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Hearing on “The Greater Middle East Initiative—Sea Island and Beyond”
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Thank you, Mr. Chairman and Senator Biden, for this opportunity to testify. Our nation is well served by your leadership, and it is a privilege to be here today before you and other distinguished members of the Committee.

Next week’s G-8 summit at Sea Island, Georgia provides a timely opportunity to review what the United States and other major powers are doing to support stability, prosperity and freedom in the Middle East and beyond.

It is impressive to note how the issue of promoting internal reform in the Middle East has risen on agendas all over the world. The President and many senior members of his administration have spoken out clearly since September 11 on the need to promote reform in the Middle East not only for the sake of people there, but also for the sake of our national security. Individuals from across the U.S. government have been working for more than two years to turn this idea into a reality. European leaders have been talking about promoting reform in the Mediterranean Basin for most of a decade, seeking to use the European Union’s so-called “Barcelona Process” to promote economic growth and political openness.

Some of the most impressive and impassioned debates have come from the Arab world itself. The first Arab Human Development Report, issued in September 2002, represented an unprecedented Arab critique of their own societies. It was blunt in its assessment and clear in its urgency. The second report, issued last spring, strongly followed the precedents of the first.

We have also seen an impressive summit in Alexandria last March, which brought together nongovernmental activists from around the Arab world to lay out urgent and practical steps to lead the countries in the region forward. The Arab League, in its meeting last month, also embraced reform in the region.

What I want to highlight here is that what we are seeing is not a U.S. phenomenon, a European phenomenon, or an Arab one. We are seeing a growing consensus not only about the need to address this issue, but also about what our goals should be. The consensus is much less clear on how we can reach those goals, and that is where the sort of coordination the United States government is doing in Sea Island—and will surely do elsewhere as well—is so vitally important.

I am not an expert on the Middle East. I have thought a great deal about how to structure aid programs, however, and it is to that topic that I would like to devote the rest of my brief testimony.

First, we have to be clear and realistic about our goals. Foreign aid is a limited if useful element of foreign policy. It produces the best results when it is focused on achievable objectives that do not contradict other, usually security, goals we are trying to obtain at the same time. Aid works best when adequate resources are provided to implementing partners with sufficient political will and capacity.

The purposes associated with a Greater Middle East Initiative have generally vacillated between two overlapping yet different objectives: democratization and development. The former goal focuses on political reform; the latter concentrates on basic socio-economic shortcomings. Either goal will take leadership and support from within the region, and decades of sustained commitment from a variety of actors. Either way, we cannot hope to go from Sea Island to sea-change overnight.

The most realistic goals will be those that are homegrown and enjoy a strong degree of local ownership. In these cases, we can use funds opportunistically to foster reform and change. Although more difficult, we will have some opportunities to use firm diplomacy to push for opening 'political space.' We must remember at the outset, however, that the diplomatic discipline necessary to open political space can quickly get lost amidst the myriad competing security and political objectives we must simultaneously pursue in the greater Middle East.

When it comes to funding specific programs or projects, members of Congress and the public will want to know that the initiative represents a serious plan to achieve tangible results, with clear intermediate benchmarks to help measure progress. Such oversight is justified, and indeed desirable. Third-party, independent auditing would help avoid corruption and provide a level of accountability of U.S. tax money not present in most aid programs. Over time, independent evaluations could offer serious analysis of whether investments are starting to achieve the desired outcomes.

Second, we need to think carefully about the utility of money and resources in the Middle East. Money is a limited lever in this region, even if we were to contemplate a "Marshall Plan" for the great Middle East.

The United States already spends more than \$1 billion in non-defense foreign aid to the region, but the bulk of it has tended to go to Egypt and Israel in support of the 1979 Camp David Peace Accords and regional stability. One could argue that that money has been well spent if it has indeed helped to provide regional peace and security. This has perhaps created a sense of entitlement and a set of expectations that are politically costly to alter. When the Middle East Partnership Initiative was launched in December 2002, many in the Middle East criticized the program because it was a "mere" \$100 million/year, thereby representing such a small percentage of aid to the region and an even smaller percentage of increased aid to other regions. Thus, even a well-intentioned

U.S. program was portrayed as a snub. In these situations, in particular, international coordination can be helpful.

We must tailor our approaches to individual countries. The Gulf countries in particular bear little resemblance to some of the least developed countries we see in Sub-Saharan Africa, where the prospect of a \$200 million, three-year Millennium Challenge Account grant can provide a real incentive for undertaking additional reforms. In this region, however, a potential grant, even a relatively large one, might as easily be seen as an insult, a threat, or an invasion of sovereignty.

In addition, the Middle East is also home to some of the wealthiest governments in the world. We have little ability to use money as an incentive, since there are so many opportunities for profit through business ventures, personal subsidies and government grants. The dependence of populations upon their governments, instead of the governments' dependence on their populations, makes nurturing democracy there difficult. For many in government, business and the military, no reasonable amount of money is enough to induce them to embark on changes that could bring down the whole system from which they profit.

Money in the Middle East may be better understood as an analgesic, not an incentive. By itself, it is insufficient to induce change, but if combined with other tools it can make change more acceptable. The painkilling effect may make it easier for governments to create the political space for local reformers interested in pursuing different types of activities: (1) political reform by strengthening political and judicial institutions, civil society and an independent media; (2) knowledge acquisition and the exchange of ideas by investing in primary and higher education, vocational training, educational changes, and the leveraging of information technology; and (3) economic reform and socio-economic opportunity by seeking economic growth, trade capacity building, and employment, as well as supporting basic infrastructure and a healthy workforce. In this indirect manner, such investments, if appropriate to a particular country in the Middle East, might further pave the way toward larger, national reforms.

But we have lost the strategic point the moment we think this is primarily about resources. It is not. Our economic carrots are unlikely to have as much leverage in the Middle East as they may have in Africa, and in this region we run the moral hazard of poisoning our friends with our carrots because they are tainted by a U.S. policy agenda.

Thirdly and finally, as we think about specific structures for providing assistance, we should borrow heavily from recent experience in establishing new entities such as the Global Fund for AIDS, Tuberculosis and Malaria and the Millennium Challenge Corporation. These models provide attributes for a transparent, locally-owned, competitive, results-oriented assistance program around which we could build a broad consensus.

Calls for attacking illiteracy in a region where half the women and a large plurality of men are illiterate, can only be welcome. Supporting microfinance is a way to provide

greater equity and hope to those lacking even modest sums to invest in a business. A regional development bank could help to make wise investments in larger infrastructure projects on which economic growth may hinge. And a democracy foundation could help to foster greater dialogue for good governance and political reform.

But of all of the proposals, the one that resonates with me is the Trust for the 21st Century proposed by Senator Lugar. The idea is sound because, as with the Global Fund for AIDS, Tuberculosis and Malaria, it could be international in scope and base grant decisions on the expert technical review of proposals emanating from each country. Like the Millennium Challenge Account, it could introduce a healthy domestic competition that leads to creative, homegrown solutions with clear benchmarks and a focus on closely monitoring results. Finally, the Trust could pool resources and provide a common mechanism for providing grant assistance to these countries, rather than adding to confusion created by multiple donors imposing so many competing approaches to assistance.

At the same time, there is at least one fundamental difference in my mind between a Trust and the MCA. It may be tempting to run a regional MCA contest in which countries of the region would be measured by objective criteria of ruling justly, investing in people, and economic freedom. However, that competition already exists on a global basis, and a country like Morocco is a good bet to qualify in the second round on its own merits. Meanwhile, the intended reform effect of the MCA would be mostly lost on the countries of the region. As mentioned before, reforms will have to start in the region, be supported by realistic diplomacy, and then backstopped where helpful with assistance. If we expect foreign aid to be the catalyst for change in Egypt that it may be in Mozambique, for instance, I think we are destined for frustration.

Last month's Arab League summit in Tunisia suggests that there is both interest in reform and—as seen by the inability to agree on establishing an oversight body--limits to the likely depths of such reform. Analogous efforts in other regions have fared little better. The New Economic Partnership for African Development (NEPAD) and even the Association for Southeast Asian Nations (ASEAN) have been disappointing to those who expected such regional groupings to tackle poor or corrupt governance head on—whether in Zimbabwe or Burma, for instance.

Grants from a trust, however, could provide a vehicle for engaging the region on the basis of partnership and merit, but not so directly as to confuse suspicions about donors with national interests and development. The details of the Trust proposed by the Chairman can be best worked out in multilateral consultations with a variety of partners.

Through such relatively modest investments, as part of a larger comprehensive set of policies and diplomacy, the United States may sow the seeds of a new generation of progress and peace in the Middle East. If we are to do so, we will have to rely on our example, as well as an adroit use of both hard and soft power, tough love diplomacy and generous and smart assistance. Through all these means, with sufficient time, we can buttress good governance in these countries; we can strengthen political and economic

institutions that allow for transformation of the lives of young men and women who otherwise may join the tens of millions of educated but unemployed; and we can reinforce the reality that the United States stands in partnership to help these people rather than as part of the problem.

Senator Lugar has said eloquently that our long-term strategy is to replace the region's pervasive repression, intolerance and stagnation with freedom, democracy and prosperity: but in the absence of any easy nostrum for effecting that transformation, we would be wise to listen to our friends in the region, Europe and elsewhere, even while we signal a willingness to make our commitment to the region both tangible and enduring.