
U.S. Economic Policy in the Middle East: Challenges and Opportunities

By

**Edward P. Djerejian, Assistant Secretary of State
for Near East Affairs**

[The following is a reprint of Secretary Djerejian's address before the Arab-American Business and Professional Association, in Washington, DC, September 16, 1993.]

In the wake of the momentous events on Monday [September 13, 1993] involving the signing of the Israeli-Palestinian Declaration of Principles, it is timely for us to discuss the Administration's economic and commercial policy toward the Middle East.

As we reflect on the historic, new situation created in the Middle East by this reconciliation of old enemies, we are confronted with the tremendous challenge of making peace work—of assuring that the words on the paper are translated into facts on the ground which lead to improvements in the lives of the Palestinian and Israeli people and of the region as a whole. No longer can the peace process be considered a subject only for political leaders and diplomats engaged in high-level negotiations. The moment has come for all of us—diplomat, businessman, teacher, and farmer—to roll up our sleeves and get down to the hard work of improving the quality of life in the Middle East.

I will return to the special challenges we face in making the recent Israeli-Palestinian agreements achieve their full potential. But, because this audience contains so many who have long devoted themselves to commerce and industry, I want to first give you a broad perspective on the economic policy goals of the Clinton Administration and how they affect the Near East.

From the very first speech President Clinton made on foreign policy, it was clear that economics would be at the top of our policy priority list. We in the Administration have a strong mandate to promote U.S. business, investment, and commercial interests abroad. You might ask how this mandate touches the work of the Near East bureau. After all, I sit in an office better known for shepherding the Middle East peace process along or for managing the diplomatic dimensions of Desert Storm and our relations from Morocco across to Iran.

Whatever the perception may be, a simple truism makes that mandate as relevant to me as to an assistant secretary of commerce. And that is that America's international position depends, in part, on the strength of its economy and—a corollary—that the health of that economy is greatly affected by events abroad. Put another way, in a world where business across borders is growing exponentially, foreign and domestic policy are two sides of the same coin.

Consider these facts. Our gross national product tops \$6 trillion, and our annual exports are approximately \$700 billion—or 11 percent of GNP. Yet since 1987, 55 percent of our economic growth is directly attributable to exports. The Clinton Administration has recognized the connection between our domestic interests and foreign policy from the start. That's why Secretary Christopher has said:

At the State Department we have a desk responsible for every foreign country, or virtually every foreign country—the China desk, an Argentine desk, a Russia desk. As Secretary of State, I'm determined that the State Department will also have an "American desk"—and I want to be sitting behind that desk.

ECONOMICS AND AMERICAN INTERESTS IN THE MIDDLE EAST

The importance of foreign markets to our prosperity makes economic issues a primary concern of American diplomats. Yet there are also some connections of particular concern to my bureau. For instance, one of our foremost foreign policy interests is to maintain unimpeded commercial access to critical natural resources like oil and natural gas. The two oil shocks of the 1970s drove up our inflation rate in that decade, just as steady and then declining oil prices contributed to the low inflation that accompanied an economic expansion in the 1980s.

A second principal foreign policy objective—advancing the Arab-Israeli peace process and achieving a comprehensive, durable, and just peace on all fronts—likewise underscores the close ties between our political, security, and economic interests. Our overriding motivation in pursuing this process is to help bring peace and stability to a long-troubled and strategically significant part of the world. Yet, if successful, the process will also bring major economic benefits to the region.

The history of conflict in the Middle East has acted as a brake on economic growth. It has also introduced, in ways noted by [the acclaimed classical economist] Adam Smith, irrationalities into the regional trading system. For instance, many U.S. firms operate only in part of the region, or they supply different markets from different sources. With the real potential of a resolution to the conflict and with an end to the Arab economic boycott of Israel, we expect significant changes in the way business is conducted in the region. Indeed, in the wake of the historic signing of the Israeli-Palestinian Declaration of Principles and the mutual recognition of Israel and the PLO, we are already seeing reports about investors taking a new look at the region.

With peace, trade flows will expand—within the region and with extra-regional states like the U.S. New transportation, communications, and energy links will also be needed. In short, there will be a substantial peace dividend, which will include the removal of political obstacles to commerce. With strong ties throughout the region, U.S. firms will be in a position to take advantage of the new opportunities that appear.

The events of Monday were a breakthrough, but they were also only a beginning. At the White House, the State Department, and other agencies of the U.S. Government, we have, since Monday's signing, begun an intensive effort to assess the needs which must be addressed to assure that the Israeli-Palestinian agreements lead to a durable peace. It is quite clear that many in the international community recognize how crucial these efforts will be and are willing to provide the necessary support.

As President Clinton has pledged, the United States will assume a very heavy role in making the implementation of the agreements successful. The President has already been in touch with a number of heads of government, both in the Middle East and elsewhere. His message to states in the region: support the agreement; end the boycott of Israel; begin the process of normalizing relations with Israel.

We are seeing broad, bipartisan support for the United States to do its part in contributing to the success of the agreements. The United States will do its part in material terms and will use its unique leadership role to facilitate and coordinate assistance for Gaza and Jericho. I can tell you that over the last few days, little has occupied more of my and my colleagues waking hours than establishing a realistic plan of action for this endeavor.

But this task is not simply one of governments and international aid agencies. Bringing prosperity to areas of unemployment and poverty depends just as much on your efforts as it does on official assistance. We all have a stake in this process. I urge Arab-Americans, Jewish-Americans, and all other Americans to look for ways they can contribute. Many of you here tonight have the skill and experience in entrepreneurship that needs to be fully exploited in this new environment.

I know that we have some business leaders with us tonight from Gaza and the West Bank. I would certainly hope that their visit to the United States at this particular historical moment has revealed to them the interest of American business people in joining them in the task of investing for the future. And I would also hope that they have communicated to their American counterparts the special needs and the practical information necessary to do business in their communities.

In a diplomatic career as well as in the life of business, there are normally only a very few moments when one can make a genuine difference in the course of history. It is not too much to say that such a moment is before us in the Middle East.

I would now like to turn back to the broader role of the U.S. Government and, in particular, the State Department in the pursuit of U.S. economic interests in the Middle East.

PROMOTING OUR COMMERCIAL INTERESTS IN THE REGION: STATE'S ROLE

Global Initiatives. We constantly and at high levels promote global initiatives designed to reduce barriers to trade and investment and to ensure that the rights of American business people are not infringed. In conjunction with the U.S. Trade Representative and other agencies, we seek to promote trade by completing the North American Free Trade Agreement—which will soon go to Congress—and to bring to a successful conclusion the GATT's Uruguay Round. Growth in trade means more jobs at home. We believe NAFTA would generate thousands of additional jobs in the U.S. in the next 2 years alone. We have also worked to protect the integrity of American patents and copyrights by seeking to persuade all non-members to join the international conventions protecting intellectual property rights.

Boycott. The State Department has led the official effort to persuade Arab governments to eliminate the economic boycott of Israel and of those companies doing business with Israel. As part of this effort, we persuaded our partners at the G-7 summit in Tokyo last July to include a call for an end to the boycott in the Political Declaration. We continue to press our trading partners to take more forceful action against the boycott, especially the secondary and tertiary aspects, which discriminate against firms that wish to do business with both Israel and Arab states. Quite frankly, and given the role of the United States in the Middle East, it is simply incongruous for U.S. businesses to continue to be discriminated against.

Export Promotion. No less important than our efforts to remove trade barriers have been our export promotion programs. Given the causal relationship between exports and economic growth, these programs are all about "jobs, jobs, jobs."

Under the direction of President Clinton and Secretary Christopher, our ambassadors overseas view promotion of trade and investment as a key part of their work. Recent reports indicating Saudi interest in purchasing McDonnell Douglas and Boeing airframes and engines to replace their aging fleet of civilian aircraft demonstrate how our partnership with U.S. firms can translate into large orders for goods produced by American workers. When necessary, the highest

levels of the Administration stand ready to intervene on behalf of U.S. business. And our embassies around the world are prepared to do so as well.

Export promotion abroad is coordinated by the ambassador but involves many elements of our diplomatic missions. The economic and commercial sections of our embassies and consulates provide information on a country's economy, commercial culture, and discrete business opportunities. Political officers can contribute a risk assessment. Consular officers provide basic information on living or traveling in the country.

I am proud to report that our diplomatic posts led by our ambassadors in the Near East have thrown themselves actively and effectively into this task. For example, our embassy in Kuwait began export promotion efforts even before coalition forces liberated the country in March 1991, by exploring future trade opportunities for U.S. business. The embassy met with both Kuwaiti decision-makers and representatives of U.S. construction, oil firefighting, and environmental cleanup firms and helped establish critical, initial contacts between the two groups. These trade promotion efforts have resulted in the awarding of over 500 construction contracts worth approximately \$5 billion—and comprising about one-half of Kuwaiti reconstruction contracts—to U.S. firms between November 1990 and December 1992. The embassy also originated the first trade fair in Kuwait after liberation, entitled "Direct from the USA," that produced \$49 million of "off-the-floor" sales and as much as \$120 million of follow-up purchases.

Our other [diplomatic] missions are also doing a splendid job of assisting American business in the region. To take just four recent examples:

- In Qatar this past summer, the intervention of our ambassador was essential in nailing down a \$98-million contract for a U.S. firm to dredge a channel in Doha port;
- In Israel, our embassy worked hard to overcome trade restrictions so that McDonald's would be able to open a series of restaurants, beginning in October;
- In Saudi Arabia, our ambassador and his staff worked diligently on behalf of a U.S. firm, helping it secure a multibillion-dollar contract to expand a major oil production and refining facility; and
- In Abu Dhabi, our *chargé d'affaires* played a major role in convincing the Government of the United Arab Emirates to choose an American firm to install a cellular mobile telephone system. The contract was worth \$25 million and, of course, the American firm will have the inside track for later expansions in the system.

We are active not just in promoting American sales but in protecting American companies when they run into trouble. For example, since early 1992, the State Department has taken a leading role in resolving approximately 20 long-standing commercial disputes between U.S. businesses and the Saudi Government. Nearly all of these claims—with a total value of more than \$500 million—have now been settled. We continue to work to resolve the few remaining cases.

Political and Security Factors. I hope that you and your colleagues take advantage of and use the resources of the State Department in seeking business abroad. But I hope, too, that you come to understand our other responsibilities that may color the commercial environment.

Thomas Jefferson said that money, not morality, is the principle of commercial nations. That certainly is an accurate description of "commercial nations," but the United States is different. We adhere to both our commercial interests and basic values in pursuing our policies. This is evident

as the Administration implements anti-boycott, sanctions, and export control legislation and policy—measures that speak both to our national interest and higher principles.

Regarding the Arab boycott of Israel, firms are enjoined from taking any steps consistent with it—e.g., signing a letter stating that a firm has no business dealings with or in Israel. We support American business and political interests in the area by seeking to end the boycott. And we have had some successes.

- In June, Kuwait publicly announced that it would no longer discriminate against firms that do business with Israel.
- Saudi Arabia has reportedly revised its public works contracts; the government will no longer discriminate against firms that do business with Israel. Several other Arab countries have advised us of steps they are taking toward dismantling the boycott.

President Clinton called for an end to the boycott at the signing of the Israeli-Palestinian Declaration of Principles.

Sanctions are another consideration in our trade policy. We must convince Iraq, Libya, and others who defy the will of the international community as expressed by the United Nations that the world community will impose severe costs for their unacceptable behavior. We believe that the UN sanctions remain an effective instrument of pressure on these regimes to compel their compliance with Security Council resolutions.

Export controls on high-technology products with dual military/civilian uses are another factor. We keep a close watch on these exports and must be sure that proposed exports are consistent with our national security objectives and include appropriate safeguards before approving the sale. I don't think it would be sensible for us to permit a U.S. firm to sell silicon chip manufacturing technology to a European firm without some assurance that the technology wouldn't be resold to, for example, a Libyan or Iranian concern. Nor would we want to allow U.S. firms the unimpeded ability to sell chemicals that could be used to manufacture chemical weapons. The Department of Commerce has the lead on dual-use export controls, and we in the State Department work closely with Commerce.

THE MIDDLE EAST MARKET

I also want to draw attention to various governments' efforts to liberalize and "modernize" their economies, often with U.S. assistance. These efforts are reducing many of the barriers that have impeded growth in trade between the U.S. and the Middle East.

- In Morocco, the Agency for International Development is providing technical advice to government officials overseeing the sale of 112 public sector firms to private investors.
- The Egyptian Government has eliminated most import and investment restrictions, substantially reduced tariffs, and implemented full currency convertibility and a floating exchange rate.
- Israel has made significant strides in economic reform as well, removing restrictions on its capital markets, cutting tariffs, and drastically reducing government involvement in the housing sector.
- Stock exchanges and free trade zones are becoming more common features of the economic landscape in the region.

All these are “internal” changes arising from a growing recognition that the free market works better than state direction of the economy—changes that will make these countries better markets for U.S. goods and services. But there have been “external” changes as well—changes that have enhanced the role of the United States in the region and, with it, the opportunities for U.S. business. In the wake of Desert Storm, the end of the cold war, and our role in the Arab-Israeli peace process, many U.S. firms are finding Near East markets more receptive to American products. This is particularly true in the Gulf, where both the public and private sector are increasingly inclined to “Buy American.”

In short, while most people are focusing on the dramatic political changes now taking place in the Middle East, the economic changes underway in the region deserve our attention as well. This economic transformation presents new opportunities for both the people of the Middle East and the United States. Peace and economic expansion will not only improve the lives of those who live there but our own welfare as well. As taboos and trade barriers fall, I expect the U.S. private sector to be ideally placed to reap its share of the resulting “peace dividend.”