
U.S. Aid and Assistance to the Middle East

By

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

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Good morning, Mr. Chairman and distinguished members of the committee. I am pleased to be with you again to discuss our aid and assistance to countries of the Middle East. Of course, a major portion of that assistance goes to support our long-term efforts to bring peace, security, and social justice to the peoples and countries of this volatile region. With negotiations having just resumed between Israel, its Arab neighbors, and the Palestinians, I would like first to brief you on the status of those talks.

PEACE PROCESS

I am pleased to report that the Middle East peace negotiations have resumed. The parties got down to work yesterday, and all of them have told us of their determination to make substantive progress. Secretary Christopher met with all the delegations yesterday and pledged our best efforts to assist the parties to overcome differences and to play the role of full partner.

As you know, we worked very hard over the past three months to bring about the resumption of negotiations. The Secretary worked closely with Prime Minister Rabin and with Palestinians to resolve differences and to find answers to the pressing issues they raised. In this respect, we commend all the parties for taking the right decision to return to the talks.

Each party faces political constraints at home. The Palestinians are under great pressures. They want and need to demonstrate that negotiations work and produce results. Negotiations can help all parties address the basic needs of the peoples in the region. This applies across the board.

In the Israeli-Palestinian negotiations, serious and meaningful Palestinian self-government is possible as an interim stage toward a negotiated final status. Indeed, through these negotiations Palestinians can see occupation give way to self-government and the emergence of a new relationship between Israelis and Palestinians. This outcome must provide for a peaceful and orderly transfer of authority to Palestinians.

The Syrians and Israelis have been addressing the core issues of territory, security, and peace. This is the right track. But continued commitment and hard work are needed from both parties to narrow the substantive gaps in their positions and to move forward in negotiations leading to a peaceful settlement.

The talks between Israel and Lebanon must continue to focus on elaborating a political framework involving land, peace, and security so that the security situation on the ground, especially in southern Lebanon, can be addressed in a timely manner. And in the Jordanian-Israeli talks, we are encouraged to see the sides working on a negotiating agenda that addresses

key issues and deals with specific areas of potential cooperation such as water, energy, and the environment.

President Clinton has expressed his personal commitment to "broaden the circle of peace" in the Middle East. This process has always benefited from strong bipartisan support, and I know we can count on the House and Senate to help sustain this cooperative endeavor. President Clinton and Secretary Christopher are determined to help make 1993 a year of real accomplishment in the Arab-Israeli negotiations. We believe that, with sufficient creativity and political will by the parties, this objective can be achieved.

With your permission, Mr. Chairman, I would like now to discuss in some detail the Administration's proposed security assistance programs for the Middle East. I'll begin with our two largest programs—those for Israel and Egypt—which represent 77 percent of the Administration's FY 1994 security assistance request.

ISRAEL

During Prime Minister Rabin's recent visit, President Clinton reaffirmed the special relationship, based on shared democratic values and common interests, that exists between Israel and the United States. President Clinton is determined to make the ties binding our two countries "even stronger and more resilient," and he has reaffirmed the United States' unalterable commitment to Israel's security and its qualitative military edge, a commitment based on our recognition of continuing challenges to Israel's security. The President's discussions with Prime Minister Rabin in March deepened our strategic partnership with Israel.

U.S. assistance to Israel remains vital not only to Israel's security and economic well-being but also to regional stability and progress in the peace process. Israel's security concerns must be fully addressed if the ongoing peace talks, co-sponsored by the U.S. and Russia, are to succeed. Prime Minister Rabin has told the President he is prepared to take risks for peace. President Clinton has made clear that, for our part, we will do all we can to minimize those risks. One important pillar of this pledge is our security assistance program.

The President's FY 1994 budget maintains current aid levels to Israel, and the Administration will make its best effort to maintain those levels in subsequent years. Our security assistance program aims to strengthen a free and democratic Israel that shares many of our own social and political values. The FMF program helps Israel maintain its capability to defend itself against any likely combination of aggressors. It helps fund Israel's purchase of such major weapons systems as F-15 and F-16 aircraft, important to maintaining regional air superiority, and SAAR-class missile boats, ensuring an effective Israeli navy.

The ESF program helps Israel reduce inflation, sustain its market economy's growth, and maintain an acceptable standard of living for its people in the face of heavy domestic demands, high levels of immigration, and high defense expenditures. The ESF program currently helps Israel finance imports of goods and services from the U.S., service the debt owed to the U.S., and ameliorate the balance-of-payments gap. Together with the recently implemented \$10-billion loan guarantee program, it helps Israel implement its economic reform program.

Loan guarantees. We will provide up to \$10 billion in loan guarantees over the next 5 years to assist Israel's efforts to absorb immigrants from the former Soviet Union, Ethiopia, and other countries. Israel recently syndicated the first \$1 billion in financial markets.

Over the 5-year period, most of the funds will be made available as foreign exchange to the commercial banking system to support increased business sector activity. The Government of

Israel will also use some of the funds to support specific infrastructure projects to promote long-term economic growth and job development in the private sector.

The Government of Israel is committed to decrease government expenditures for non-security activity in the occupied territories. The Government of Israel is also committed to U.S. businesses sharing the benefits of the economic growth supported by the guaranteed loans. To this end, we expect to see a substantial increase in Israel's purchases of U.S. goods and services in the coming years. We take these commitments seriously. We will review progress in these areas through our bilateral economic dialogue.

We also will review the economic and financial measures Israel will take to accommodate the increased debt burden that will result from the guaranteed loans. We attach much importance to resuming the dialogue on economic reform we began with Israel in the mid-1980s.

Economic reform. Our assistance to Israel also aims to give the government the financial backing to undertake difficult reforms. Prime Minister Rabin came into office committed to reducing government involvement in the economy and stimulating private sector growth. The government has taken a number of steps in this direction, but political and institutional obstacles continue to slow the pace of economic reform.

The Israeli Government has made the most progress in the area of financial and capital market reform. The 1993 budget anticipates a deficit of about 4.5 percent of GDP, roughly half the level of recent years. In 1992, for the first time in 23 years, inflation dropped to single digits. Progress on reforms has been slowest in the areas of labor markets, competition policy, and privatization. Such reforms are slowed by Israel's difficulty in breaking from its past record of heavy state involvement in the economy and opposition from groups which have a vested interest in maintaining the status quo.

We are encouraged by the Rabin government's commitment to implement serious economic reforms. But, as Israelis themselves acknowledge, much remains to be done. In our high-level contacts with the Government of Israel, we will continue to make clear our support for further progress in this area.

EGYPT

Our security assistance investment in Egypt over the past decade has paid off handsomely. Egypt has used our assistance to strengthen its military and economy, enhancing its important role in contributing to stability in the Middle East and furthering U.S. objectives in the region. We expect that future assistance will pay off as well. The President's FY 1994 budget maintains current aid levels to Egypt, and the Administration will make its best effort to maintain those levels in subsequent years.

Egypt has provided essential support for the U.S. military presence in the Middle East. The importance and strength of the bilateral military relationship with Egypt was demonstrated throughout the Gulf crisis. Strong Egyptian leadership paved the way for active Arab participation in the coalition, and over 35,000 Egyptian troops constituted the next largest foreign force to our own.

Egypt is our key Arab partner in efforts to achieve an Arab-Israeli peace and bolster moderate forces in the volatile Middle East. Egypt was the first Arab state to sign a peace treaty with Israel, which is the cornerstone of the Arab-Israeli peace process. Egypt has also been extremely helpful in the current negotiations between Israel and its other Arab neighbors. The

Egyptians have used their good relations with all the parties to facilitate progress in the negotiations.

Foreign Military Financing. Prior to 1979, Egypt's primary supplier of military equipment was the Soviet bloc. Our FMF program has allowed the Egyptian military to move from reliance on outdated Soviet equipment to a more efficient deterrent force built around high-tech U.S. weapon systems.

Egypt is in the middle of a long-term military modernization program which emphasizes quality over quantity. Its primary emphasis at present focuses on several major programs: co-production of the M1A1 tank and procurement of F-16s and Apache helicopters.

In addition to improving the overall quality of the Egyptian military, Egypt is also improving its ability to work in close cooperation with U.S. forces. The value of this interoperability was demonstrated during the Gulf war. Moreover, Egypt plays an important part in U.N. peace-making and peace-keeping operations in Somalia, Bosnia, Western Sahara, and Angola. Our military assistance helps make it possible for Egypt to undertake these important efforts.

Economic Support Fund. Our economic assistance to Egypt has made a tremendous difference in that country and is an important source of support for the current Egyptian comprehensive economic reform program. Our programs have also developed Egypt as a major market for U.S. products, especially agricultural products. Egypt has become our third-largest foreign market for wheat.

The many accomplishments of our ESF over the last decade include helping Egypt to substantially increase agricultural productivity, decrease infant mortality by 43 percent, bring down the population growth rate from about 3 percent to about 2.3 percent, provide schools in which some 925,000 students are being educated, provide sanitary sewage and potable water facilities for the people of Cairo and other major cities, and provide electricity and telecommunications services for Egypt's increasing population.

Even more important than these direct results, we have used our assistance to promote the difficult reforms which will make the Egyptian economy capable of sustained growth. Sectoral programs have been conditioned on specific reforms, and, more recently, we have begun to provide cash transfers in support of agreed reforms. In FY 1992, the sector grant program tied disbursement of \$200 million to the implementation of more than 20 specific reforms including, for example, allowing foreign banks to participate fully in the domestic banking system and bringing five public sector enterprises to the point of sale.

In 1991, Egypt, working with the IMF and World Bank, launched a major initiative to promote private sector growth. Over the past 2 years, the Government of Egypt has freed exchange and interest rates, made deep cuts in consumer subsidies, and reduced the government budget deficit. Although these reforms have been successful, private investors are not yet convinced of government commitment to the completion of the reform process and have yet to make the investments needed for job growth.

Despite progress on economic reform, Egypt continues to face daunting economic challenges: unemployment is about 20 percent, up from single digits in the early 1980s; economic growth is slow; population growth, although declining, is still too rapid; and the Egyptian people have seen their standard of living deteriorate significantly over the past 5 years. The stagnant economy is also a factor contributing to the recent increase in extremism, and

extremist terrorism has exacerbated economic problems by striking against tourism and threatening foreign investors.

Egypt is now entering negotiations with the IMF on the next phase of its reform program. Over the past few weeks, it has put 24 public enterprises up for sale. Our economic assistance helps the Government of Egypt implement the extensive economic reform program which is needed to establish a base for economic growth and political stability.

OTHER COUNTRIES AND PROGRAMS

As I mentioned, security assistance programs are an important part of the United States' long-standing support for the Middle East peace process. These funds help the countries meet legitimate security needs, encourage economic reform and growth, and promote democratic values, social justice, and respect for human rights. Besides Israel and Egypt, we request funds for Jordan, Lebanon, West Bank and Gaza residents, and cooperative programs involving Arabs and Israelis.

Jordan. Jordan has taken very significant steps toward democracy over the past 4 years. This is one of the least appreciated success stories in the Middle East. Thus, maintaining stability in Jordan as part of our overall support for democratization is more important than ever.

Our assistance also helps sustain Jordan's very positive role in the Arab/Israeli peace process and its commitment to guaranteeing the security of its border with Israel. Since our last security assistance submission, King Hussein has also significantly improved enforcement of U.N. sanctions against Iraq. In our close contacts with Jordanian officials, we continue to emphasize the importance we attach to their good faith efforts in maintaining the U.N. sanctions regime.

A country with limited natural resources, Jordan has a mixed economy heavily dependent on regional trade. The strict enforcement of sanctions burdens the economy, which was strained even before the Gulf crisis. Jordan still has a staggering debt and needs help from external creditors over the medium term. Our support is crucial. We expect to begin consultations soon on the release of \$50 million in FY 1992 security assistance. FY 1993 funds remain frozen as we continue to monitor Jordan's performance on democratization, the peace process, and sanctions enforcement.

Lebanon. The U.S. is committed to a unified, sovereign, and independent Lebanon, free from non-Lebanese forces and armed militias. Our support assists efforts to rebuild the independent, non-sectarian Lebanese Armed Forces (LAF), responsive to civilian control and respectful of human rights. Humanitarian aid channeled through private voluntary organizations and aid to educational institutions demonstrates U.S. concern about the fate of Lebanon and its people.

The government of Prime Minister Hariri has undertaken the difficult task of economic development and reconstruction. There is no doubt that our assistance of his government has a significant and positive impact on his ability to extend the authority of the central government throughout Lebanon. Thus, our assistance to the Lebanese Armed Forces is an important contribution to the Lebanese re-establishing greater control over their country.

West Bank and Gaza Strip. This program demonstrates U.S. concern for the economic and social well-being of the 1.7 million Palestinians in the Israeli-occupied West Bank and Gaza Strip. It helps Palestinians cope with the severely depressed economy resulting from long-standing conflict in the region. The focus is on efforts to promote self-sustaining economic

growth, expand employment and the private sector, and improve selected health and welfare services.

Middle East Multilaterals. To support the peace process, we have requested a specific fund for the five multilateral working groups: economic development, water, refugees, environment, and arms control and regional security. This will help fund activities agreed upon in the groups and augment progress in the bilateral peace negotiations.

Middle East Regional Cooperation (MERC). The MERC program promotes mutually beneficial cooperation between Israel and neighboring Arab states. Scientific and technical exchanges aim to strengthen ties by demonstrating that peaceful cooperation can yield tangible benefits to all involved.

Bahrain and Oman. In pursuit of the broader U.S. goal of strengthening security relations with allies and friends in strategic regions, it is important that we provide support, albeit modest, to Oman and Bahrain.

Bahrain has been a friend of the United States for over 20 years. Through its security assistance program for Bahrain, the U.S. enhances its ability to maintain access for the U.S. Navy to Bahraini port and onshore facilities, helps ensure freedom of navigation in the Persian Gulf, and bolsters the security and stability of friendly countries in the region. The signing of a U.S.-Bahrain defense cooperation agreement in 1991 opens the way to pre-positioning needed materiel and facilitates military exercises.

Oman's strategic location on the Strait of Hormuz makes it critical to U.S. interests in the Persian Gulf. U.S. operational access to Omani military facilities was essential to support our operations in the Gulf, notably during Operation Desert Storm and Operation Restore Hope. The 1980 access agreement with Oman, renewed in 1990 for 10 years, grants the U.S. limited peacetime and contingency wartime use of these facilities.