Les Aspin Memorial Lecture:

Economic Security and the Middle East (full transcript)

by Stuart Eizenstat **(/experts/stuart-eizenstat)**

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ABOUT THE AUTHORS

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Stuart Eizenstat held high positions in the White House and the Treasury, State, and Commerce Departments during forty-plus years of public service.

Brief Analysis

On March 8, 1999, Undersecretary of State Stuart Eizenstat delivered The Washington Institute's Third Les Aspin Memorial Lecture honoring the late chairman of the House Armed Services Committee, secretary of defense, and member of the Institute's Board of Advisors. Following is the full text of his remarks as prepared for delivery. Read a summary **(templateC05.php?CID=1253)** of the question-and-answer session that followed his speech.

It is a pleasure to join you once again at the Washington Institute to discuss U.S. interests in the Middle East. I am honored to have been chosen to deliver the third annual Les Aspin lecture.

For more than thirty years, the late Les Aspin was a good friend and colleague -- from the Carter Administration, through his period in Congress, and on into the Clinton Administration. All of us present continue to benefit from his keen intellect and his contributions to strengthening U.S. national security, both from his distinguished service as chairman of the Defense Committee in the House of Representatives, and his loyal service as President Clinton's first Secretary of Defense.

Les was surely one of this nation's foremost experts on defense policy -- indeed, as early as 1976, when I was running then-Governor Carter's presidential campaign, I brought in Les as an advisor on national security policy for our debates with President Ford. All of us miss his wise counsel.

I am also no stranger to this Institute, having been present with Barbi Weinberg and Martin Indyk at its birth. Over the past fifteen years, I have had the pleasure of working closely with Martin, Rob Satloff and their colleagues on a number of different projects and study groups.

Ten years ago, at Martin's suggestion, I wrote a paper on the U.S.-Israeli strategic relationship -- today, I chair the U.S. side of the U.S. Israel Joint Economic Development Group, one of the key pillars of that effort.

In the early 1990's, I led a study group on the restructuring of U.S. aid to Israel -- just last week, I was in Israel negotiating the details of that restructuring with the new Israeli Minister of Finance Meir Shitreet.

The Washington Institute has developed into a premier think tank on Middle East policy, due largely to the high

quality of its staff and visiting scholars, and the timeliness and policy sensitivity of its analyses. I salute you today for the extraordinary contributions you have made by raising the level of scholarly debate on the Middle East. By challenging policy makers to consider the longer-range implications of our decisions, you are playing a valuable important role in enriching the policy process.

The topic you have asked me to discuss this morning -- "Economics and U.S. National Security in the Middle East" -- is very much at the heart of the Clinton Administration's effort to help build a more secure, prosperous, and stable Middle East. For it is only through economic prosperity that the tangible benefits of peace will be brought home to the peoples of the Middle East.

For the past three years first at the Department of Commerce and later in my current position at the Department of State I have devoted a substantial amount of time and energy -- and much of my professional life -- to this effort. Indeed, since assuming my current position not quite two years ago, I have traveled to the Middle East on eight separate occasions, logging thousands of miles between Washington and Tel Aviv, Amman, Cairo, Doha, Rabat and Tunis to press our agenda forward.

I have also met with Middle Eastern leaders in Europe, and in Washington and Hong Kong at the IMF and World Bank meetings. Indeed, I just returned Saturday from a full week in the region, in Israel, Egypt, Jordan and the West Bank, which was followed by a G-8 meeting in Germany at which the issue of the Jordanian economy was a principal topic of discussion.

I would like to use my remarks today to blend an overview of U.S. economic policy objectives in the Middle East with some of the personal observations and conclusions I have drawn from my long-standing involvement with the economics of this region.

VITAL U.S. INTERESTS

The Middle East has long been a region of vital strategic interest to the United States, due to its critical natural resource endowments, its strategic geographical location at the gateway between Europe and Asia, and its cultural and religious significance for many of the world's peoples.

The achievement of a just, lasting, and comprehensive Arab/Israeli peace is a long-standing U.S. policy objective. Advancing the peace process has occupied a central place in the agenda of every U.S. President and Secretary of State over the thirty-year period I have been involved in government. Throughout this process, we continue to stress our unshakable commitment to Israel's security and well being.

Broadening and deepening Arab/Israeli peace would carry with it a number of important benefits -- the end of Israel's isolation in the region, greater security for all the peoples of the region, and increased pressure on those remaining states that still rely on violence and terror to change their course. From an economic perspective, progress toward an Arab/Israeli peace settlement would enable the peoples and political leaderships of the region to focus more intently on the steps they need to take to assure a better livelihood for current and future generations.

It would allow governments to redirect precious resources away from defense expenditures and into social spending and productive civilian investments. It would also greatly improve the investment climate by reducing the risk profile, thereby attracting private capital to a region that has been a net exporter of capital in recent decades.

Assuring access to stable supplies of oil and gas from the region is another component of U.S. strategic interests in the region. While non-OPEC supplies have expanded rapidly over the past decade, the Middle East region continues to account for fully 35% of the world's oil production, and nearly 70% of proven reserves.

We need to ensure that rogue regimes -- including Iraq -- are not allowed to intimidate their neighbors and threaten the fabric of regional security. Our current policy of containment and the encouragement of regime change in Iraq is

an effort to advance that goal.

It is also a fundamental national interest to create and deepen overseas markets for U.S. exports and investment. Today, the Middle East is a small market, but it has been a central goal of my tenure as Under Secretary to turn that around, both by deepening our commercial ties, and by promoting policies that will accelerate economic growth rates. Later in my talk, I will identify some of the specific initiatives we have underway to advance these objectives.

ECONOMIC GOALS IN THE REGION

U.S. economic policy initiatives support our overall objectives of advancing a comprehensive Arab/Israeli peace, ensuring the stability of oil supplies in the Gulf, and improving the environment for U.S. trade and investment.

Let me be clear -- economics in the Middle East cannot get too far ahead of peace and stability, which are vital to create the appropriate environment for economic growth.

Economic prosperity to a great extent depends on peace. Equally, however, peace depends on prosperity. For peace to be sustained, it must generate jobs and raise incomes. We must find a way to give the peoples of the region a direct stake and an equity interest in peace and hope for a better future.

With regard to Israel and its immediate neighbors, the peace process is the cutting edge to provide an environment where economies can flourish, and nourish and sustain peace. It is precisely this economic dimension -- which demonstrates the benefits of peace to the elusive "man in the street" -- which is critically missing today in the West Bank and Gaza and Jordan.

Indeed, Jordan and the West Bank and Gaza are prime examples of the confluence of economics and politics in the Middle East. Both signed peace agreements with Israel and neither has yet seen an economic peace dividend. This lack of a peace dividend, in turn, has undercut support for the peace process. It is a top priority of the Clinton administration to reverse this negative dynamic by working on both tracks -- the political and the economic -- so that progress toward peace and prosperity can reinforces each other.

In the broader region, political acrimony and division must be reduced for the region to achieve its full economic potential. At the same time, prosperity is the primary ingredient needed to create the opportunities and social mobility necessary to reinforce long-run political stability.

Our overriding goal is to work with the countries of the Middle East to help build economies that meet the challenges of the twenty-first century. As I will suggest later, this means economies that are market-oriented; outward looking; based on a strong, vibrant private sector; and that have the resilience to generate jobs and prosperity for their peoples.

We must press forward with this task now. We simply cannot afford to wait for the final resolution of the Arab/Israeli conflict or the ideal security situation in the Gulf to launch our work.

SITUATION NOW AND CHALLENGES WE FACE

The Middle East region presents a highly disparate economic picture. On the one hand, it includes the state of Israel -- a high technology, $95 billion, cell phone and software startup society, in which 10% of households are already hooked up to the Internet.

On the other end of the scale is Yemen, with a per capita income of less than $500, high rates of illiteracy and poverty, and an economy that has changed very little over the past three centuries. In between, there are exporters of oil, exporters of labor, and two potentially large but dysfunctional economies -- Iran and Iraq.

But in this image of disparity, it is possible to identify a number of factors that unify the economies of the Middle East.

Many of the regimes invest a large percentage of their budget in military expenditures. Military expenditures as a percentage of GDP have fallen by half over the past decade to an average of 8.1 percent -- for Israel, with its significant defense needs, the level is still around 10 percent For the region as a whole, military spending levels still represent three times the average of all developing countries. Nearly all are coping with a region-wide shortage of water, that promises to be exacerbated by high levels of population growth or, in the case of Israel, immigration.

Environmental degradation, especially the declining quality of groundwater, affects nearly every country in the region.

External labor continues to flow between the countries of the Middle East to meet skills shortages, though a greater portion of labor needs are being met by workers from outside the region -- especially from South Asia and Eastern Europe. Indeed, in Israel, nearly 10% of the total labor force now comes from outside the region, half of it illegal. This has caused a social problem for Israel and damaged job opportunities for the Palestinians.

The region enjoys tremendous potential for economic growth in such unexploited sectors as tourism and high-value added seasonal agricultural products. An improved security environment, and a less protectionist European market are the keys to unlocking these possibilities.

On a purely commercial basis, the Middle East region -- which I define to include the countries of North Africa as well -- is for us a relatively small, but not insignificant market.

About four percent of total U.S. exports go to the region; and the absolute value of those exports increased by 37 percent from 1991 to 1997, to about $25 billion.

In return, the U.S. purchased an almost equivalent amount of goods and services from the region. Oil was a major element in our purchases: fully 12 percent of the U.S. crude oil supplies comes from just two countries -- Saudi Arabia and Kuwait.

In terms of direct foreign investment, the region continues to absorb less than 1% of worldwide flows -- a strong indication that more work needs to be done to improve the investment climate.

There have been some notable changes in the economics of the region in recent years, especially since the launching of the Madrid peace process. Between 1991 and 1996, overall trade levels in the region increased by 42%. Almost all Middle Eastern countries are now members of the World Trade Organization or are in the process of accession.

And there are ongoing efforts by the governments of the region to advance structural reforms and privatization. Indeed, these programs are touching previously sacrosanct sectors, including energy and telecommunications.

A number of countries have also reached out to tap external capital to deepen their financial sectors. Emerging markets investors pay close attention to political and economic developments in Egypt, Jordan, Oman, Lebanon, and Qatar, among other countries. Lebanon has recently issued a Euro-denominated bond, and even the nascent Palestinian stock market gets coverage from the financial wire services. Israeli software firms are highly sought after as investment targets for major U.S. high technology companies. The international bankers at the Davos forum spend a lot more time talking with their private sector counterparts from the region than with the political leaders present.

On the positive side, debt levels are generally within manageable limits in the region, and many Middle Eastern countries are committed to maintaining macroeconomic discipline as a brake against inflation.

All this is encouraging, but this region remains far from reaching its potential. The region remains largely closed -- both to the rest of the world and among the nations themselves -- and inward looking. As the World Bank has noted, manufactured exports per capita have not increased for more than a decade. In key politically important economies

such as Egypt, Jordan, and the West Bank and Gaza, workers' remittances, aid receipts and other services receipts continue to equal or exceed the level of manufactured goods exports.

Globalization is coming late to the Middle East, and integration remains more of an idea than a reality. The region risks being left behind -- or left out altogether -- from the rest of the world in technology and information advances and in financial integration.

Due principally to the impact of high tariff and non-tariff barriers -- and to a far lesser extent to the Arab/Israeli conflict -- only about 7% of all trade in the Middle East is between countries within the region. This compares to a level of 20% for the Americas, 30% for Asia and 60% for Europe. More importantly, this level has been stagnant in the Middle East for the past decade. By comparison, intraregional trade has served as a major engine of growth in Europe, the Americas, Asia, and, increasingly, Africa.

Overall growth continues to be held back by a combination of rapid population growth, lack of diversification, continued state ownership, and lingering protectionism. Average tariff rates -- while declining -- continue to be high by world standards. Non tariff barriers also continue to be high -- just ask the Gazan exporter who tries to get his products out through either Israel or Egypt. Again, the insularity of the Middle East threatens to hold the region back.

Until recently, the region had been thought to be largely immune from contagion stemming from the economic malaise in East Asia and elsewhere; but this is no longer the case. Falling share markets in Asia have affected the economies of the Middle East region, principally by reducing world consumption of oil.

Low export volumes have combined with low oil prices to seriously affect the economies of the entire region. Financial markets in Oman and Egypt have been affected, and the Israeli Shekel fell by about 15% late last year.

Debt rating agencies are taking a more careful look at downside risks in the emerging markets of the Middle East. International investors are more cautious than they were before the Asian crisis and are scrutinizing markets with a more careful eye to see that the necessary fundamentals are in place and in order.

As the World Bank has pointed out, the Middle East region suffered from a "lost decade" between 1985 and 1995, when per capita growth turned negative. Beginning early in this decade, this trend began to change, as a consensus for policy reform developed among a number of the key developing economies in the region -- Egypt, Tunisia, Morocco, and Jordan, to be specific. While in Egypt I applauded the government for achieving four straight years of 5% or higher growth. Nevertheless, further liberalization and privatization will be needed to boost Egypt's growth rate to the 7-8% levels needed to significantly reduce unemployment.

Ironically, just as this trend started to change in the Middle East, the economies of Asia began to stumble. Positive growth rates were restored in 1996 and 1997, but the picture for the coming decade is considerably less clear. Per capita growth in the Gulf countries has been negative since 1995, and the prospect of sustained lower oil prices could have a significant impact on longerterm growth prospects in the Gulf, and in the economies that depend heavily on remittances -- like Egypt, Jordan, and the West Bank and Gaza.

From $32 a barrel when I served in the White House during the 1979 oil crisis, the price of oil fell to $19 a barrel in the fall of 1997, then to a low of just $9 a barrel by mid 1998, before recovering to its current levels of around $12 per barrel. The dependency of key Gulf countries on a single product -- whose price may well remain low for the foreseeable future -- is an added drag on regional development.

Saudi Arabia and other economies heavily dependent on oil revenues for budgetary support no longer have the same level of resources available to support their traditional levels of social welfare and defense spending. They have also found that the cushion they once enjoyed is now eroded. Saudi Arabia, in particular, which depends on oil for two thirds of its budget, will have to curtail government expenditures and institute major structural reforms. With a

budget deficit estimated at 10% of GDP in 1998, the situation for Saudi Arabia is especially difficult. It will be tough to restore growth in the Saudi economy this year.

The situation in the Gulf has changed substantially from that prevailing at the beginning of this decade. Countries that were previously highly liquid -- such as Qatar -- continue to have solid prospects, but have been forced to borrow in international markets to keep up the pace of investment.

Gulf oil producers have been especially hard-hit, but peace process countries have not been immune. Jordan's GDP fell by I% last year, the third consecutive year of low or no growth. Israeli GDP growth has fallen over the past three years from 4.5% to just under 2% in 1998, and may go little higher this year.

Rapid population growth is among the most serious problems faced by the government of the region. It threatens future prosperity and stability. In some countries, population growth has reached crisis levels, straining resources and creating severe burdens on government to provide services and employment.

In the Middle East region today, about 40% of the total population is under the age of 14. Compare this with the developed world, where that number is about 20%. Because of population growth momentum, Middle East populations will increase substantially even if more effective efforts are undertaken to restrain growth. The influx of new entrants to already tight job markets will place further pressure on government and hamper their ability to grow. It also threatens to unleash social unrest.

Bloated state sectors of many countries traditionally acted to absorb extra labor, offering secure low paid employment (and often underemployment) to many who could not find better opportunities. Labor mobility especially the employment of millions of skilled and semiskilled worker in the Gulf served as a second important safety valve. In an era of low oil prices and constrained budgets, these options are becoming increasingly less sustainable.

The better alternative is expanded private investment -- driven by privatization -- to create opportunities for the many new entrants to the labor force. That implies a shift of government priorities to public sector investment in education, with the private sector picking up responsibility for manufacturing and infrastructure, in association with foreign investment.

It also implies a new focus for the governments of the region on steps they can and must take to improve the investment climate.

U.S. INITIATIVES

That brings us to the issue at hand -- what can the U.S. government and the U.S. private sector do to advance our economic objectives in the region -- to underpin the peace process and strengthen the economic and social fabric of the Middle East.

This has been my focus -- and, I might add -- my passion -- for more than a decade. I strongly believe that the United States needs to take a leadership role in strengthening the economies of the Middle East to meet the coming challenges.

We have the necessary tools to make a difference. Only the United States possesses the combination of diplomatic experience, a vibrant and engaged private sector, financial resources, political commitment, influence in international financial community and international institutions, and trust on the part of the key regional players -- to take on a leadership position.

I should add, however, that the European Union is playing an increasingly important economic role in the region -- with its traditional trade links, its creative Euro Mediterranean Partnership and its substantial assistance programs to key parties in the region.

Let me lay out for you a series of principles which I believe ought to guide our efforts, what we have been doing during this administration to advance them, and finally lay out some new policy directions that I believe deserve examination in the months ahead.

PRINCIPLE NUMBER ONE: The peace process must deliver economic benefits now, particularly to core constituencies in Jordan and the West Bank and Gaza. To date, economic fruits of the peace process have been limited. Since the 1993 Oslo accords, per capita incomes in the West Bank and Gaza have declined by over 20% -- hardly the basis to sustain popular support for the process. Nor has Jordan experienced the economic benefits it expected from its 1994 peace agreement with Israel.

My trip to the region last week reinforced my longstanding belief that economic stagnation in Jordan, and the West Bank and Gaza are severely eroding private sector commitment to the peace process. I believe it is absolutely imperative to lay some of this groundwork now, even if the political negotiations are not moving forward as rapidly as all of us would like.

Greater economic cooperation among Israel, the Palestinians, and Jordan should be possible to achieve in the near term, and should be the principal focus of our efforts.

In the case of Jordan, opportunities to expand market access with the two principal external markets -- the U.S. and the EU -- should complement efforts to build stronger intraregional trade and investment networks. Over the last two years, we have put in place a very creative arrangement for Qualifying Industrial Zones in Jordan, where goods can be manufactured and exported duty free to the U.S., provided they have a minimum level of Israeli content. This arrangement is simultaneously boosting Jordanian exports, generating new jobs and encouraging joint ventures between Jordan and Israel. USTR will soon sign a new QIZ agreement establishing a second QIZ in Jordan.

Jordan's principal historic market -- Iraq -- has shrunk from the necessary impact of the multilateral sanctions regime imposed on Saddam Hussein. We need to reinforce the recent signals of rapprochement between Jordan and the Gulf countries. Jordan urgently needs new outlets for trade and labor resources, and the Gulf must play a role.

We also need to find a solution to the limited levels of trade between Jordan on the one hand, and the West Bank and Gaza and Israel on the other. Last year Jordanian exports to the West Bank/Gaza and Israeli markets measured less than $25 million each. Having worked on this problem for the past three years, I know there is ample blame to go around to all parties. That said, we need to move quickly on disassembling the tariff and non-tariff barriers to this trade. The Israeli government has just agreed to significantly expand the so-called A-1 list for Jordan, which will free up over 1200 items for access to West Bank/Gaza markets. It is important that this commitment be promptly implemented. Based on my meetings in Israel and Jordan, I believe that improved door to point truck deliveries from Jordan to the West Bank will soon commence. To boost Jordanian exports, I suggested that Jordan and Israel establish quantitative monetary target levels for Jordanian exports. I received a positive indication from senior Jordanian and Israeli officials to this proposal. We will help facilitate establishment of these goals.

Over the longer run, I also believe it would be useful to take a fresh look at different models of economic integration for the Israeli, Palestinian, and Jordanian economies.

As many of you know, the Palestinian economy has suffered as a result of Israeli security measures that have periodically barred the movement of people and goods into and out of the West Bank and Gaza. In addition, a more permanent regime of restrictions on the movement of goods and people has dampened investor interest and hindered the development of export markets.

Clearly, Israel has an obligation to protect its citizens from terror. The challenge is to balance this near term security concern with Israel's long term security interests in reducing poverty and desperation in the West Bank and Gaza.

For over a year now, I have maintained a dialogue with the Israeli government based on input I have received from the Palestinian business community, to encourage Israel to reduce restrictions on the movement of Palestinian goods, services and people, consistent with Israel's security needs.

We are beginning to see the fruits of this effort, though much more needs to be done. On the positive side, over 60,000 Palestinians are legally working in Israel, though this is still only half the level of the late 1980's. More Palestinian business people can enter Israel and travel between the West Bank and Gaza, and Palestinian good and labor are beginning to move across borders with fewer restrictions.

Much more needs to be done, however, to build on the progress to date. I have proposed the creation of a closure-proof list of business people, an idea to which the Israeli government seems to be receptive. Economic links between the West Bank and Gaza need further strengthening. While this goal will be enhanced by the establishment of a safe passage between the two sides as stipulated in the Wye Agreement, much can be done in the meantime to facilitate these linkages.

Israel's role is crucial, but there is also much that we and other international donors can do to stimulate economic growth in the West Bank and Gaza. That is why President Clinton hosted an international donor's conference for the Palestinians, following on the heels of the Wye Agreement -- a conference that raised over $3 billion for the Palestinians. And that is why, for our part, we are consulting with Congress on substantially increasing U.S. assistance to the Palestinians as well as Jordan and Israel through a supplemental appropriation that would support the Wye Agreement. Over the last few years U.S. assistance to the Palestinians has focused on three areas, water projects, democracy and governance and private sector development. One initiative we have supported is the Gaza Industrial Estate, which offers investors a secure environment where they will have reliable access to both the Palestinian labor pool and markets in Israel and beyond. The estate should be up and running in a matter of weeks and we expect that it will employ up to 20,000 Palestinian workers.

It is precisely the kind of activity that we must continue to support because it produces economic dividends now, when they are most needed.

PRINCIPLE NUMBER TWO: We must strengthen our bilateral economic relationships with the countries of the Middle East, both for the sake of the region, and for our own sake.

Today, Israel is a key trading partner in the region, second only to Saudi Arabia. The U.S. Israel Free Trade Agreement, which entered into force in 1985, is the only bilateral free trade agreement the United States has entered into outside North America. The agreement has helped to expand two way trade to a current level of $12 billion by phasing out all tariffs on industrial goods and reducing non-tariff barriers. The U.S. Joint Economic Development Group, which I chair, was created in 1985 by Secretary of State Shultz as a device to assist the government of Israel with a serious hyperinflationary and budgetary crisis. Since that time, utilizing the skills of a talented corps of prominent economists (including such impressive alumni as Herb Stein, Stan Fischer, Larry Summers, Joe Stiglitz, and now, Jeffrey Frankel of the CEA and Ben Bernanke of Princeton), the JEDG has grown into a valuable forum to promote sound macroeconomic policies in Israel. Such a sound policy environment enhances the ability of Israel to service its large debts to the U.S. government, and eventually grow out of a two decade long history of economic assistance grants from the United States. Indeed, we are working with the Government of Israel in an effort to come to a historic agreement on the phase out of U.S. civilian assistance. Such a phase-out -- which is being undertaken at the request of Israel -- is a strong testimony to Israel's economic self-reliance. A strong, healthy bilateral economic relationship with Israel -- buttressed by these institutional structures -- is yet another manifestation of the depth of overall U.S./Israel ties.

The JEDG has served both Israel's interests and ours. Today we have similar economic dialogues throughout the

Middle East. In Jordan we have a Bilateral Economic Commission, in Egypt we have the Gore-Mubarak Partnership, which includes a subcommittee on economic policy that I co-chair. In the Gulf we have the GCC dialogue. With the Palestinians we have a new Bilateral Commission which focuses on investment and economic issues, among other things. With Morocco, Tunisia and Algeria we are now in the process of launching a U.S.-North Africa Economic Partnership. Like the JEDG, each of these economic dialogues serves not only the region's interest, but ours as well, because they are broadening and deepening our bilateral ties, enhancing U.S. markets, lowering barriers to trade and investment, and, in many cases, helping to create a more stable and sustainable political climate by broadening economic participation.

PRINCIPLE NUMBER THREE: It is essential to bring down intraregional barriers to trade and investment.

North Africa is an important example of a group of countries that could greatly benefit if trade barriers within the region were eliminated.

Currently, the border between Morocco and Algeria is closed to trade due to political differences over the Western Sahara. This affects not only Morocco's ability to trade with Algeria, but also with Tunisia and countries further east. There are virtually no lateral east-west trade linkages in North Africa, only north-south linkages with Europe. Indeed, those north-south ties are being further solidified through trade agreements being negotiated under the Euro Mediterranean Partnership.

An unfortunate aspect of this is that investors interested in selling consumer products in North Africa are better off locating their plants in Europe, from which they can reach all the key markets in North Africa, rather than within North Africa, where they could effectively reach only domestic markets.

That is one reason why last summer, we agreed with the governments of Morocco, Tunisia and Algeria to establish a new U.S.-North Africa Economic Partnership. This initiative is designed not just to build our bilateral economic relations with the region, but also to encourage better economic relations within the region.

The partnership will be based principally on enhanced private sector ties, and I have stressed to the regional governments that U.S. investors will be much more interested in any given North African country if it can be seen as a platform to the region as a whole.

For regional barriers to be reduced over the long run, regional institutions will eventually need to be formed to cement policies and broaden the scope of regional cooperation. These institutions need to be inclusive in their membership, grounded in the region, created and managed by regional actors, and draw most of their financial resources from within the region.

Regional parties need to take hold of the agenda for these institutions, and agree on regional solutions to pressing economic problems. The Bank for Economic Cooperation and Development in the Middle East and North Africa (MENABank) was one such institution -- a model, I believe, of what should eventually emerge if the Middle East is to speak with one voice.

Unfortunately, despite some truly extraordinary work on the part of a group of devoted professionals, the MENABank concept was unable to be launched last year. Key regional governments balked at the price tag, and the politics of the peace process were not properly aligned. The MENABank may have just been a little bit ahead of its time.

Other structures are also possible -- the Asia Pacific Economic Cooperation group could be another model, as could the Hemispheric Summit process in the Americas. The important point here is that the economic leaders of the region must eventually take the future into their own hands.

PRINCIPLE NUMBER FOUR: In an environment of declining assistance resources and growing private sector ties, the private sector will be the key instrument for advancing U.S. economic objectives in the region. This applies to both

U.S. investors and exporters as well as their counterparts in the region.

On each of my visits to the Middle East, I have always made it a point to target my remarks and energies to drawing the regional private sector into the policy process. In many of the countries of the Middle East, there is no tradition of either private sector lobbying or participation of private sector players in government ministries. Private sector views are frequently ignored or sidelined. This is unfortunate, as the private sector is frequently much more aware of the specific steps that need to be taken to cut regulation, open up trade, and develop joint ventures with foreign firms than cadres of government bureaucrats.

Indeed, the private sector has a key role to play in promoting transparency and good governance and in encouraging governments to develop economic programs that support broad based economic development.

The United States has put together a number of mechanisms to foster greater private sector involvement in economic decision-making in the Middle East. Under the Gore-Mubarak partnership, we have developed a Presidents' Council, which brings together 15 top business leaders from both sides to advise our respective leaders on business friendly policy reforms that help stoke economic growth, employment growth, and investment. We are looking into the formation of a similar mechanism to be attached to the U.S. Palestinian Bilateral Committee, and over time, I believe it would be useful to see similar groups formed in both Israel and Jordan. In the Gulf, the U.S. Gulf Coordination Council Business Group serves as an important clearing house for commercial opportunities. And in North Africa, through the U.S. North Africa Economic Partnership, we are drawing the regional private sector into the economic policy making process.

The Switzerland-based World Economic Forum has also been successful bringing together private sector players in the Middle East for different events. Before they were suspended in 1998, the Middle East North Africa Economic Conferences were highly successful opportunities for matchmaking between U.S., European and regional private sector actors. Even in the difficult political climate of early this year, the WEF succeeded in bringing more than two hundred regional business leaders together after the annual Davos conference for a two day Middle East North Africa Business Forum. We are hopeful that the MENA economic conference process will be resumed as the peace process negotiations accelerate.

These young entrepreneurs from the region are a home-grown constituency for policy reform. In my view their encouragement is a lot more persuasive than conditionality requirements that are linked to disbursements by foreign donors. I have met many of these entrepreneurs in Davos, and in the regional summits, and have been impressed with their energy and creativity.

The U.S. Commerce Department has a key role to play here, because it is best placed to bring the resources of the U.S. private sector to bear on the economic needs in the Middle East. In coming years the U.S. business community can have tremendous influence by strengthening investment in the region. Increased private investment is the best leverage we have to promote policy reform in the Middle East. And the opportunities are there. Over the next decade, there should be promising opportunities to invest in upstream gas and possibly oil development on the Arabian Peninsula, in addition to significant new investment opportunities in the downstream sector. The Middle East lags behind Latin America and Asia in terms of the privatization of basic infrastructure -- electricity, roads, and telecommunications. U.S. firms are well positioned to take advantage of these opportunities. As water shortages become more acute, a major investment opportunity in desalination technologies should also open up beyond the Gulf into the countries of the Levant and North Africa.

CONCLUSION

There are few regions of the world where the United States has such a confluence of political and economic interests -- where our economic interests are so dependent on political developments and where our political interests are so

dependent on economic developments. The Clinton Administration is committed to working intensively on both tracks. But to be successful, we need a broad-based American coalition that includes not just the Administration and Congress but also the private sector and members of the broader policy community, including you at the Washington Institute.

The challenges are great, but working together I am confident that we can consolidate the historic achievements of the past six years and lay the groundwork for a new Middle East that offers the benefits of peace and prosperity not only to the Middle East, but to the United States as well. ❖

RECOMMENDED

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Feb 14, 2022

Simon Henderson

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BRIEF ANALYSIS

Libya's Renewed Legitimacy Crisis

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