

The Neglected Pillar: America's Economic Agenda in the Middle East

Jun 22, 2011



Brief Analysis

The Israeli-Palestinian portion of President Obama's May 19 speech generated much more attention than his comments on trade, investment, and development initiatives to promote growth and opportunities across the Middle East. Yet without a strong and credible economic program, efforts to advance Washington's political and security agenda in the region will prove frustrating and, ultimately, unsuccessful. Although there are few easy answers in this area, progress is possible with strong and sustained presidential leadership and active, bipartisan congressional involvement.

It's Still the Economy, Stupid

The demonstrators in the streets of Tunisia, Egypt, Syria, Yemen, Libya, and elsewhere in the region have voiced as many economic as political grievances against their governments. Unemployment, stagnation, corruption, nepotism, deteriorating infrastructure, discredited educational systems, and a general lack of transparency, accountability, and competition have been endemic to the Middle East. Political reform and meaningful democracy are unlikely to take hold unless these issues are addressed and substantial economic reforms are made.

Because the United States and Europe are facing their own domestic economic challenges, the time is not ripe for the equivalent of a Marshall Plan in the Middle East. Yet as Washington and its G-8 allies recognized during their May 26-27 summit, Tunisia, Egypt, and other countries need economic assistance and partnership to put them on the track to real democracy.

An Impressive Economic Toolkit

Even absent massive new infusions of aid, the U.S. government has significant tools and experience at its disposal. Agencies such as the Department of Commerce, Export-Import Bank, Overseas Private Investment Corporation (OPIC), Trade and Development Agency, and U.S. Agency for International Development (USAID) have experience across the region and could begin making a difference on the ground relatively quickly. In addition, the State Department's Middle East Partnership Initiative and Washington's free trade agreement (FTA) and bilateral investment treaty (BIT) programs have already been proven to work.

American NGOs, some benefitting from government funding, could also play important roles in a broad Middle East economic initiative. The National Endowment for Democracy and many of its partners -- such as the National Democratic Institute, International Republican Institute, Center for International Private Enterprise, and Solidarity Center -- could prove useful, as could local American chambers of commerce around the region, among other organizations.

A Menu for American Leadership

A detailed plan to achieve the aims President Obama announced on May 19 could include several steps, many of them requiring relatively little funding:

- *Trade promotion and liberalization.* Both substantively and symbolically, one of the most important concrete steps Washington could take is to seriously explore bilateral FTA negotiations with key regional partners. Comprehensive, high-standard FTAs -- such as those already implemented with Israel, Jordan, Morocco, Bahrain, and Oman -- benefit both parties. As the region's economic and political centerpiece, Egypt is a particularly strong and timely candidate for an FTA. Unfortunately, the U.S. bilateral trade agenda has withered under the Obama administration, primarily for domestic political reasons. For example, the White House has been unwilling to send long-signed bilateral FTAs with South Korea, Colombia, and Panama to Congress for approval. Although these three agreements have recently shown some signs of progress, few observers believe that the administration is prepared to launch long-overdue FTA negotiations in the Middle East.
- *Investment promotion.* The Middle East needs investment, and research shows that successful U.S. investment abroad is good for American competitiveness, economic growth, and employment. Yet the BIT program has been stalled for almost two years in an inconclusive interagency policy review. As with trade policy, the White House seems frozen on this issue, unwilling to consider any investment policy initiatives opposed by core domestic political constituencies. Partly as a result of this inaction, the United States lags behind European and Asian partners in the breadth and strength of its bilateral investment protection agreements around the region.
- *Fighting corruption.* Citizens across the Middle East have consistently put corruption at the top of their list of grievances against their governments. Both Washington and U.S. NGOs have earned a strong leadership role on transparency, accountability, and anticorruption efforts abroad, drawing on the longstanding Foreign Corrupt Practices Act. Even small amounts of U.S. funding could be leveraged into real impact through creative partnerships with American and local NGOs and business groups, along with strong policy advocacy.
- *Capacity building.* Official and private American organizations, led and organized by USAID, could increase practical training and institutional support for Middle Eastern governments in key policy areas such as intellectual property rights, regulatory policy, housing/mortgages, professional certification, and banking and trade finance. These initiatives would require only modest resources, as is appropriate at a time when the U.S. budget is facing difficulties.
- *Highlighting economic policy.* Given current conditions in the region, governments will soon face political pressure to adopt antimarket policies. For example, the initial budget proposals made by Egypt's interim government raise some troubling signs of backsliding toward the discredited state-centered and subsidy-laden policies of the 1970s and '80s. Working with the International Monetary Fund, World Bank, other donors, and key leaders around the region, the United States should support economic reforms and reformers. An effective blend of quiet diplomacy and public advocacy for good economics should be central to any credible Middle East economic initiative.

Other targeted initiatives should be explored as well. For example, drawing on the lessons of past transitions in Eastern Europe, President Obama proposed a debt-relief initiative for Egypt as well as "enterprise funds" to help pump capital into promising private-sector projects. As the president noted, OPIC is particularly well placed to play a creative role -- through enterprise funds and more broadly -- in the effort to facilitate and leverage U.S. private investment in the region. Job training for today's private-sector jobs and technology initiatives centering on internet access and freedom could also pay economic and political dividends.

Conclusion

American trade and investment efforts abroad create jobs, exports, tax revenues, and economic growth at home. With the United States lagging on these fronts internationally, Europe and Asia have stepped in. Across the Middle East, foreign competitors often face lower tariffs, fewer barriers, and stronger investment protections and dispute-settlement provisions than their U.S. counterparts experience. Leveling that tilted playing field would be good for both the region and the United States.

In his May 19 speech, the president issued a clear call for a robust U.S. economic initiative across the Middle East. To be sure, trade liberalization, FTAs, and investment promotion are controversial topics for the administration's key domestic political constituencies. Without strong White House leadership, however, history shows that U.S. agencies are unlikely to give the region the priority, resources, or creativity that today's situation demands. Several of the most important elements of any credible, dynamic U.S. economic agenda (e.g., FTAs, debt relief, assistance funding) are only possible with congressional support, including appropriations and authorizations. Accordingly, bipartisan, substantive approaches are needed from both sides of the aisle, not partisan politicking. If efforts to aid struggling regional economies are to succeed, Washington will need to surmount both international and domestic obstacles. Doing so would help not only the people of the Middle East, but also America's economy, companies, and workers.

Ambassador Shaun Donnelly has served as a U.S. diplomat in Egypt and Tunisia, as assistant U.S. trade representative for the Middle East and Europe, and as vice president for the Middle East at the U.S. Chamber of Commerce. ❖

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