI participation with a number of other governments throughout Africa, including in Southern Africa. Malawi has joined ACRI, and others in Southern Africa may soon take similar decisions—

Mr. CAMPBELL. Who else has—

Ms. RICE [continuing]. We look forward to that.

Mr. CAMPBELL. Pardon me for interrupting. Who else has signed on in Southern Africa? Is it just Malawi?

Ms. RICE. Malawi is the only one that is actively in the program, although other countries in Southern Africa have expressed an interest. Our concern is given that our capacity under ACRI is not infinite, that we work with partners whose ability to make a meaningful contribution at the outset is already well-established.

Mr. CAMPBELL. I refer to notes that our Committee staff prepared in advance, and so it is not of my own knowledge, that President Mandela assured President Clinton during President Clinton's visit to South Africa that he "fully endorsed the African Crisis Response Initiative." And so it is—I take it if that is an accurate description that there has been a cooling. Is that—speak to this. What do you think it—

Ms. RICE. While the two Presidents talked about ACRI, I don't think that is an accurate description or conclusion that, as a result of that conversation, President Mendella committed South Africa to ACRI participation.

Mr. CAMPBELL. All right. That is fine.

Apparently, the majority staff of this Subcommittee and President Mandela, I guess.

Second, what happened, or is there an outcome regarding the patent issue on the parallel imports of the anti-HIV drugs? Where do we stand on that?

Ms. RICE. Yes. I did respond to that a little bit earlier, and I—

Mr. CAMPBELL. Oh, I am sorry.

Ms. RICE [continuing]. Said quite simply that we were very pleased that last month the governments of South Africa and the United States came to an amicable resolution of this issue that we believe—and I believe the South African government believes—manages our concerns that any policies and laws in South Africa be WTO consistent, as well as protect South Africa's concerns, that they have the flexibility necessary to provide the majority population with the types of drugs, including those for HIV/AIDS, that are needed.

Mr. CAMPBELL. Let me be specific.

Ms. RICE. At reasonable cost.

Mr. CAMPBELL. Let me be specific. The issue is parallel importing, where the owner of the patent wants to restrict the distribution on a geographical country basis. We call that a vertical restriction in American anti-trust law. It is permitted if an international owner of a patent chooses to distribute in that manner.

What South Africa was attempting to do was to say, "Well, look"—and Zimbabwe as well—"you are sending the patented items into other countries at a lower price. We would like to be able to purchase them in that other price—at that lower price in that other country." That was where I left the issue, that that was their request.

At least as I understand it, it is the patent owner's right to say, "No, we choose to distribute in this manner." Nevertheless, I voted with Mr. Meeks on his resolution to say we shouldn't—that we should put that secondary to concern about AIDS and the spread of HIV, and that even if that meant that this rule of distribution would be impinged upon that there was a greater good.

But I could not deny as a matter of patent and distribution law as I know it that that was the situation. Do you know enough more about that to inform me?

Ms. RICE. You are well over my head on the legal issues, but—

Mr. CAMPBELL. Nobody asks me for my anti-trust advice anymore.

Ms. RICE. And you are a lawyer and I am not. But—

Mr. CAMPBELL. I teach at a small college in—

Ms. RICE. Small west coast university—

Mr. CAMPBELL. West coast university.

Ms. RICE [continuing]. To which we both have a great affection.

Mr. CAMPBELL. Yes. Are your alumni dues in arrears?

Ms. RICE. I really ought to defer to my colleagues from USTR—

Mr. CAMPBELL. No problem.

Ms. RICE [continuing]. On that one.

Mr. CAMPBELL. Mr. Chairman, I have just one quick question, if I might—the Zulu ANC and the Incatha party's ANC strife in Natal. Any news on that? In the regional elections, there was some concern that the ANC had taken over so many of the local positions that Incatha might have felt dispossessed or felt out of the opportunity to participate? Is there anything new on that? And if the answer is no, that is fine with me, and I am done.

Ms. RICE. I think that the large picture is that tensions in KwaZulu-Natal are way down, as they are across the country. The incidence of political violence is substantially diminished. The IFP continues to have representation in the government, including important cabinet ministries, and so I think the short answer is that that situation is a relatively stable one.

Mr. CAMPBELL. And UDF ANC as well? The United Democratic Front? Or is that a little bit more difficult?

Ms. RICE. A little bit more complicated. There were a couple incidents, as you know, during the election campaign that were a source of concern. But I think again, the big picture has been one of remarkable political harmony and opposition and political par-

ties competing peacefully, and there being open political debate in parliament, and there not being an inordinate number of incidents of political violence, as we have seen in years past.

Mr. CAMPBELL. Thank you.

Thank you, Mr. Chairman.

Mr. ROYCE. Thank you, Mr. Campbell. If could just respond, Mr. Campbell. The comment about the concurrence by Mr. Mandela in his conversation with President Clinton on the ACRI initiative, that was a press conference in Capetown, and we will willingly provide you that information, as reported in the press, but in point of fact—

Ms. RICE. You were there, sir. Do you remember?

Mr. ROYCE. I was there. I was there.

In point of fact, there is documentation in the press about Mr. Mandela responding, about his conversation and responding in support of ACRI. But we will get you that information.

Mr. CAMPBELL. Mr. Chairman, I am informed and grateful for that. I wonder if it is not impolite to ask, has it been cooling, then, since then? Is that—

Mr. ROYCE. Is—

Mr. CAMPBELL. Has the South African interest in ACRI been cooling, in your judgment?

Mr. ROYCE. I understand how you are—I understand your tack here, but I don't think we can infer that. But let me just get you the documentation.

Mr. CAMPBELL. Thank you.

Mr. ROYCE. Just for your own information.

Ms. RICE. I would just say, sir, my sense is that it has been pretty steady state. There have been—there has been interest as well as concern, and I think for the moment we don't anticipate any radical change in the South African posture. They have not come back to us and said, for example, "We would like now to actively participate in the African Crisis Response Initiative."

They have indicated that it would be their strong preference that we work through SADC as a regional organization as we pursue this approach in the Southern African region. In the meantime, we have welcomed cooperation, as has the government of South Africa, on peacekeeping and other regards.

As I mentioned earlier, this Blue Crane operation peacekeeping exercise that the South Africans hosted last year with the states of the SADC region, we had—we participated by providing airlift to countries in the region to be part of that exercise. We had observers there, and we do cooperate on peacekeeping issues in meaningful ways.

Mr. ROYCE. And let me just add, if I could, I suspect your question to Secretary Rice went to the issue of South African involvement in West Africa. As I understood it or as I heard it. I think what you are probably going to find is a great deal of interest on the part of South Africa with respect to Congo or peacekeeping regionally in Southern Africa.

But in terms of West Africa, I am not sure ACRI participation was ever broached, and so maybe that is the—

Mr. CAMPBELL. I appreciate it, and I will tell you what I had in mind was simply that if Nigeria's patience and willingness to con-

tribute is wearing out, then there is a possibility we would look—that Africa would look elsewhere. But I agree with you, that has never been the primary focus of South Africa's involvement in the multilateral force.

Mr. ROYCE. Right.

Let us go to Ms. Lee of California.

Ms. LEE. Thank you, Mr. Chairman.

Mr. ROYCE. Thank you.

Ms. LEE. Let me ask Madam Secretary, hopefully, a nonlawyer question with regard to the pharmaceutical issue. I am delighted that an agreement has been reached, and that now affordable medicines will be made more available in South Africa. One of the areas of concern that I am not sure has been resolved or not has to do with the pharmaceutical manufacturers' appeal, and has this appeal been withdrawn? Or, if not, do you know what is going on and why that appeal is still there, if, in fact, there has been a resolve?

Ms. RICE. The short answer is I am not exactly sure of the status of the appeal at the moment. I am being told that the court case has been temporarily suspended, but I think I can get back to you with the precise details where—

[The prepared Letter appears in the appendix.]

Ms. LEE. Could you please? Because if it has been temporarily suspended, that is fine. But I think it would help if it is withdrawn. If it is suspended, I would like to at least know on what basis it was suspended.

Mr. CAMPBELL. Would the gentlelady yield just for a second? Maybe we can ask which court. You are talking about a proceeding within TWO or—

Ms. LEE. There you go back to a lawyer requesting that.

Ms. RICE. No, South Africa. In South Africa. There was a—

Mr. CAMPBELL. So the court—

Ms. RICE. Yes, the companies—

Mr. CAMPBELL. Sued in South Africa.

Ms. RICE [continuing]. Sued in—

Mr. CAMPBELL. Thank you. Thanks for yielding.

Ms. RICE [continuing]. Sued in South African court.

Mr. CAMPBELL. Since you said it is pending in court, I need instantaneously to know which court.

Ms. LEE. That is our lawyer. OK.

Mr. PAYNE. If the lawyer would yield—

Ms. LEE [continuing]. To the social worker. Thank you very much.

Mr. CAMPBELL. My clock is running.

Mr. ROYCE. Yes. Mr. Payne?

Mr. PAYNE. I think that—

Ms. RICE. It is not the pharmaceuticals that—

Mr. PAYNE. No. I think that the actual South African courts had a case in their courts to determine whether the law that was passed in South Africa would stand up—

Ms. RICE. That is right.

Mr. PAYNE [continuing]. In their Supreme Court.

Ms. RICE. That is right.

Mr. PAYNE. So the law was never really the law that everybody reacted to because it is still under the consideration of the courts of South Africa whether this legislation that was passed was constitutional.

Ms. RICE. That is right. That is our understanding.

Ms. LEE. OK. So you are going to get back to us with regard to the whole issue—

Ms. RICE. The actual status is—

Ms. LEE [continuing]. The status.

Ms. RICE. But as I said, it has been suspended. We will let you know why and any of the further details we can provide.

Ms. LEE. OK. Thank you very much.

Mr. ROYCE. We thank Mr. Payne for clarifying that point. That is accurate, indeed.

Mr. PAYNE. I am a lawyer, too.

Mr. ROYCE. Ms. Lee?

Ms. LEE. OK. Let me just ask you, with regard to the AIDS threat in South Africa as really a national emergency, how do you see it impacting the economic development of South Africa? Because during our discussions and putting together our AIDS Marshall plan, we found that several companies now are hiring two individuals for one job, given the fact that the crisis is so devastating that one of those individuals may or may not live. I am wondering if we have had a chance to really make that assessment.

Ms. RICE. Yes, and so has the government of South Africa. I think by any measure, there is great cause for concern about the potential impact of the HIV/AIDS pandemic in South Africa. South African statistics, as we understand them, indicate that an estimated 8½ percent of the population at present is HIV positive. In the 20- to 24-year old age group, it is as high as 25 percent, and there are estimates that within a little more than 10 years perhaps as high as 25 percent of the entire population could be HIV positive.

The economic implications of this are enormous in South Africa, as well as in other parts of the world and other parts of Africa. The government has taken a series of important steps to draw attention to the problems that HIV/AIDS poses, to increase education, to make available, as you well know, as we were just discussing, more affordable medicines and treatments.

President Mbeki himself has I think done a remarkable job of shining the spotlight on this problem. I recall when we were in South Africa in February, then Deputy President Mbeki and Vice President Gore at their press conference wore badges to draw attention to the HIV/AIDS problem.

So public education, which is the most important part of the challenge in many respects in the developing world, is something that the government has taken on with vigor. Much more will have to be done if this is to be turned around.

Ms. LEE. Mr. Chairman, may I just ask one more question?

Mr. ROYCE. Absolutely.

Ms. LEE. Very quickly, with regard to U.S. companies and investment on behalf of United States corporations. How are we assisting U.S. companies in terms of their focus and their ability to support and to help in this pandemic that is transpiring now.

Ms. RICE. As you know, back in the summer Vice President Gore unveiled a new anti-HIV/AIDS initiative called the Life Initiative, which had two principal components. One is a request that is now pending before Congress for \$100 million in fiscal year 2000 to substantially increase our efforts to do prevention education and research on HIV/AIDS worldwide.

The other part of it is a dialogue that is now well underway with representatives of the U.S. private sector and a broad cross-section of the senior-most officials in the administration to try to coordinate strategies overseas for dealing with HIV/AIDS in ways that our companies can make investments that will benefit the people at risk as well as their own long-term economic prospects.

Ms. LEE. Good. Thank you very much.

Mr. ROYCE. Thank you.

Thank you, Secretary Rice. We will now go to our next panel.

Ms. RICE. Sure. Thank you very much.

Mr. ROYCE. J. Daniel O'Flaherty has been the Executive Director of the U.S.-South Africa Business Council since 1993. The Business Council represents U.S. companies doing business in South Africa. It serves as the private sector secretariat of the U.S.-South Africa Binational Commission.

Mr. O'Flaherty has extensive background in trade policy issues and worked as a professional staff member in both the House and in the Senate. He has been working on South Africa issues since the late 1970's when he was a Senior Associate of the Carnegie Endowment.

Judson Ray is Unit Chief of the FBI's International Training and Assistance Unit. He has more than three decades of experience in law enforcement. He has served with the FBI since 1980. Special Agent Ray's extensive experience includes consultative services to the Department of State as the FBI's chief representative for international training and work in counterintelligence and in white collar crime.

He was the first law enforcement officer in the Nation to be admitted to the state, Federal, and military courts as an expert in the profiling of serial killers. Special Agent Ray earned a bachelor's degree at Columbus College and master's degrees from Troy State University and Georgia State University.

We thank you both for making the trip up here to testify today.

Mr. O'Flaherty, if you would like to begin at this time.

**STATEMENT OF J. DANIEL O'FLAHERTY, EXECUTIVE
DIRECTOR, U.S.-SOUTH AFRICA BUSINESS COUNCIL**

Mr. O'FLAHERTY. Thank you very much, Mr. Chairman, members of the Committee. I appreciate the opportunity to appear today.

Mr. ROYCE. And we appreciate your summary testimony because your full testimony will be in the record, so we are going to hold you to 5 minutes. Thank you, sir.

Mr. O'FLAHERTY. Thank you.

I would like to congratulate the Subcommittee on holding this hearing on our relationship with South Africa, which is not only Africa's largest market but is also a country whose peaceful transition to free market democracy is widely admired in this country.

Passage by the House of the Africa Growth and Opportunity Act earlier this year, and the prospect of an early vote in the Senate, indicates that the Congress is serious about strengthening our commercial ties to all of Africa.

Perhaps I can best contribute to the Subcommittee's understanding and review of relations with South Africa by describing the U.S. private sector's current role in South Africa, how that country is perceived as an investment destination by U.S. firms, and what the U.S. and South African governments can do to increase the positive contribution that U.S. business can make to South Africa's development.

The perception of the private sector—by the private sector of South Africa at this point here can best be summarized in three statements. No. 1, South Africa has chosen and maintained sound fundamental economic policies, but has so far failed in its efforts to attract the magnitude of foreign investment its economy requires.

Second, U.S. companies are making a significant contribution to the social, as well as the economic, development of South Africa.

Third, South Africa is a challenging business environment for American companies, especially in sectors that may be affected by South Africa's free trade agreement with the European Union, and those dependent on government procurement contracts for profitability.

Now, economic growth in the past year in South Africa has been just above zero, although the likelihood is that for this year it will be between 1½ and 2 percent. The South African government's economic management has been very prudent. It has conformed to international standards that are desired by world—by the international financial institutions and by international businesses.

But the fact is that growth in South Africa is too low to absorb the enormous rate of unemployment, which is between 35 and 40 percent, depending on how you count the informal sector. In addition, 100,000 jobs a year have been lost since 1994 due to globalization and integration of South Africa into the world economy.

So given the natural increase of population, combined with immigration from neighboring countries, the country is falling behind.

Now, my second point relates to the contribution that U.S. companies are making both in terms of investment and noneconomic activity. Our company's presence has returned to pre-sanctions levels of the mid-1980's, but this isn't the mid-1980's and the world has changed. Companies no longer need to invest in countries where they want to market.

They export to them more easily, and as a result there has been some disappointment in the amount of direct investment—that is, investment in plant facilities that directly employs people—by South Africans, in particular, who wanted to see the status quo ante come back into place.

We do have an investment stock in the country right now of about \$3½ billion. Employment of South African workers has risen back up to the pre-sanctions level of around 80,000. In 1998, the United States was the largest foreign direct investor in South Afri-

ca, as an individual country but not as large as that of the combined European Union nations.

The business environment—and this is my third and final point—in South Africa is a challenging one, which is to say that it has negative aspects to it. The South African government is in many respects best understood as a labor government. It has not, consequently, adopted the investment incentives common in many other parts of the world trying to attract investment. It must reconcile its labor political base with the prudent economic policies expected by the international investing community.

U.S. companies operating in South Africa have to balance global competitiveness with this local labor and black empowerment considerations that have political resonance. That is the central tension which our companies face in South Africa, and from which a lot of other issues derive that you will find in my written testimony.

Mr. Chairman, thank you.

[The prepared statement of Mr. O'Flaherty appears in the appendix.]

Mr. ROYCE. Thank you, Mr. O'Flaherty.

Now we will go to Special Agent Judson Ray.

Mr. Ray?

**STATEMENT OF JUDSON RAY, SPECIAL AGENT, UNIT CHIEF,
INTERNATIONAL TRAINING AND ASSISTANCE, FEDERAL BUREAU OF INVESTIGATION**

Mr. RAY. Mr. Chairman, members of the Committee, fellow panel members, I appreciate the opportunity, too, to appear before the Committee today to discuss U.S.-South African relations, present and future.

Secretary Rice has already summarized the Binational Commission and the role that that Commission plays in both domestic and international matters involving both South Africa and the United States. The Committee which has relevance to my comments, is, of course, the Subcommittee on Justice and Anti-Crime Cooperation.

As you know, Mr. Chairman, that Committee—that Subcommittee is chaired by the Attorney General, Attorney General Janet Reno, and she recently traveled to Capetown, South Africa, in February of this year to chair this first meeting. The Committee established basic terms of reference for future meetings and came to the agreement on a wide range of law enforcement issues, including training, technical assistance, and cooperation.

Following that meeting, Attorney General Reno came back to this country and has put together experts from the Department of Justice, the Department of Treasury, and, of course, the Department of State, and has developed a comprehensive strategy to consult and provide assistance to South Africa and other African nations regarding training and other justice-related issues.

Now, the reason why this is important to the Justice Department, and, of course, to the FBI is somewhat clear to us, but I would like to explain it here. Because of the global mandate of many of the FBI and other Federal law enforcement investigative initiatives, we must make training investments in police systems of countries where the FBI's investigative mission is affected.

In virtually all major FBI investigations for the past 20 years, a significant international aspect develops. Now, to balance its interest in addressing the international aspects of investigations, with the requirement to respect host country sovereignty, the FBI and other U.S. law enforcement agencies must rely on the capabilities of the host country's law enforcement community.

It is important to note that due to differences in judicial systems, or due to absence of appropriate treaties and agreements, the FBI is unable at times to undertake investigations in foreign countries and to bring them to successful conclusion.

I need not point out that the FBI is largely dependent upon the local criminal justice system and the level of police training and judicial training that its members have. The recent bombings in East Africa, the World Trade bombing, Russian money laundering investigations, the old BCCI investigations, and other high-profile cases are but a few examples of the increased threat to the United States caused by international crime.

Now, in order to ensure that such cases are brought to successful conclusion, the establishment and maintenance of effective liaisons through training and other cop-to-cop initiatives must be developed and enhanced.

Now, with respect to the emerging democracies in Eastern Europe, the United States Government's response to that, from a law enforcement perspective, was the establishment of an international law enforcement academy. That academy, as many of the members of the Committee know, is effectively operated in Budapest, Hungary.

To date, that academy has trained well over 1,000 law enforcement mid-level officials from approximately 23 different countries in Eastern and Central Europe. Another 4,000 people have been trained in short courses such as drug interdiction, counterfeiting, and a host of other crime-specific issues that affect some of the strategic interest in operations of many of the Federal law enforcement agencies in this country.

I can point to many occasions where we have seen examples of cooperation between the bordering countries in major cases that could only have been brought to successful conclusions because of the relationships established there in that 8-week course in Budapest. There is a sense on the part of many people in Justice that we think that this simple approach could bear fruits in Southern Africa.

Two years ago, I, at the request of the State Department, was invited to conduct an assessment of the state of training in South Africa. I met with a number of police, judicial, political, community leaders, and university people in my analyses of the state of police training in South Africa.

The one thing that I came away with is this, and I think that we can safely say that in any democracy or emerging democracy, there is tremendous weight, tremendous responsibility placed on the shoulders of police officers from day to day. As Mr. Gilman pointed out, many cops have been killed in South Africa as we speak probably.

It seems to me that the police in these societies are the only people who are duly constituted often times by the constitution to,

based on an intuitive grasp, take the life of a citizen. When I recognized the state of training in South Africa, it had a chilling effect on me as a police practitioner over the years having policed many communities in this country. That is an awesome responsibility?

But, more importantly, it struck me that most citizens, as I travel around the world, are tired of investing in bankrupt police systems. They would just rather put their money somewhere else, so that it is imperative that we find a way to begin to assist this part of the world in bringing about the kind of changes that needs to be brought about.

Simply stated, South African police service must find a way to shift from a confessional-based investigative approach to a forensic investigative approach to ferreting out crime in that country.

I was recently on a trip led by the Department of State, and I was reading the paper. Commissioner George Fivaz, who I met the last time that I was there, stated, "A quarter of my cops can't read. Functional illiteracy is ripe within the police department, making it difficult for about 30,000 officers to handle even the most basic task."

Commissioner Fivaz went on to state that, "Considerable progress has been made in the transformation of the SAPS. Across the force as a whole, 55 percent are now black, and the rest of the Department is white." Those figures are not that representative as you move up the ladder in terms of mid-management and upper management.

We think that under the Binational Committee and the strategy that the Attorney General has mandated we see a number of programs now being implemented. Secretary Rice spoke to those issues. I think critical to that is one of the first initiatives was to assist the South African police service in developing a civilian-based complaint review. A lot of time and attention was spent on this. In fact, we assigned a person for a year, working with the Justice Ministry, in order to make that come about.

But looking at the crime picture in this country, there are a number of things going on there. You see the rise in what would be commonly referred to as vigilante groups. When institutions within the government are weak or does not have the capacity to respond to crime, often times the vacuum is filled by organized crime elements, and certainly we have seen that.

In the interest of time, I will stop at this moment to entertain questions from the Subcommittee.

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

Mr. ROYCE. All right. Thank you, Mr. Ray. Let me just say that, is the establishment of a program, of an international law enforcement academy, is it feasible? Then, how do the South Africans respond to the concept? And is it in the administration's plans to do that? Let us just have you recap on those three quick questions quickly.

Mr. RAY. I think in the first instance we recognize, based on at least my speaking with a number of people in the police service, that there are already systems in place to move these kinds of issues forward. The Southern African Police Commissioners Organization is very, very interested, but want to be empowered in any

decisions as it relates to the establishment of an ILEA in Southern Africa.

Because of the alliance that all of these police commissioners have, we think it prudent to certainly consult, negotiate, empower, and to ensure that these things are done before we become prescriptive in anything that the USG might do in this area.

Mr. ROYCE. So at this point in time, the establishment of an ILEA in South Africa is not in the administration's plan. You have traveled there twice on this mission in order to assess the viability of all of this. It is feasible. You are still in negotiation. I am just trying to get a determination of exactly where we are, or where the administration is, in terms of pushing the concept.

Mr. RAY. Mr. Chairman, would be something that Ms. Rice would—

Mr. ROYCE. I see.

Mr. RAY [continuing]. Could answer.

Mr. ROYCE. Right.

Mr. RAY. That is a foreign policy issue dealing with another government—

Mr. ROYCE. Right.

Mr. RAY [continuing]. Our mission was to look at a number of countries in South Africa to determine the feasibility. That report is being drafted now by the head of the delegation, which was out of State, and should be made available to Ms. Reno and Mr. Johnson and to Ryan Beers at State Department.

Mr. ROYCE. Under the definition of "feasible," the bottom line is it is feasible.

Mr. RAY. It is feasible to establish an international law enforcement academy in Southern Africa.

Mr. ROYCE. All right. OK. Let me ask you a question about the bombing of the U.S. Embassy there because I—since we have you here, and given your expertise, there was a suspect Kalfin Khamus Mohammed in that bombing, recently apprehended in Capetown. He was extradited to the United States.

In the summer of 1998, suspected Muslim extremists bombed a Planet Hollywood Restaurant there in Capetown, and 60 bombs, six directed against police stations, were set off in the first half of 1999 in South Africa.

In your written testimony, you mentioned that Islamic extremism is a growing threat in South Africa. Do the Muslim extremists in South Africa have links to Osama Bin Laden, to your knowledge? Or to other international terrorist groups? How great a threat are their activities to the U.S., in your opinion?

Mr. RAY. Mr. Chairman, I think it is largely known that Mr. Bin Laden has a worldwide organization which sells in many parts of the world. In view of the fact that this is a very sensitive ongoing investigation, I don't think it would be—

Mr. ROYCE. I understand.

Mr. RAY [continuing]. Appropriate to comment openly.

Mr. ROYCE. Right. I understand. I concur on that.

OK. Let me turn to Mr. O'Flaherty and ask him, in your testimony you mentioned that South Africa has not adopted the investment incentives common in many parts of the world. What investment incentives might American businesses find attractive if they

were offered by the South African government? What particularly are you referring to there?

Mr. O'FLAHERTY. Many countries, particularly in South Asia or in East Asia, chose to offer tax breaks, tax holidays, subsidies of one sort or another, to companies to come in and invest, produce in those countries. South Africa made an explicit decision in 1994 that it would—those kinds of incentives often attract the wrong sorts of investors. Investors leave once the incentive runs out.

They don't contribute to the account. They would prefer to do it the old-fashioned way, by getting their policies right and attracting investors that would be there for the long term and make money and generate incomes and jobs. I happen to believe that is a very reasonable decision, but the fact is that American companies looking for extra reasons, other than the fundamentals to invest in South Africa, don't find them.

Mr. ROYCE. I think I concur with you in terms of the long-term interests of South Africa probably. Probably stand with good, consistent policies without creating subsidies. But on the policy front, what policies discourage investment there, if I could ask you?

Mr. O'FLAHERTY. I think it is not accurate to say that their policies have discouraged investment. What you have in South Africa is a system of government—private sector-government relations left over from apartheid that has generated huge inefficiencies, enormous distortions, and created relationships where the regulators were in bed with the regulated and where the government was not truly an objective force in managing the economy.

We have—that system has broken down. It has been reformed to a very large extent, but our companies still face problems in getting procurement. There are challenges in the transparency of the government procurement system which I enumerated at some length. But in the interest of time, I will just say that there are oddities about a way business is done in South Africa that sometimes make it difficult for American companies to enter the market.

Mr. ROYCE. I see.

Mr. O'FLAHERTY. That is entirely independent of the international agreements that we have alluded to before, such as the EU trade agreement.

Mr. ROYCE. I thank you. Before I turn to Mr. Payne, I should mention that Chairman Gilman has submitted some questions for you, and we will provide you with those questions later, if we could. We are just going to do that for the record. I thank you very much.

Mr. Payne?

Mr. PAYNE. Mr. Ray, do you think that Africa, in general, would benefit from the creation of an international law enforcement agency in Africa. Or do you know whether there has ever been any discussion about that? I guess, in addition to that, do you think that by creating such an institution, there would be some suspicion on the part of some African leader or heads of state that this might be a counter-intelligence operation? Going back to the old Cold War, I guess there are still feelings, remnants of that sort of thing.

Mr. RAY. Yes, sir. These issues came up with the development of the international law enforcement academy in Budapest, with some—with our Russian counterparts. At that time, we sat down

with all of the governments and reassured them that this academy's goal was to develop and to professionalize criminal investigators.

On point, we are very candid that we still had our national security interest at heart, and we would never blend those two in that setting. The Russians were satisfied with that, and to date we have tried to keep those two separate in that academy.

So in the instance of Africa, while I have not personally heard that as a concern, in terms of the center being an intelligence center, the Africans are concerned about their sovereignty, and they are concerned about too much of a U.S. role. But they recognize that this academy will aid and assist them in developing a professional law enforcement base, and from what I can gather are enthusiastically wanting to pursue this.

Mr. PAYNE. I guess, under apartheid you didn't have investigations and Miranda rights, and all the things that a just law enforcement operation would have.

Do you think that because of the way that policing was run in the past where, perhaps the officers were judge and jury, and executioner, too, I guess, that there is a lack of detective work and that kind of work being done in the South African police department? It seems like there has just been, an explosion of petty crime, and even not so petty crime, and that perhaps the police department is lacking those kinds of expertise by virtue of the past when they didn't have to go through all of that.

Mr. RAY. Yes. I think that many of the leaders in the South African police service recognize that because they operated so long on this confessional base system that the rules of criminal procedure, forensic applications, they are just behind in those areas. But I think that there is a willingness on the part of the people that I met to recognize that and to look out for donor countries, not only the U.S. but other countries that are operating.

But to answer your question, yes, the police—the South African police have a deficit in that area. But they recognize it. I think that is more—that is very important.

Mr. PAYNE. That is great.

Let me ask Mr. O'Flaherty. There is talk of a lack of investment in South Africa, but what about the 90-plus percent of the assets of South Africa that also in the hands of the minority white South Africans? Have they decided to invest in their country yet? I know this would unleash much needed investment, but have they found fit yet to invest in their own country?

Mr. O'FLAHERTY. In fact, they have not been able to invest anywhere else for a very long time because of exchange controls. So that because of exchange controls there were distortions in the pattern of investment. When you have been to South Africa, you will have noticed the enormous number of shopping malls that exist.

You will have possibly gone to Sun City or to other of the casino resorts. Many of these were created by virtue of the absence of normal investment opportunities that people would have taken advantage of abroad. So that exchange controls have kept money in South Africa.

The question is whether that meant that the money was used in the most efficient way or in a way that benefited the majority of

the population, and the answer to those two questions is definitely no. The money is there. It is a question of where it goes.

Mr. PAYNE. Finally, since my time has run out, and still there is a question to the FBI that Mr. Gilman would like answered too I will actually submit that, in writing so that you can respond to that.

Finally, have any of the sort of programing we had when we were in an economic downturn, such as the WPA in the 1930's, and the CCC camps that President Roosevelt started, public works, and I know South Africa does not have the—necessarily the capital that it needs.

But has the project of housing development or road construction done by the government had any impact on job creation, that is, in addition to creating better a living environment? Has the government implemented any kind of counter cyclical program to break the cycle of this unemployment by investing Federal dollars?

Mr. O'FLAHERTY. Congressman, they are in a bind. They are trying to get their government deficit down in order to attract foreign investment, in order to meet the standards of the world economic community. In order to do that, they can't engage in deficit spending. They can't engage in traditional pump priming, New Deal programs, which would be very attractive to a government in their position.

They have, instead, chosen to engage in training and education programs. But as far as creating direct government employment of the sort that you are talking about, there hasn't been very much of it. I think it does go back to their need to demonstrate fiscal discipline to the world.

Mr. PAYNE. Thank you very much.

Mr. ROYCE. Thank you.

Ms. Lee?

Ms. LEE. Thank you very much.

Mr. O'Flaherty, let me just ask you briefly about the U.S.-South Africa Business Council's involvement and discussions with regard to the whole HIV/AIDS pandemic. I notice in your testimony you say all U.S. employers are participating in workplace education, which I think is great, and I hope that it is all U.S. employers that are doing that.

Beyond that, I am concerned about the benefit packages that U.S. employers have for South African workers, as well as clinics, health care services, access to medicines. Have you had a discussion with regard to strategies on this pandemic?

Mr. O'FLAHERTY. Congresswoman, yes, we have. But I must tell you that these discussions need to go into much greater depth. This crisis has—the awareness of the crisis and the sense of real crisis has only evolved in the last 9 months to a year. South Africa had a spreading AIDS problem long before it was publicly acknowledged by anybody.

So I think one of the important contributions that an organization like ours can make is to help our companies, along with the American Chamber of Commerce in South Africa, to cooperate, collaborate, and to focus their efforts in similar ways. Obviously, workplace education is the place where they can most effectively operate, but clinics is certainly another. Of course, some companies

like the pharmaceuticals have special expertise and special resources.

But it is something that affects all American companies and all South African companies. So we have work to do.

Ms. LEE. Thank you. Let me—we heard Secretary Rice talk about the discussions now with regard some strategies that are taking place. Are you involved in those discussions?

Mr. O'FLAHERTY. Yes, absolutely. We have been participating in discussions with the Vice President's office now for—since last summer.

Ms. LEE. Very good. Thank you.

Let me ask Mr. Ray. Just briefly, I don't know a lot about the international law enforcement academy, and it has been fascinating to hear your presentation this morning. Following up on Mr. Payne's question, with regard to the law enforcement academy being perceived as a place for investigations or intelligence gathering—is, in fact, that—could that be part of the operation, if, in fact, we wanted it to be? Are covert actions allowed or not allowed?

Mr. RAY. My personal opinion would go something like this. All things are possible. But one would have to balance the need for our desire to correct the criminal investigative process in this country against the benefits that might be gained by what you have suggested. In that sense, on balance, it just wouldn't make any sense.

The history here with these academies is that under no circumstances do we allow, at least under leadership of the FBI, to allow that kind of thing to creep in.

It has never been—it was an issue with the Russians up front. We came to the table, put the cards on the table. They were satisfied with our position, and I have been involved with this process probably longer than anybody in the government, and not—

Ms. LEE. Do you coordinate with the CIA?

Mr. RAY. There is no coordination with the CIA on these issues.

Ms. LEE. Thank you very much.

Mr. ROYCE. I thank our witnesses.

Before we adjourn, I would like to recognize one of our interns—this is her last week with us—Saadia Lababidi is with us, and I would like her to stand at this time. She is originally from Lagos, Nigeria. She has resided in Cairo and Colorado, and she has been of great help to our Subcommittee, and I thank her very much.

I thank you, gentlemen, for making the trip down here to testify today before our Committee. Thank you so much.

The meeting is now adjourned.

[Whereupon, at 4 p.m., the Subcommittee was adjourned.]

A P P E N D I X

OCTOBER 14, 1999

U.S. House of Representatives

Subcommittee on Africa

705 House Annex One, Washington, D.C. 20515

For Immediate Release
October 14, 1999PRESS contact: Bryan Wilkes
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Statement of Chairman Ed Royce

"United States-South Africa Relations: Present and Future"

"Today the Subcommittee will look at the bilateral relationship between the United States and South Africa, one of the most important relationships our country has in Africa.

"Since it made its exceptional transition to a non-racial democracy, U.S. relations with South Africa have considerably broadened. No longer dominated by apartheid, the U.S.-South Africa agenda now tackles issues of security, health and the environment. With the U.S. being South Africa's largest trading partner and South Africa being the dominant buyer of America's exports to Africa, economic issues have a heightened prominence. Needless to say, this new agenda, while challenging, is most welcomed.

"The U.S.-South Africa Binational Commission, up and running for four years now, indicates the importance of South Africa to the United States. South Africa faces many challenges. Its economy is struggling, and it faces a serious crime problem, which we will hear about. In these areas, it's in the U.S. interest to work with the new government of Thabo Mbeki through the BNC for a better future in South Africa.

"Within Africa, the U.S. has given South Africa exceptional attention. And while it's important that this not come at the expense of other African countries, South Africa's potential and importance warrants this attention. Today the Subcommittee will have a chance to better appreciate the challenges and opportunities in our important relationship with South Africa.

"Before proceeding, I'd like to acknowledge the death of Julius K. Nyerere, the former President of Tanzania, last night in a London hospital. Nyerere is a man who defined his age, who will be remembered for his opposition to colonialism and apartheid, as well as his modest life style. Mwalimu, Swahili for teacher, which he was commonly called, remained active in public life after leaving office in 1985. At the time of his death, he was working to resolve the conflict in Burundi. Our condolences go out to the Nyerere family and Tanzanian people."

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Statement by Benjamin A. Gilman, Chairman

**Hearing of the
Subcommittee on African Affairs
on
US - South Africa Relations
October 14, 1999**

Thank you, Mr. Royce. I appreciate your subcommittee's ongoing diligence and the wisdom of holding this hearing. There is a natural tendency to focus on the crisis of the day, and, unfortunately, Africa seems to host a number of crises at any given time. This subcommittee has not shied away from addressing the complex emergency situations in Congo, Sudan, Sierra Leone, and Ethiopia-Eritrea. But it would be a mistake to neglect crucial countries -- like South Africa -- simply because chaos does not currently reign there.

It was not very long ago when South Africa was itself in political crisis. Hearing after hearing was held on the South African regime, and most analysts predicted that the end of apartheid would come only through bloodshed. I remember when it became apparent that South Africa had developed nuclear weapons. I shudder to consider what might have been.

However, our relief at the positive developments in South Africa should not blind us to the serious challenges facing this country and this region. Unemployment continues to be a major problem. Nearly everyone in

South Africa works, but only half the working population has a regular job. The rest eke out a marginal living from one day to the next. The infection rate of HIV/AIDS is shocking, and it appears to be growing. And the murder rate in South Africa remains ten times as high as our own unacceptably high rate.

As if all these challenges were not enough, it is now obvious that a rainbow coalition of transnational criminal organizations has set up shop in South Africa, threatening the very institutions of its hard-won democracy.

I would like to focus for a moment on this topic. I am very grateful to the subcommittee for inviting Agent Jud Ray of the FBI's International Training and Assistance Unit to testify today. Agent Ray provided me with an excellent briefing on the transnational crime situation in South Africa two years ago. At that time, we discussed the value of establishing in Africa an International Law Enforcement Academy, modeled after the highly successful program in Budapest, Hungary. Sophisticated international criminal organizations cannot be fought without cooperation among national law enforcement agencies. But, like NATO armies, these agencies must share common understanding and approaches in order to cooperate effectively. That cannot happen overnight, and it cannot happen without some capacity building.

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AND THE WORKFORCE

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YOUTH AND FAMILIES

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Tribute to Former President Julius Nyerere

Mr. Speaker,

I rise today to pay tribute to a great man, a great statesman, a man of great compassion and a visionary who believed strongly in Africa's ability to forge a prosperous future of unity and peace. Former President Julius Nyerere of Tanzania passed away today in London at age 77 after losing a 2-year battle with leukemia.

Known affectionately throughout Africa as *Mwalimu*, or "teacher" in Swahili, President Julius Nyerere was the father of Tanzanian independence and a symbol of Africa's hopes as it emerged from the shadow of European colonial rule.

He led the drive for the independence of his East African nation from British rule and became the country's first president in 1962.

In 1979, in defiance of the Organization of African Unity, President Nyerere sent troops to Uganda in response to the intense suffering of the Ugandan people under the brutal dictatorial regime of Idi Amin Dada. That operation - one of the first humanitarian missions of its kind - would help set a legal precedent for peacekeeping missions all over the globe.

Nyerere stepped down as president in 1985 after 23 years in office to devote his time to farming and diplomacy. He worked tirelessly to negotiate an end to the violence that has plagued central and southern Africa in the past decade.

Most recently, Nyerere's efforts were directed toward mediating an end to the bloody civil war in neighboring Burundi, where more than 200,000 people, mostly civilians, have been killed since 1993.

Nyerere wrote eight books mainly on development and socialism in Africa and Tanzania in particular. He also translated William Shakespeare's plays "Julius Caesar" and "The Merchant of Venice" into Swahili.

A Roman Catholic, Nyerere was married and had eight children.

The current President of Tanzania, President Mkapa, has announced that a state funeral will be held for Nyerere in Dar es Salaam early next week.

Susan Rice
Assistant Secretary for African Affairs
Testimony before the House International Relations Committee
Subcommittee on Africa
Washington, DC, October 14, 1999

South Africa: U.S. Policy and Bilateral Relations

Introduction

Mr. Chairman, Committee Members, thank you for the opportunity to testify on South Africa, a nation whose remarkable transformation continues to command the world's attention and admiration. Five years ago, South Africa stood at the threshold of a new era when its people went to the polls to elect their first democratic parliament. It, in turn, chose Nelson Mandela to lead a government of national unity. The 1994 elections were a watershed in the 20th century, bringing an end to the vicious apartheid regime and South Africa's international isolation. It also opened the promise of new hope for the southern African region.

Now, South Africa has entered a new and equally critical phase, and its resilient people again have put their best foot forward. The country's second democratic election on June 2 marked a smooth and routine transfer of power – a critical indication of sustained progress in South Africa. Concerns about violence, apathy, disorganization, and fraud proved unfounded as 86 percent of registered voters peacefully and efficiently cast their ballots. In returning the African National Congress (ANC) to power, voters underscored their desire that the ANC continue to deliver genuine change. More fundamentally, the elections also demonstrated that South Africa's people, many of whom are still divided and uncertain about the future, are committed to the country's peaceful evolution under a democratic system of government.

Our stake in South Africa's success is significant. For the United States, South Africa's leadership as a pluralistic, market-oriented democracy is critical to the achievement of our goals in Africa, especially integrating Africa into the global economy and combating transnational threats to our mutual security. The country is the destination of fifty-four percent of U.S. exports to Africa and our largest trading partner on the continent. It is an anchor in the Southern African Development Community (SADC) – one of Africa's most important sub-regional economic and security organizations. South Africa's leaders have played a key role in foreign affairs – helping broker peace in the Congo and bring calm to Lesotho and serving as Chair of the Non-Aligned Movement. South Africa works in tandem with us to prevent global proliferation of weapons of mass destruction, and to counter corruption, environmental degradation and international terrorism. In this regard, Mr. Chairman, let me take the opportunity to thank the government today for its

extraordinary cooperation with U.S. law enforcement that led to the capture last week of a suspect involved in the Dar Es Salaam terrorist embassy bombing.

In the context of this evolving U.S.-South Africa partnership, we are working to solidify our already excellent relations with the "new" South Africa and to strengthen long-term cooperation on bilateral and multilateral issues of mutual importance. Underlining all our objectives is the desire to help South Africa consolidate its already remarkable progress in achieving a political transformation and bringing opportunity and well-being to all its people.

The New South Africa

Yet, South Africa's future depends on the continued strong commitment of its government and its people to fostering lasting democracy and economic growth. The continued assistance of the United States and South Africa's many friends around the world through development cooperation, trade and investment will also be crucial.

A half-decade after the end of apartheid, there is a general recognition, both inside and outside of South Africa, that the government of President Nelson Mandela and Deputy President Thabo Mbeki performed extremely well. The ANC-led government has fostered the difficult and lengthy process of national reconciliation, laid the groundwork for long-term democratic tradition, established a sound economic policy framework, and begun to deliver essential social services to the previously disadvantaged majority.

President Thabo Mbeki's government now faces the difficult task of fulfilling his promise to accelerate the pace of the transition. Since taking office on June 16, President Mbeki has taken decisive steps to address the pressing issues of crime, economic growth and job creation, as well as improved delivery of social services and programs. In public forums, he has taken a tough line against military governments, corruption and misrule -- statements we applaud. At the same time, he has stood by the government's macro-economic policies -- embodied in the Growth, Employment, and Redistribution (GEAR) program -- that emphasize fiscal discipline, removal of capital controls, lower tariffs, and privatization of the parastatal sector.

The faithful implementation of the GEAR program, even in the face of some domestic opposition, shows signs of paying off. South Africa weathered last year's Asian financial crisis better than most other emerging markets, in large part due to the government's prudent fiscal management and the soundness of its banking system. The budget deficit as a percentage of GDP has been cut nearly in half since 1994, consistent with GEAR's targets. Inflation, which had run into double-digits for more than 20 years, fell below 3.5 percent annually last month. Interest rates are declining and investor confidence is increasing. The Johannesburg Stock Exchange has gained 25 percent so far in 1999, and the South African rand has regained strength against the dollar. Economists are forecasting that GDP growth, stagnant last year, will again turn positive in 1999/2000. Finally, progress also has been made in the government's efforts to empower the

majority. On the Johannesburg Stock Exchange, the value of business transactions conducted by majority firms has grown tenfold since 1995, from 2 to 20 billion rand.

Looking ahead, South Africa's progress will rest in large measure on the government's ability to continue implementing its economic and social programs fairly, openly, and effectively. It also will depend on a commitment to continue promoting racial and social reconciliation — convincing all South Africans that their future lies in one peaceful nation. And it will depend on the commitment of the government, all political parties, interest groups, and individual citizens to continue strengthening the beliefs, practices, and institutions essential to democracy.

U.S. Policy

Our policy seeks both to help South Africa meet these challenges and to strengthen our partnership and cooperation in key areas of mutual interest. The most important of these areas include:

- Democracy: Bolstering democratic institutions and processes;
- Broad-based Growth: Strengthening the institutional capacity of the South African government to develop socioeconomic policies, create jobs and provide improved social services for the majority;
- Regional Stability: Working together diplomatically to prevent and resolve conflict and constructing a robust defense relationship to serve as a foundation for future stability in the region;
- Weapons of Mass Destruction: Cooperating with South Africa bilaterally and multilaterally to prevent proliferation of weapons of mass destruction;
- Mutual Growth Through Open Markets: Obtaining South Africa's continuing support for global trade liberalization in the World Trade Organization, a mechanism for opening markets worldwide, and other multilateral trade regimes. Working to open the South African and SADC markets to U.S. products and services, to increase bilateral trade and to improve the climate for U.S. investment;
- International Crime, Illegal Drugs and Terrorism: Helping South Africa develop an effective criminal justice system respectful of human and civil rights. Improving U.S.-South African cooperation to combat terrorism, international crime (including money laundering), and drug trafficking;
- Environment: Supporting South Africa's pursuit of environmentally sustainable, market-based development and its ongoing participation in international environmental policy forums;

- And finally, Health: Supporting improvements to South Africa's health care system to ensure core needs of the majority are met and to combat the spread of infectious diseases – especially HIV/AIDS.

To help us achieve these goals, USAID, the Defense Department, Peace Corps, the State Department, law enforcement agencies, and many other USG departments and agencies provide support or training. A variety of law enforcement and International Narcotics and Law Enforcement Affairs bureau programs bolster the country's judicial system and police force. In South Africa, we have worked together to build housing, to bring electricity and potable water to remote rural areas, to promote joint research on disease, and to expand public awareness of the HIV/AIDS crisis.

The largest component of U.S. assistance to South Africa is USAID's effort to promote economic, social, and political development. Our current strategy, being implemented under a ten-year \$435 million program, was developed in close cooperation with the South African government, civil society, universities, and the private sector. Our aim is to ensure a sustainable transition – helping South Africa institutionalize democracy and put in place policies and systems for social service delivery. Emphasis is on empowerment and increasing the participation of the majority population in six areas: democracy and governance; education; health; economic policymaking; private sector development; and housing and urban services. In addition, South Africa has been designated a key country for USAID's Global Climate Change Program (GCC).

In close consultation with the South African government, we have concluded that significant U.S. assistance will be required well into the new century to meet our mutual economic and political objectives in the country. Accordingly, after consultations with the Congress and strong support from the State Department, USAID has formally approved a five-year extension of its program, through 2010. This decision will enable us to continue working closely with South Africa on its development priorities.

Bilateral Relations

The United States and South Africa have much in common: diverse and open societies, deep respect for democratic ideals and human rights, and a shared vision of a peaceful and prospering international community. When apartheid ended, our relations were essentially moribund in a wide range of important areas. Yet in a little over five years, business and personal links between the two countries are burgeoning and we have made great progress in establishing a strong, mature and long-lasting U.S.-South Africa partnership.

Regular, high-level contacts have been critical to this process. President Mandela's State visit to Washington in October 1994 produced agreement to establish the U.S.-South Africa Binational Commission (BNC). This, in turn, resulted in the development of highly productive working relations between Vice President Gore and then-Deputy President Mbeki, as well as between many U.S. cabinet officials and their counterparts. President Clinton's March 1998 visit lent additional momentum. The U.S.-SADC forum

in April in Botswana, helped move forward a range of important issues with this critical regional organization as well.

Most recently, last month in New York, the President, Vice President, and Secretary of State met with President Mbeki and his key advisers for highly constructive talks. There is every indication that the new Mbeki government intends to pursue closer ties with the U.S. in the coming years. The high degree of continuity in the new government – both in personnel and policies – buttresses this view.

The U.S.-South Africa Binational Commission

The Binational Commission, meeting six times since 1994 and now comprising nine committees, has been central to the process of renewing and strengthening our cooperation in many areas. Under its auspices, we have worked to open our markets, and signed a Trade and Investment Framework Agreement that established a Trade and Investment Council chaired by Ambassador Barshefsky and Minister Alec Erwin. We have negotiated a bilateral tax treaty and new pacts on taxation, civil aviation, extradition, and mutual legal assistance.

The BNC, through the U.S.-South Africa Business Development Committee, has been particularly effective in strengthening our bilateral economic ties. I cannot overestimate the importance of this aspect of our relationship, for either the United States' or for South Africa's long-term prosperity. Since sanctions on South Africa were lifted, U.S. corporate presence in South Africa has expanded from about 150 companies to nearly 400 – which is the equivalent to the U.S. corporate presence in Russia, Turkey, or Israel. The United States is the largest source of new foreign direct investment in South Africa since the end of apartheid in 1994. U.S. FDI stock was \$2.7 billion at the end of 1997, 15% of South Africa's total. Through the Trade and Investment Council, we are developing mechanisms and channels for resolving the disputes that inevitably arise between close trading partners.

Two recently established BNC committees – one on Defense and another on Justice and Anti-Crime Cooperation – have led in short order to rapidly expanding collaboration in these critical areas. Our relations in the sensitive area of security and defense were virtually non-existent before 1994. But now, Defense Secretary Cohen and his counterpart have exchanged visits and the International Military Education and Training (IMET) program is the largest in sub-Saharan Africa. The U.S. provided assistance to the South African-hosted regional peacekeeping exercise (“Blue Crane”) in April 1999. Through the Defense Committee, we are working with South Africa in such key areas as force rationalization and the environment. Finally, the settlement of the “Armscor” case in February 1998 has resulted in the normalization of defense trade between the two countries.

The new Justice and Anti-Crime Cooperation Committee (JACC), formally established under the BNC in February 1999 and chaired on the U.S. side by Attorney General Janet

Reno, seeks to augment our cooperation on anti-crime strategies. South Africa's rate of violent crime remains among the highest in the world. Illegal immigration, money laundering, drug trafficking, financial crimes, and illegal arms trafficking are most prevalent. Transnational drug traffickers and criminal organizations take advantage of South Africa's porous borders, developed infrastructure and convenient location between Asia and South America. At the February BNC, the JACC agreed on a package of training proposals (financed by the State Department's Bureau of International Narcotics and Law Enforcement and run by U.S. law enforcement agencies) and is beginning to implement some of these programs.

Foreign Policy

In the area of foreign policy, South Africa has quickly emerged as one of Africa's leading political and diplomatic actors. Its global objectives -- preventing conflicts and promoting peaceful resolution of disputes; promoting democratization, disarmament and respect for human rights; and advancing environmentally sound, sustainable development and poverty alleviation -- are consistent with broad U.S. policies and ideals.

President Mandela began South Africa's increasingly active role in the international arena with his many visits abroad. President Mbeki has followed suit with an impressive agenda in the region and elsewhere. The South African government assumed the chairmanship of the Non-Aligned Movement (NAM) in 1998, conducted a high-profile campaign to ban landmines, and played a dynamic role to promote a cease-fire agreement between combatants in the Democratic Republic of the Congo (DROC).

Indeed, President Mbeki, days into his administration, confirmed his personal commitment to help secure a resolution of the war in the Congo. He dispatched his Foreign Minister on an exhaustive shuttle-diplomacy mission to convince the Rally for Congolese Democracy (RCD) rebel factions to sign the Lusaka ceasefire accord, which they did on August 31. Both Foreign Minister Zuma and President Mbeki played key roles in moving forward the Lusaka accord's implementation, including their recent efforts to persuade the RCD to come to an agreement regarding its representation on the Joint Military Commission (JMC), the body responsible for monitoring the peace.

Still, we anticipate continued occasional differences with South Africa on some foreign policy issues. Its friendships with Libya and Cuba, for example, have been of intermittent concern in our relationship. With the suspension of UN sanctions, South Africa is one of a number of countries moving to strengthen diplomatic and trade ties with the Qadhafi regime. In May, Trade and Industry Minister Erwin signed a bilateral trade agreement during a visit to Libya.

The global scope of South African foreign policy notwithstanding, much of the government's focus is closer to home with the Southern African Development Community (SADC) and the Organization of African Unity (OAU). South Africa appears determined to make both SADC and the OAU more relevant and effective. We strongly support its efforts in this regard.

Conclusion

Mr. Chairman, we consider our relationship with South Africa to be one of our highest priorities. A reconciled, dynamic South Africa is key to peace, prosperity and security throughout Africa. But we must all be cognizant of the tremendous challenges still facing the country and its people. As President Mbeki said at his inauguration, South Africa is "at the dawning of the dawn, when only the tips of the horns of cattle can be seen etched against the morning sky." In many ways the task of democratic institution-building in this country is only just beginning. As well, crime, HIV/AIDS and economic disparity all threaten South Africa -- just as our social problems and violence threaten U.S. progress -- in the next century.

We are committed to supporting not only South Africa's domestic strides, but its strong role in the region, and its positive contribution worldwide. We look forward to strengthening and deepening our engagement with the new South Africa and its people. The South African people have set a tremendous example for all throughout the world who yearn for democracy and the right to determine their own destiny. We believe their strength will ensure the success of their transition and the emergence of South Africa as one of the world's greatest powers and most respected leaders. Thank you.

Statement of
Judson M. Ray
Unit Chief
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On the "United States-South Africa Relations:
Present and Future"
Before
The Committee on International Relations
House of Representatives

October 14, 1999

Mr. Chairman, Members of the Committee, and fellow panel members: I appreciate the opportunity to appear before the committee today to discuss U.S. - South Africa relations: Present and Future. As you are aware, from September 20 through October 2, of this year, the Department of State's International Narcotics and Law Enforcement Affairs Bureau (INL) headed a delegation to Swaziland, Botswana, Namibia and South Africa. The delegation was comprised of myself, two representatives from the Department of the Treasury, one from the Drug Enforcement Administration and two representatives from the Department of State. The purpose of the trip was to consult with U.S. Embassy political and law enforcement officials within these nations regarding the feasibility of establishing an International Law Enforcement Academy (ILEA) for Southern Africa.

Consistent with the Administration's goals of establishing and enhancing effective bi-national relations with South Africa, President Clinton and then President Mandela established the Bi-National Commission (BNC). The Commission first met in March 1995, with Vice

President Gore and-then Deputy President Mbeki serving as Vice Chairs. The Commission was established and serves as the focal point for the bi-national consultations on domestic and international issues affecting the United States and South Africa. The Commission is comprised of a number of subcommittees. The subcommittee which has relevance to this hearing and issues in which I am prepared to comment is the subcommittee on Justice and Anti-Crime Cooperation. Attorney General Janet Reno is chair of the Sub Committee. Attorney General Reno traveled to Cape Town, South Africa in February 1999 to chair the first meeting of the sub committee. The subcommittee established basic "Terms of Reference" for future meetings, and came to agreement on a wide-range of law enforcement issues, including training, technical assistance and cooperation.

Following this meeting, the Attorney General brought together experts on Justice issues from the Departments of Justice, State and the Treasury. The results of these meeting have produced a comprehensive strategy to consult and provide assistance to South Africa and other African nations regarding training and related justice issues.

Many of the goals and objectives agreed upon, are now in the implementation stage. For example, the International Criminal Investigative Training Assistance Program (ICITAP) has provided a number of training initiatives in South Africa and has facilitated the visits of a number of South African Justice officials to the U. S. to consult on mutual law enforcement assistance matters.

INL assistance in South Africa over the past few years has primarily been channeled through DOJ's (ICITAP). The assistance has focused on institutional development of the police, with some aid provided to the prosecutors and judiciary. INL is also funding programs through

the UN Center for International Crime prevention (UNCICP) and the United States Agency for International Development (USAID) has focused on judicial reform. The State Department's Coordinator for Counter Terrorism and the Bureau of Diplomatic Security, Office of Anti-Terrorism and Assistance, conducted an anti-terrorism assistance assessment, and follow-up training is continuing. In 1997 and 1998, total INL funding (both years combined) in law enforcement training totaled approximately \$1.9 million dollars.

The concept of an ILEA was first envisioned when the FBI along with the DOS and other federal law enforcement agencies explored ways to respond to the growing threat of criminal activity following the break up of the former Soviet Union.

Because of the global nature and mandate of many of the FBI and other federal law enforcement's investigative initiatives, we must make training investments in the police systems of countries where the FBI's investigative mission is affected. In virtually all major FBI investigations, a significant international aspect develops. To balance its interest in addressing the international aspects of its investigations with the requirement to respect host country sovereignty, the FBI and other federal law enforcement agencies must rely on the capabilities of the host country's law enforcement community. It is important to note that due to differences in judicial systems, or due to the absence of appropriate treaties and agreements, the FBI is unable at times to undertake investigations in foreign countries and bring them to successful conclusions. In such instances, the FBI is largely dependent upon the local criminal justice system and the level of training and expertise of its personnel. The recent bombings in East Africa, the World Trade Center bombing, Russian money laundering investigations, BCCI and other high profile cases are but a few examples of the increased threat to the United States caused by international crime. In

order to insure that such cases are brought to successful conclusions, the establishment and maintenance of effective liaison through training and other cop-to-cop initiatives must be developed and enhanced.

On April 24, 1995, the International Law Enforcement Academy in Budapest, Hungary opened its doors to Russia and 23 other countries of central and eastern Europe. In April of 1996, Attorney General Janet Reno, Ambassador Gelbard, Director Freeh and other senior members from the U.S. federal law enforcement community dedicated ILEA Budapest. The ILEA Budapest supports two different types of programs sponsored by ten U.S. law enforcement agencies: (1) an eight-week program for mid-level police managers, and (2) regional seminars on the topics of International Organized Crime, Financial Crimes, Narcotics Trafficking, Intellectual Property Rights, Corruption, Violent Crime, Border Crime, and the like. The ILEA is funded approximately 3 million dollars per year by the Department of State. In addition, the U.S. law enforcement agencies have provided significant contributions by way of human resources and materials.

To date over 975 law enforcement officials from 23 different countries have received the basic eight-week course of instruction at ILEA, Budapest. In addition, approximately 3,500 law enforcement officials have received training in specialized law enforcement topics at ILEA Budapest. Time and time again the training at ILEA has proven valuable to the U.S.

On at least eight specific occasions we have seen examples of cooperation in major cases that could have occurred only through the relationships established as a result of attendance at the ILEA.

From August 3 -16, 1997, I ,along with a member of DOS/INL, traveled to South Africa

at the request of Mr. Sydney Mufamadi, who was then Minister of Public Safety and Security. The purpose of the trip was to conduct an on-site survey of training and resource requirements within the South African Criminal Justice System in general and the South African Police Service (SAPS) in particular. I was joined by Senior Magistrate Deon Oosthuysen currently an instructor and lecturer at Justice College, Pretoria, South Africa, and Mr. Thomas Callahan, a contract consultant, DOS/INL. During the survey period, a number of individuals, representative of the police, judicial and political communities as well as university and private citizens were interviewed regarding the capacity of the Criminal Justice System in South Africa to respond to the rising incidence of crime. Since that time, I have maintained periodic contact with police and other officials within South Africa, and the FBI has hosted South African delegations at the FBI Academy. My recent trip to conduct a site survey for an ILEA in Southern Africa, coupled with my impressions in 1997, provide the basis for the following conclusions.

History has shown that when there is a major change in governmental structure, crime becomes rampant. The Republic of South Africa (RSA) is no different.

The crime problem in the RSA is serious and complex. In the wake of the change of government from the apartheid system and the years of sanctions preceding democratic elections, the RSA has had to cope with increasing crime. There is evidence that organized crime syndicates have established a formidable presence. Police officers are murdered at a rate higher than those in any other country in the world.

There are about 127,000 sworn officers in the (SAPS). More than 20% did not complete a high school education. On September 25, 1999, National Police Commissioner George Fivaz was quoted in the Editorial Press, "a quarter of my cops can't read." Functional illiteracy is rife in

the police force, making it difficult for about 30,000 officers to handle even the most basic of tasks. Commissioner Fivaz went on to state that considerable progress has been made in the transformation of the SAPS. Across the force as a whole, 55% are black officers and the rest are white. Informed estimates are that a large number of SAP detectives are not adequately trained for criminal investigation.

It is clearly evident that crime, particularly violent crime and organized crime, is a major concern in the minds of every RSA citizen and visitor. The SAPS, the political leadership and the general public all desperately want some sort of law enforcement training assistance and are looking outside for this help. Assistance has been sought, from other U.S. federal law enforcement entities such as the ICITAP. Additionally, police and political officials identified the U.K., Germany and The Netherlands along with the U.S. as countries that have assisted in addressing the crime problem in South Africa.

In conclusion, the following observations are made:

1. South Africa continues to suffer a severe crime problem. Violent crime, organized crime, narcotics trafficking, armed assaults, murders, gun smuggling, vehicle theft, gang related activity, money laundering, fraud and official corruption are just some of the interwoven and overlapping afflictions confronting South Africa.
2. The criminal justice system is not functioning well enough to combat the crime problem effectively.

Although there is a wide range of areas in which U.S. assistance could be useful, I recommend that the U.S. government focus its efforts on helping elements within South Africa's criminal justice system to establish an effective "Training Program" to provide professional, relevant

and customized training to police detectives, justice ministry prosecutors and magistrates, and other role players in the criminal justice system. Through the initiatives of the BNC, the U. S. government has already begun to assist in a number of these areas. The purpose of the recent trip to southern Africa was to consult with a number of countries in the region regarding the establishment of an ILEA in southern Africa similar to the ones operating in Budapest and Bangkok. This may be accomplished through the establishment of an ILEA in the Southern Africa Region, similar to the one operating in Budapest, Hungary.

Putting U.S. resources into the establishment of a well-run, well-resourced and professional training structure is more sustainable and of greater long term value than the training that is currently commonplace.

A training structure and well-designed curriculum can be adapted to a variety of changing needs and clients. For example, southern African law enforcement agencies who seek training in border control or arms trafficking could be accommodated at the Academy. Similarly, if Southern Africa officials wished to take advantage of training offered by a non-U.S. agency with recognized expertise (e.g., Belgian public order policing, German VIP protection, etc.), these too can be accommodated and administrated at a facility designed for criminal justice system training.

A report regarding the funding of the recent site visits is being drafted by DOS for submission to the ILEA policy board. It was apparent to me that a decision regarding the location for an ILEA in southern Africa must out of necessity and respect for nations' sovereignty involve very close consultation and negotiations with the political leaders of both Southern African Development Commission (SADC) and more importantly the Southern African Police Chief's Cooperation Organization (SARPCCO).

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I would like to address any questions you may have at this time.

U.S. - South Africa Business Council

Chairman
Aldrage B. Cooper, Jr.
Johnson & Johnson

Executive Director
J. Daniel O'Flaherty

Special Advisor
Ambassador Princeton Lyman

STATEMENT OF J. DANIEL O'FLAHERTY
EXECUTIVE DIRECTOR, US-SOUTH AFRICA BUSINESS COUNCIL

BEFORE THE
SUBCOMMITTEE ON AFRICA
COMMITTEE ON INTERNATIONAL RELATIONS

OCTOBER 14, 1999

Mr. Chairman, members of the Committee, I am Daniel O'Flaherty, Executive Director of the US-South Africa Business Council, the association of US companies doing business in South Africa. I am also vice president of the National Foreign Trade Council, an association of more than 550 US companies engaged in international trade and investment. The US-South Africa Business Council serves as the private sector secretariat to the US-South Africa Binational Commission. I am submitting for the record an article, "Stability in South Africa," by myself and Constance Freeman of the Center for Strategic and International Studies from the current issue of the Georgetown Quarterly.

I would like to congratulate the Subcommittee for holding this hearing to assess our relationship with South Africa, which is not only Africa's largest market, but is also a country whose peaceful transition to free market democracy is widely admired in the US. Passage by the House of the Africa Growth and Opportunity Act earlier this year and the prospect of an early vote in the Senate indicate that the Congress is serious about strengthening commercial ties to all of the African continent. Our relations with South Africa are an indispensable part of those ties.

Perhaps I can best contribute to the Subcommittee's review by describing the US private sector's current role in South Africa, how that country is perceived as an investment destination by US firms, and what the US and South African governments can do to increase the positive contribution that US business makes to South Africa's development.

This perception can best be summarized in three statements: (1) South Africa has chosen and maintained sound fundamental economic policies, but has failed in its efforts to attract the foreign investment its economy requires; (2) US companies are making a significant contribution to the social, as well as the economic, development of South Africa; and (3) South Africa is a challenging business environment for American companies, especially in sectors that may be affected by South Africa's free trade agreement with the European Union and those dependent on government procurement contracts for profitability.

1. South Africa has followed sound economic policies.

Since its election in 1994, the South African government under the African National Congress has been very prudent in its management of the economy. Plans for nationalization of basic industry were abandoned in favor of gradual privatization of inefficient state enterprises. A bloated public sector has been gradually reduced, government spending and its deficit as a percentage of gross domestic product have fallen. The South African Reserve Bank has followed a steady and restrictive monetary policy that has kept inflation under 10% since 1995 and has stabilized the rand, South Africa's currency, at approximately R6 per dollar for the past year. These generally conservative macro-economic policies have had unwelcome consequences as well. Tight monetary policy has caused very high interest rates, including a 24% prime rate last year that helped to decapitate economic growth and combined with the Asian crisis to send the economy into recession in late 1998 and early 1999.

Economic growth this past year has therefore been just above zero, and although it has picked up during the year, the 1999 growth rate is unlikely to be more than 1.5% to 2%. A major consequence of low growth is, of course, very high unemployment, which in the formal sector stands at between 35% and 40%. A vibrant and largely unmeasured informal economy of self-employed hawkers, taxi drivers and small businessmen cushions this stark statistic, but the fact is that with population growth from natural increase and immigration increasing the labor force much faster than the economy is creating jobs, the country is falling behind in employing its people. In addition, 100,000 jobs have been lost each year since the end of the apartheid government and the opening of the economy to global competition in 1994.

The fact is that South Africa's economy has a significant gap between current investment and that required to reach and sustain economic growth rates that will begin to absorb the country's huge reserve army of unemployed. The domestic savings and investment rate is about 16% of GDP, but in order to grow at the rate required to make progress on unemployment, South Africa needs an investment rate of about 24% of GDP. The only realistic source of that needed capital is abroad, and the largest pool of available external capital is the United States. That is because the European companies did not leave South Africa during sanctions and the East Asian economies, never enthusiastic about overseas direct investments, are far less likely to make them in the wake of the 1998 Asian crisis.

2. US companies are making a significant contribution to South Africa's economy and its social development.

US economic activity has returned to the pre-sanctions level of the mid-1980's. Over 300 US companies now have some investment in South Africa and the total stock of US direct

investment in the country is about \$3.4 billion. Importantly, employment of South African workers by US companies has reached its pre-sanctions level of more than 80,000. In 1998 the US remained South Africa's largest source of foreign direct investment.

It is important to note that there has been very little new, or "green field" investment by US companies in South Africa. Many US companies did return to South Africa after sanctions were lifted in 1993 by repurchasing their former subsidiaries. Others have come into the country to participate in privatization opportunities, while still others are attracted by major infrastructure projects undertaken by the government. All of this investment has added to South Africa's national product and has benefitted its work force. Much of it has met the South African government's desire for investment that generates exports and is net job-creating in the long term.

US direct investment in South Africa directly impacts incomes, the tax base, and skill levels, helping to prepare the economy for the planned elimination of tariffs on all but a few products by 2010. In addition to these broad economic effects, US companies are making an important contribution to social development and the eradication of the legacy of apartheid.

Member companies of the US-South Africa Business Council have a strong record of strengthening communities. In the pharmaceutical sector, Merck has made a large contribution to the University of Cape Town medical school and to Africa's largest hospital, Chris Hani Baragwanath Hospital in Johannesburg, at which Johnson & Johnson has created the continent's largest burn center. Helping South Africa address the spreading HIV/AIDS epidemic is a top priority of US pharmaceutical companies in South Africa, and, through work-place education, of all US employers.

Some of the most dramatic US investments have been in the telecommunications sector. In 1996 SBC Communications (Southwestern Bell) became the leading private equity partner for the state telecommunications monopoly, Telkom, which is being prepared for deregulation and competition in 2002.

The development of its cellular telecommunications capacity is a priority for South Africa. Motorola, which re-invested in South Africa in 1994, provides the cell phones used by many South Africans, trunked radio equipment and two-way radios for South African safety and security agencies and municipalities. Motorola supports secondary and tertiary education, as well as training institutes for skills development in the cellular industry. Oracle has contributed over \$2 million in in-kind donations and training to support the development of information technology skills among South African youth. Lucent Technologies, which operates a manufacturing and assembly plant in South Africa, employing 1700 workers, has a strategic partnership with Kwezi Investments, a black empowerment partner. Through the Lucent Scholars'Khula Project with Rutgers University, Lucent is transferring engineering skills and training to South African teachers and students.

Dow Chemical purchased a South African chemical company, Sentrachem, employing 4,000 South Africans and has restructured the company to compete internationally through additional investments in technology, training and facilities.

The General Electric Company has ten of its eleven business units active in South Africa and the Southern African Development Community (SADC). GE is, therefore, active in aircraft engines, appliances, lighting, plastics and industrial, information, medical power and transportation systems. GE was the first company to sign an "industrial participation agreement" with the South African government offsetting the cost of imported components of government procurement, pledging to develop South Africa's economy with a special emphasis on black-owned businesses.

The Ford Motor Company has begun production of a new "Rocam" engine for export to markets around the world from its Samcor plant in Port Elizabeth, South Africa. The operation will grow from 55,000 engines in its first year to 90,000 engines a year by 2002. Ford's "Project Ten" partnership with Port Elizabeth educational institutions is based on the company's award-winning Ford Academy of Manufacturing Sciences used across the US to develop math, science and technical skills.

South Africa purchased its first Otis elevator in 1889. Today, United Technologies Corporation, the parent company of Otis, Carrier air conditioners, and Pratt & Whitney jet engines, employs more than 1500 South Africans and has been recognized as one of South Africa's most progressive companies by the Black Management Forum for its community involvement and employee training and advancement programs.

3. South Africa is a challenging business environment for US companies.

The South African government is, in many respects, best understood as a labor government. It has not, consequently, adopted the investment incentives common in many other parts of the world and has had to reconcile its labor political base with the prudent economic policies expected by the international investing community. US companies operating in South Africa are balancing global competitiveness with local labor and black empowerment considerations that have political resonance.

This, in addition to objective factors such as the cost and productivity of labor, skill levels, South Africa's distance from world markets, explains why some influential South Africans have expressed disappointment about the amount of US direct investment in South Africa and have expressed concerns that more of it is not directed toward export markets. In fact, there has been enough US direct investment to make us the largest foreign investing country, not including the consolidated investments of the European Union countries. Why has there not been greater direct investment and what can be done to increase it?

1. regionalism: Relative to other world markets, South Africa is a small market with

limited purchasing power. Numerous US companies have established a presence there as a springboard to the southern African region and even to the continent as a whole. The SADC trade protocol is scheduled to go into effect in January, but the creation of a single market in southern Africa remains a distant aspiration. This is primarily due to the fact that the regional economies are not complementary and will require a period of hard bargaining to coalesce.

2. liberalization: Under apartheid the South African economy was highly concentrated in a few conglomerates that controlled the overwhelming majority of commerce. As a result competition was minimal and cronyism abounded, resulting in a multitude of inefficiencies. Although there has been a reduction of concentration, and ownership has been expanded to include empowerment firms, anti-competitive practices have continued to operate to the detriment of US firms trying to enter the market. In 1998 South Africa enacted a new competition law, bringing the country closer to international practice. Just last month the newly empowered Competition Board began operation. US companies that had been at a disadvantage due to anti-competitive arrangements will now have a new avenue to correct practices that they believe violate the law.

3. labor law and practice: South Africa enacted a series of new labor laws after 1994 to protect and promote equity in the workplace. These laws are now being revisited by the South African government because they introduced rigidities into a labor force that is significantly unionized by sporadically aggressive trade unions. To the extent that these laws are an effort to abolish racial, ethnic and gender inequities, US business companies are supportive. After all, affirmative action is not a new concept to US firms. A greater problem is the skills level and the constraint it represents on expanded employment, as well as the level of productivity relative to labor costs, especially in the manufacturing sector.

4. government procurement: US firms trying to break into the South African market through selling to the government or to state enterprises through procurement boards have encountered multiple difficulties. As a result some have left the market or are considering leaving. It is in the interest of the US and South Africa to work together to ensure that procurement decisions are transparent. The South African government is making extensive use of offsets, called "industrial participation obligations," to stimulate the creation of small, black-owned businesses and hence stimulate job creation where it takes place the most rapidly. These programs, both civilian and defense-related, can be improved by taking into account the extensive experience with offsets in other countries by US companies.

5. international agreements: South Africa has completed negotiation of a free trade agreement with the European Union that will give many European firms a competitive advantage over their US competitors. The details of the agreement have not been released, but it is a concern to us. With the exception of some Dutch and Scandinavian companies, the Europeans did not leave South Africa during sanctions, as scores of US firms did. As a result entrenched relationships between South African conglomerates and EU companies have very long histories. Public statements by South African officials during the free trade agreement talks indicated that

the agreement might affect procurement decisions in South Africa to the advantage of European firms. We are assured that the agreement is consistent with South Africa's obligations under the World Trade Organization and that South Africa will advocate aggressively for a liberalizing agenda for the Millennium Round at the Seattle WTO Ministerial at the end of November.

Mr. Chairman, in summary, the US-South Business Council and the broader US business community are finding commercial opportunities in South Africa that also contribute vitally to the country and the region. The cooperative partnership that has been established among the US and South African governments and the US private sector in South Africa is a very strong basis for working with South Africa to increase its attractiveness as an investment destination. The threats posed by crime, corruption, HIV/AIDS, unemployment and other social deficits are very real. Increased investment and involvement by the US private sector can contribute significantly to progress on these serious social problems.

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IRI in South Africa

Since 1993, the International Republican Institute (IRI) has worked to foster democracy and good governance in South Africa. Through its extensive local government training and political party building program, IRI has contributed to South Africa's successful democratic transition.

IRI has focused the majority of its efforts on helping South Africa's local government leaders tackle the dual challenges of balancing budgets and building economic growth. IRI has provided training to councillors and municipal officials from over four dozen South African municipalities. IRI's success in South Africa can best be illustrated by the story of the coastal community of Port Shepstone. Throughout the turbulent decade prior to South Africa's first post-apartheid local elections in 1996, this medium sized coastal community had a national reputation for political violence and economic decline. Given this troubled past, few observers held much hope that the town's newly elected local government leaders would be able to put aside their political differences and begin addressing the community's dire development needs.

IRI began working with the city's new leaders within three months of their election. Over the course of the next three years, IRI provided a long series of workshops and strategic planning sessions to train councillors and municipal officials in budget practices, strategies for local economic development, and other important issues. During this period, IRI watched the community transform from a basket case into a national model for development. The city has consistently balanced its budget and has attracted more than \$65 million in private investment projects. The city has achieved these successes while expanding its delivery of essential services to impoverished citizens and launching new programs to assist small scale entrepreneurs. South Africa's national government has now begun to call upon the leaders of Port Shepstone to share their success story with local government leaders across the country. The national government has also adopted IRI's financial management curriculum as a national standard for local government training.

IRI has also worked since 1993 to provide non-partisan political party training to help South Africa's parties transform from liberation movements into effective and accountable political parties. IRI's party training efforts have primarily focused on the province of KwaZulu Natal, the scene of a long-standing low intensity conflict between rival political movements. IRI's programs have contributed to political stability in this strategic province by equipping the parties with the skills they need to focus their efforts on democratic competition rather than violent conflict.

IRI will continue to maintain an in-country program in South Africa through 2001. IRI is increasingly relying upon local organizations to ensure that its program will have lasting impact. To this end, IRI has joined in partnership with the National Business Initiative and the Stutterheim Development Foundation, two local development organizations with extensive experience in local government training. IRI has also appointed a South African citizen, Rachel Kgeledi, to serve as IRI's Project Director as it hands over its work to local partner organizations over the next two years. Through these partners, IRI has initiated an innovative program combining US foreign assistance with South African private sector support, to ensure that the methods and practices developed through IRI's years of training will have an impact long after IRI closes its doors in South Africa.

NDI Programs in South Africa

Political Update

□ On June 2, South Africans elected the country's second post-apartheid government. Thabo Mbeki replaced Nelson Mandela as president; Jacob Zuma is deputy president. The ANC gained 66.36% of the national vote, just shy of a two-thirds parliamentary majority.

□ Though the electoral process was somewhat marred by controversy over registration regulations and by increased political violence, the election was conducted in a peaceful and organized manner.

NDI in South Africa

Since 1991, NDI has worked in partnership with the national parliament, provincial legislatures, political parties, and non-governmental organizations to facilitate South Africa's democratic transition. NDI's initial programming focused on the election process. NDI has since shifted its attention to strengthening the national and provincial legislatures and making government more accountable to citizens through ethics codes and similar legislation. The institute is also supporting the development of a new local government framework. NDI's programs in South Africa are funded by grants from the U.S. Agency for International Development (USAID) and the National Endowment for Democracy.

Supporting Transparent and Ethical Government

Over the past five years, the South African government has advanced ethics and anti-corruption measures beyond any other emerging democracy in the world. The ethics structure includes parliamentary and public service codes of conduct and an ethics law for all national and provincial executive members of government.

In referring ethics legislation to the cabinet, President Mandela noted NDI's contribution.

NDI has supported the development of comprehensive ethics legislation through a number of projects. NDI has provided South African policy-makers with international comparative materials and information on ethics laws. The institute has also organized and led fact finding trips to the US, Ireland and the UK, to provide South Africans with information about ethics legislation and enforcement in those countries.

Following a December 1997 NDI study trip for members of President Mandela's legal counsel, the Office of the President developed the Executive Members' Ethics Bill. Parliament asked NDI to comment on the bill, and subsequently passed it.

NDI is currently reviewing the office of the public protector.

The review examines the political, practical, and constitutional role of the Public Protector in the country's anti-corruption program. The institute has also completed a study of international trends in anti-corruption, specifically noting South African efforts. NDI also hosted a workshop at the 9th International Anti-Corruption Conference.

Strengthening the NCOP's Legislative Capacity

In February 1997, the National Council of Provinces (NCOP) replaced the apartheid-era senate, as the second legislative chamber. The NCOP is a unique body created to facilitate provincial and local government participation in the national legislative process. As such, the NCOP is regarded as the concrete expression of the constitutional principle of "cooperative governance."

NDI has worked with the NCOP since its conception, providing comparative reports and organizing study trips to inform the structure and role of the new body. NDI has been instrumental in helping new NCOP legislators, national, provincial and local government members and the public understand the body and its unique legislative role.

"...It would be a serious mistake if at this point I failed to recognize the contribution that the NDI has made in helping the NCOP along its path of development..."

-Deputy President Thabo Mbeki

The NCOP has a complex legislative process requiring comprehensive consultation with provincial legislatures and local government organizations. NDI has provided numerous workshops for NCOP members and other stakeholders, to hone the legislative process, and thereby improve the body's policy-making capacity.

In May 1998, NDI organized the NCOP National Conference. This marked the first time that all major NCOP players had convened since the body's formation. Over three-hundred participants gathered to evaluate the body's performance and identify ways to improve the NCOP's legislative capacity.

NDI has continued to work closely with the NCOP. Over the past year, NDI has provided comprehensive information technology assistance. Members and staff have been trained to effectively use email and internet technology -- improving research efforts and policy development.

While assisting new and returning NCOP members through orientation programs and a New Members Orientation Manual, NDI is also assisting the body in determining effective executive oversight mechanisms.

Improving Local Government's Policy Capacity

South Africa's constitution establishes that local government have a co-equal relationship with the national and provincial levels, and mandates participation by

local authorities in the national policy process.

Since early 1996, NDI has supported the process of creating a new local government framework. NDI provided comparative information, and a comprehensive study trip to ten US cities by individuals involved in drafting new local government legislation. In addition to another study trip for a South African political leaders, NDI organized a number of consulting trips for US local government experts to South Africa.

"It is the view of the South African government that the development of a Local Government White Paper is second only to the Constitution drawing process and it is with this view in mind that I would like to express my appreciation of NDI's assistance in this process."

-Vali Momoa, Minister for Constitutional Development

In November 1997, Parliament established the South African Local Government Organization (SALGA). This body is constitutionally mandated to represent local government at the national level. NDI has worked with the organization to increase its capacity to impact national legislation: providing NCOP briefing materials, government contact directories, and planning workshops for the provincial member local government associations of SALGA.

NDI has subsequently provided technical assistance to SALGA to improve its communications structures, especially in the area of information technology. NDI

has also played a significant role in SALGA's establishment of policy development and advocacy structures.

Partner Organizations

Seeking long-term domestic NGO sustainability, NDI has partnered with several local organizations, including the School of Government at the University of the Western Cape, and Street Law. Over the past year, the School of Government has informed the policy debate on intergovernmental relations. In cooperation with NDI, the School organized study trips to Spain and India for political leaders to investigate comparative intergovernmental relations.

In collaboration with Street Law, NDI conducts focus group research on various political topics, providing the findings to policy-makers. Recently NDI and Street Law have conducted focus groups across the country to inform the policy debate on traditional leadership. NDI and Street Law have also provided the Independent Electoral Commission with a report on voter attitudes - the result of comprehensive focus group research.

*For more information about NDI's activities in South Africa, please contact Trina Rand (trina@ndi.org)
Updated October 1999*



United States Department of State

Washington, D.C. 20520

NOV 10 1999

Dear Ms. Lee:

This letter is a follow-up to Assistant Secretary of State Susan Rice's October 14 testimony to the Africa Subcommittee of the House International Relations Committee, during which you asked about the status of a constitutional challenge to the South African Medicines Act that has been brought by more than 40 pharmaceutical companies in South African courts. Assistant Secretary Rice reported that the case had been suspended temporarily.

On September 9, the Pharmaceutical Manufacturers Association of South Africa (PMA) announced that "the litigation between the parties will be temporarily suspended." PMA took this action in response to South African Health Minister Tshabalala-Msimang's announcement to the Parliamentary Portfolio Committee on Health that she would return the medicines legislation to Parliament for amendment. PMA Chief Executive Marryena Deeb said the organization "...wanted to ensure that the Minister has the space and time to evaluate the legal and technical complexities of several pieces of inherited legislation along with their likely regulations - unhindered by the presence of litigation." Pharmaceutical Research Manufacturers of America (PhRMA) President Alan Holmer expressed optimism at these developments.

While PMA clearly indicated its members were prepared to suspend the litigation, according to South African law, the other party in the legal case, the South African Government, needed to concur. At first, it appeared that the South African Government was not so inclined.

The Honorable
Barbara Lee,
House of Representatives.

On September 14, The South African Ministry of Health issued a press release clarifying that the decision to review the medicines legislation was attributable to internal discussions within the Department of Health and was not due to existing litigation against the Government of South Africa. The statement continued:

"With respect to the litigation, the only acceptable position of the Government of South Africa would be the total withdrawal by the PMA and others of the litigation against the Government of South Africa with regard to medicines legislation. The legal process therefore remains unchanged by any offers by the PMA that fall short of this condition. The Government of South Africa will continue to build its defense in this case and hope to conclude the case as rapidly as the courts will allow."

The Health Department denied the existence of any negotiations between the pharmaceutical companies and the government with regard to the litigation. Since all parties must agree before litigation is suspended, this and other press releases indicated the court case would continue.

Despite this public hard-line, on October 8 South African Government attorneys filed the necessary documents agreeing to a suspension of the litigation until January 2000. Therefore, as Assistant Secretary Rice stated during her testimony to the Subcommittee, the constitutional challenge to the South African medicines legislation is at present temporarily suspended.

Please do not hesitate to contact us if we can be of further assistance on this or any other matter.

Sincerely,



Barbara Larkin
Assistant Secretary
Legislative Affairs