

**ECONOMIC DEVELOPMENT AND INTEGRATION AS  
A CATALYST FOR PEACE:  
A “MARSHALL PLAN” FOR THE MIDDLE EAST**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**INTERNATIONAL RELATIONS**  
**HOUSE OF REPRESENTATIVES**  
**ONE HUNDRED SEVENTH CONGRESS**  
**SECOND SESSION**

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## **ECONOMIC DEVELOPMENT AND INTEGRATION AS A CATALYST FOR PEACE: A “MARSHALL PLAN” FOR THE MIDDLE EAST**

**WEDNESDAY, JULY 24, 2002**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The Committee met, pursuant to call, at 10:34 a.m. in Room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order.

President Bush recently emphasized the importance of economic development in the Middle East when he said, and I quote,

“A Palestinian state will require a vibrant economy, where honest enterprise is encouraged by honest government. The United States, the international donor community, and the World Bank stand ready to work with Palestinians on a major project of economic reform and development.”

With renewed vigor, America is again engaged in the political and security issues of the Middle East. The President has articulated a process toward the solution of the conflict between Israelis and Palestinians. As the President noted, there must be an economic reconstruction of the region as well.

Following the Second World War, the United States anticipated the danger of renewed instability and took the initiative to knit together Europe by providing substantial assistance to aid recovery on that continent by promoting economic cooperation.

We sensed that the people who had hope of a better life in economic terms would not resort to violence.

We sensed that when people had a stake in their own economic future they would not adhere to extremist ideologies.

We believed that the way toward the future was to liberalize economies, freeing them from the dead hand of outdated regulations, tariffs and other trade barriers within the region.

We provided the inspiration for what has become a European Union larger in size than the United States. We helped smooth the way for the nations of Europe to work together by providing investment capital and opening our markets.

European and American political leaders harnessed the power of private enterprise to accomplish the reconstruction of Europe. This was the Marshall Plan. Now it is time for a new type of assistance. While we are influential in today’s Middle East, the players there will never be as responsive to us as European states were in 1947.

We have a much more difficult way ahead of us. There are still territorial, ethnic and religious rivalries, but acknowledging the differences between these situations—past and present—we can still see important similarities.

A vibrant entrepreneurial culture exists in many parts of the Middle East. Education is valued and relatively widespread, especially in Israel, the West Bank and Gaza, Jordan, and Lebanon. A significant and focused program of U.S. economic aid will improve the lives and livelihoods of people throughout the region.

I believe that the United States should establish a special, temporary agency to make investments in the private sector aimed at sustainable job creation. These investments and other efforts by this agency should be conditioned on firm, measurable commitments to economic openness, including intra-region free trade so that growth will be continuous.

The new agency should provide policy direction to other agencies of the United States for the purpose of helping infrastructure rehabilitation—including industrial and water facilities, emergency humanitarian relief, and the development of appropriate education and health facilities.

We have an opportunity to use American leadership to promote regional cooperation as a means of increasing trade, promoting investment, and improving the prospect of peace and security for the people of the Middle East. Only the United States can take the lead. We have the most influence over the regional players and can bring other donors to the table.

A sustained effort at promoting commerce, jobs, and a free economy throughout the region can help restore the dignity of all, and will unleash the true potential of entrepreneurs, investors and civic leaders to create wealth, renew hope, rebuild institution, and escape the culture of violence. But no one will invest so long as the killing continues. Our efforts to build a strong economy will be to no avail—even the most attractive investments in the world will not find backers in an atmosphere of hatred and violence.

Our panelists today represent an enormous pool of experience and talent. Senator Mitchell, Dr. Hunaidi, and Mr. de Soto will help us understand what policy changes are essential, especially for Israel and Palestine. I look forward to hearing their opinions on how we can make appropriate investments in the private sector, and how economic development can reinforce peace and security.

This afternoon, a third panel will convene as a Private Sector Roundtable, where we will sit together and discuss experiences, plans, and dreams for the region.

Before I turn to Mr. Lantos, I want to add a note on the need to mend hearts and not just economies. The Jerusalem International YMCA has for many years conducted extensive programs to bring together youth from the Christian, Muslim, and Jewish communities in that Holy City. Beginning with child care, continuing in after school programs for teenagers, summer camp by the Sea of Galilee, and in leadership development programs after college, the participants learn mutual respect and tolerance. There is ample evidence that they bring those lessons to their adult lives.

We have present in the hearing room Elias Salfity and Eliran Barsheshet, youngsters from Jerusalem who have been in the

United States for the summer program. Their leader, Mr. Rizek Abusharr, the recently-retired Director-General of the Jerusalem International YMCA, had to leave Washington early due to a family emergency, but I would ask our visitors to stand so we can recognize them and thank them for their good work. Thank you, gentlemen, very much. [Applause.]

I now yield to my esteemed colleague, the indispensable Ranking Member of this Committee, Mr. Lantos, but before doing so I will advise the Committee that Senator Mitchell's time is quite limited and so there will be no other opening statements other than Mr. Lantos'.

Statements will certainly be made a part of the record, and you will have 5 minutes to question Senator Mitchell. You can say what you want, of course, during that 5 minutes.

Mr. Lantos?

Mr. LANTOS. Thank you very much, Mr. Chairman. I want to join you in welcoming our two young visitors and expressing my great personal delight at welcoming Senator Mitchell, one of the great statesmen of our generation who has done so much in many parts of the world to bring sanity and peace and stability to long suffering regions. Senator Mitchell, it is an honor and a pleasure to have you.

Mr. Chairman, I will be brief so we may get to Senator Mitchell. I commend you for calling this extremely important hearing today. Amid the terrorist violence engulfing the Middle East, many are succumbing to the myopic and fatalistic view of the future of that region, but in calling today's hearing and championing the cause that you do, you once again demonstrate the visionary leadership that has won you the respect and admiration of all of us on both sides of the aisle. It is an honor, Mr. Chairman, to be supporting your plan.

As one who witnessed the Marshall Plan in the late 1940s unfold firsthand, I can testify personally to the moral power this vision holds for the European continent to this day. To our allies in the West, increased aid and intensified trade with the United States in the aftermath of the Second World War forged a link that remains unbroken and that constituted the basis of Western Europe's recovery.

To the captive nations of Eastern Europe, including my own native land of Hungary, the Marshall Plan provided a stark and instructive contrast to the repression and destitution Communism had imposed and an incentive for freedom from their Soviet masters.

I might mention parenthetically, Mr. Chairman, that as a young university student it was my great privilege and pleasure to call for Hungary to join the Marshall Plan—which, of course, Hungary's Communist rulers failed to do—in a public speech in Budapest at the time. Had Hungary done that, they could have avoided 40 years of Communist rule and slavery to the Soviet Union.

For all of these reasons, the Marshall Plan stands as one of our nation's proudest moments on the world stage. In conjuring up this powerful symbol, we must not overlook the practical lessons that the Marshall Plan experience taught us. The Marshall Plan recognized the inextricable link between political reform and economic

development. Only after the United States and our allies had deNazified Germany and destroyed the institutions of fascism that terrorized the world, could free democracy and free markets take root, and American assistance have a positive impact.

I cannot emphasize this relationship strongly enough, Mr. Chairman, and I am convinced the same applies to the Arab world in the 21st century. If development assistance is to have a positive impact, there must be democratic reform in the Arab world. We risk a situation in which we are throwing good money after bad unless there is progress toward reform in areas such as the rule of law, judicial independence, civil society, press freedom, religious freedom, free elections and gender equality.

Needless to say, we do not want to create a situation where an American Marshall Plan inadvertently sustains repressive, corrupt, hate mongering, terror supporting regimes. We must also remember, Mr. Chairman, that the Marshall Plan was as much a defense against Communism as it was a program for economic reconstruction.

By analogy, a Marshall Plan for the Arab world must be framed in terms of our struggle against international terrorism. If used to bolster friends in this fight, economic assistance can serve as a powerful weapon in our arsenal against terrorism. If used to prop up corrupt and dictatorial regimes unable or unwilling to respond to the social needs and the democratic yearnings of their people, such assistance could quickly become a weapon in the terrorists' arsenal against us.

Mr. Chairman, I am supremely confident that an open, democratic Arab world is destined to prosper with the help of the American Marshall Plan you propose. I am equally sure that a closed, repressive Arab world would remain mired in poverty, despite our assistance, if it rejects and opposes fundamental political reform.

With the recognition of this crucial and non-negotiable principle, I strongly endorse your vision, Mr. Chairman, and I pledge to join you in striving to make it a reality.

Thank you, Mr. Chairman.

Chairman HYDE. Thank you, Mr. Lantos, and without objection all Members' opening statements will be made a part of the record at this point in the record.

Today, we are honored to have with us former Senate Majority Leader George J. Mitchell. Senator Mitchell's contribution to today's hearing will be important because of his special interest in trade, peace making and the Middle East.

As a Member of the Senate Finance Committee, and as a Senate leader, his pursuit of free trade enabled him to lead the Senate to its ratifications of the North American Free Trade Agreement, and the agreement creating the World Trade Organization.

Senator Mitchell chaired the Irish Peace Process discussions, which led to the Good Friday Accord. For that service, he has received numerous awards and honors, including the Presidential Medal of Freedom, our Nation's highest civilian honor.

Most recently, at the request of President Clinton, then Israeli Prime Minister Barak and Chairman Arafat, Senator Mitchell served as Chairman of an international fact finding committee on violence in the Middle East. The Committee's recommendations,

widely known as the Mitchell Report, were endorsed by the Bush Administration, the European Union and many others.

Senator Mitchell, it is a genuine pleasure to have you with us today. Your background in dealing successfully with insoluble problems—and I am referring, of course, to managing the United States Senate—makes you the perfect person to turn to as we think about the role of economic reconstruction in bringing peace to the Middle East.

Without objection, 10 minutes will be allocated to you, and we will be liberal on that because of what you have to tell us, and then if you will submit to questioning. Thank you, Senator.

**STATEMENT OF THE HONORABLE GEORGE J. MITCHELL,  
FORMER UNITED STATES SENATOR AND SENATE MAJORITY  
LEADER**

Senator MITCHELL. Thank you, Mr. Chairman, for your kind words. Mr. Lantos, Members of the Committee, it is an honor for me to appear before you today. I commend you for your interest in, and your concern for, the Middle East and particularly for your focus on the need for economic development in the region. I will address that subject first. Then, with your permission, I will make brief general comments.

As you have noted, Mr. Chairman, I chaired an international fact finding committee on violence in the Middle East. We delivered our report to President Bush and to the Government of Israel and the Palestinian Authority 14 months ago. We focused our recommendations on three objectives—ending the violence, rebuilding confidence, and resuming meaningful negotiations.

We were heartened by the initial response to our report. The Government of Israel and the Palestinian Authority both praised it and accepted its recommendations. President Bush has said many times that implementation of the report is an objective of U.S. policy in the region.

The report was endorsed by the 15 nations who are members of the European Union, by the Secretary General of the United Nations, and by a large number of other governments, including Japan, Russia, Canada and Australia. To the best of my knowledge, no government has opposed it.

That broad international support has made the failure to implement its recommendations profoundly disappointing. There have been unsuccessful efforts to obtain a cease fire. That was, of course, our first recommendation. Then, as we said, there must be prompt movement on the other steps we recommended. If there is not, a cessation of violence cannot be sustained.

Whether it is our report or some other is not important. What is important is that the parties recognize that there is no military solution to this conflict, that the violence end, and that there be a return to negotiation. If and when such negotiations take place, they will address familiar final status issues, including Jerusalem, refugees, settlements and others, but if there is to be a durable peace, any agreement will have to address the economic needs of Israelis and Palestinians.

The conflict has badly hurt the economy of Israel and all but destroyed that of the Palestinians. This week, the Director General

of the Israeli Treasury announced that unemployment in Israel is projected to exceed 300,000 in 2003. That is 12 percent, which would be the highest in Israel's history, and among the highest rates of unemployment in the developed world.

More than a year ago, Israeli officials told us that the conflict was costing their economy in excess of \$150 million a month. Israel's Central Bank now estimates that the total cost of the conflict to Israel's \$110 billion gross domestic product is 3 percent a year. The same percentage of the U.S. gross domestic product would be \$300 billion.

Tourism alone, which fell 50 percent last year, lost \$2 billion in 2001. If you were to go to a resort hotel in Israel, you would find it nearly empty as visitors have stayed away because of the conflict.

Construction, which is one-quarter of Israel's gross domestic product, fell 18 percent last year. Israel's standard of living and per capita gross domestic product is dropping by three to 4 percent each year, and foreign investment has declined from \$11 billion to \$4 billion in just 2 years.

For Palestinians, the effect of the conflict and related border closings have been even worse. Much worse. Their economy is roughly one-twentieth the size of Israel's. It is dependent on exporting goods and day workers to Israel. Ninety percent of Palestinian exports go to Israel, while only 10 percent of Israeli exports go to the Palestinian territories.

Before the fighting began, an estimated 125,000 Palestinians crossed daily into Israel for work, contributing more than 20 percent of the total Palestinian gross domestic product. Israel has since blocked most Palestinians from entering. Closures in the West Bank and curfews have also prevented Palestinians from working in their own towns, disrupting agriculture and light industry.

Most Palestinian hotels, resort or otherwise, are closed. When the Members of our Committee went to Bethlehem a year and a half ago, we were told that the number of Christmas season visitors had fallen from 150,000 a year to 100. As a result, all 24 of the city's hotels have closed, and that was before the latest escalation of the conflict.

Today, according to United Nations' estimates, the conflict has led to a doubling of Palestinian poverty and unemployment rates. Relief officials estimate that 50 percent of Palestinians now live below the poverty line, and that up to 60 percent of Palestinians are unemployed.

In a report to the Security Council last week, U.N. Secretary General Kofi Annan said, and I quote,

“Two million Palestinians are now vulnerable, in need of food, aid, shelter, or medical assistance.”

Members of the Committee, that is half the population. He also said, and again I quote,

“Preliminary donor studies suggest that 51 percent of Palestinian children are showing signs of chronic or acute malnutrition.”

Clearly, the best economic program is peace. Israel's gross domestic product grew by 6.4 percent in 2000. The Palestinian economy grew by 7.4 percent in 1999. That growth continued in 2000, until the violence broke out.

Over the past 8 years, the private sector has invested \$2.5 billion in the Palestinian territories, while international donors provided \$4.5 billion. Today, although the need is much greater, only international donors are left to provide assistance in this unstable environment.

In our report, we said, and I quote,

“International development assistance has, from the start, been an integral part of the peace process, with an aim to strengthen the socio-economic foundations for peace. This assistance is more important than ever.”

Accordingly, we urge that the international community sustain the development agenda of the peace process.

It is obvious that whenever, and however, this conflict ends, it will leave in its wake, massive economic loss and human suffering by both Israelis and Palestinians. The commitment, and the resources of the United States and many other countries will be tested by the need to alleviate that suffering, and to help build the foundation for the economic growth and job creation that are necessary for a durable peace. Sustained, long-term economic development will be necessary to achieve that objective.

Contributing to the difficulty of finding a resolution to the conflict is the fact that the circumstances and the objectives of the two sides are different. The Israelis have a state. What they want is security. That is their overriding objective. The Palestinians do not have a state, and they want one. They want an end to the occupation and the establishment of an independent, economically viable, geographically contiguous state. That is their overriding objective.

I believe that neither can attain its objective by denying to the other its objective. Palestinians will not achieve their state if Israel does not have security. Israel will not have sustainable security if the Palestinians do not have a state.

Unfortunately, the culture of peace, so carefully nurtured over the previous decade, has been shattered. In its place there is total, mutual mistrust, yet as recently as a few weeks ago public opinion polls on both sides showed consistent majorities in support of a two state solution and the political process that could bring it about.

Because of the impact of the prolonged violence, a strong majority of Palestinians support suicide bombing of Israelis; and a strong majority of Israelis support the use of whatever force is deemed necessary to suppress these attacks. In other words, majorities on both sides appear to agree on the solution, but they no longer trust the other side's intentions to reach it. The violence and terrorism has led them into a zero sum game in which each is inflicting suffering on the other side.

That is why, Mr. Chairman, as you noted in your opening statement, American leadership is so essential to the establishment and implementation of a plan of action to help move the parties away from conflict and to negotiation. I believe the Administration is sensitive to this need and is working to meet it.

Any plan must involve reciprocal action to reverse the downward spiral that has taken hold. No one will take a first step on trust, because there is no trust. There will have to be some assurance that each gesture is met by one from the other side. That is the pattern for acts of violence. It must become the pattern for acts of peace.

I do not underestimate the difficulties, but I believe an end to this conflict is possible. What is needed is strong leadership from the parties and from the United States and a lot of patience and perseverance, all of which were present in Northern Ireland.

In conclusion, I would like to briefly mention one aspect of my experience there, and in so doing return to the need for economic development. I recall clearly my first day in Northern Ireland more than 7 years ago. I saw for the first time the huge wall which physically separates the communities in Belfast. Thirty feet high, topped in places with barbed wire, it is ironically called the peace line.

On that first morning I met with Catholics on their side of the wall, in the afternoon with Protestants on their side. Their messages had not been coordinated, but they were the same. In Belfast they told me there is a high correlation between unemployment and violence. In a powerful presentation, with emotional, and at times unforgettable oratory, they said that where men and women despair, where they have no opportunity, no hope, they are more likely to take the path of violence.

As I sat and listened to them, I thought that I could just as easily be in any major city in the world. Despair is the fuel for instability and conflict everywhere. Hope and opportunity are essential to peace and stability. Men and women everywhere need income to support their families, and they need the satisfaction of doing something worthwhile and meaningful with their lives.

The conflicts in Northern Ireland and the Middle East are obviously not exclusively or even primarily economic. They involve religion, territory and national identity, but there is an important economic factor. The most effective way to achieve growth in the Middle East will be for the conflict to end and then for there to be the establishment or expansion of democratic political institutions, free market economic structures and sound social and fiscal policies.

In Ireland, a farsighted combination of education reform, tax policy and technological skill has led to a burst of growth that made that country's economy the fastest growing in Europe over the past decade. No two countries are the same, so that combination cannot be precisely replicated elsewhere, but it offers an example of what can happen when peace makes economic growth possible.

We all hope and pray that the killing will soon stop. When it does, it will be of critical importance to build a foundation for a durable peace and eventual, genuine reconciliation. On that long journey, no step will be more significant than economic growth and job creation to give Israelis and Palestinians alike, opportunity and hope.

Mr. Chairman, during this hearing you will receive testimony from many witnesses who have long and specific experience in economic development in the region, much more than I. Some of their

words will give you hope, as they have given me in the few minutes we had to talk before this hearing.

People in the Middle East can and do work together. They are knowledgeable, skilled and energetic. They do not need, and they do not want, a handout. They need and they want a helping hand, for they can ultimately be self-sufficient and very successful. Most of all, they need and they want an end to conflict.

I commend this Committee, and I thank you for giving me the opportunity to address you today.

[The prepared statement of Senator Mitchell follows:]

PREPARED STATEMENT OF THE HONORABLE GEORGE J. MITCHELL, FORMER UNITED STATES SENATOR AND SENATE MAJORITY LEADER

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President Bush has said many times that implementation of the report is an objective of U.S. policy in the region.

The report was endorsed by the 15 nations who are members of the European Union, by the Secretary General of the United Nations, and by a large number of other governments, including Japan, Russia, Canada and Australia. To the best of my knowledge, no government has opposed it.

That broad international support has made the failure to implement its recommendations profoundly disappointing. There have been unsuccessful efforts to obtain a cease-fire. That was, of course, our first recommendation. Then, as we said, there must be prompt movement on the other steps we recommended; if there is not, a cessation of violence cannot be sustained.

Whether it's our report or some other is not important. What is important is that the parties recognize that there is no military solution to the conflict, that they end the violence, and return to negotiations.

If and when such negotiations take place they will address familiar final status issues, including Jerusalem, refugees, settlements, and others. But, if there is to be a durable peace, any agreement will have to address the economic needs of Israelis and Palestinians.

The conflict has badly hurt the economy of Israel and all but destroyed that of the Palestinians. This week, the Director-General of the Israeli Treasury announced that unemployment in Israel is projected to exceed 300,000 (12%) in 2003, which would be the highest in Israel's history and among the highest rates in the developed world. More than a year ago, Israelis officials told us that the conflict was costing their economy in excess of \$150 million a month. Israel's central bank now estimates that the total cost of the conflict to Israel's \$110 billion gross domestic product is 3% per year. The same percentage of U.S. GDP would be \$300 billion.

Tourism alone, which fell 50% last year, lost \$2 billion in 2001. If you were to go to a resort hotel in Israel you would find it nearly empty, as visitors have stayed away because of the conflict.

Construction, which is one-quarter of the Israeli GDP, fell 18% last year. Israel's standard of living and per capita GDP is dropping by three to four percent per year, and foreign investment has declined from \$11 billion to \$4 billion in just two years.

Since the violence began in September 2000, Israeli officials say they have spent between \$5 billion and \$6 billion on increased security. As a result, the Government now must raise taxes, cut stipends and increase deficit spending to fill a projected budget gap, and not even Israel's defense budget is immune from cuts.

For Palestinians, the effects of the conflict and related border closings have been even worse, much worse. Their economy, roughly one-twentieth the size of Israel's, is dependent on exporting goods and day workers to Israel. Ninety percent of Pales-

tinian exports go to Israel, while only 10 percent of Israeli exports go to the Palestinian territories.

Before the fighting began, an estimated 125,000 Palestinians crossed daily into Israel for work, contributing more than 20% to the Palestinian GDP. Israel has since blocked most Palestinians from entering. Closures in the West Bank and curfews have also prevented Palestinians from working in their own towns, disrupting agriculture and light industry.

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Today, according to United Nations estimates, the conflict has led to a doubling of Palestinian poverty and unemployment rates. Relief officials estimate that 50 of Palestinians now live below the poverty line and that up to 60 percent are unemployed.

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In our report, we stated that, "International development assistance has from the start been an integral part of the peace process, with an aim to strengthen the socio-economic foundations for peace. This assistance is more important than ever." Accordingly, we urged "the international community to sustain the development agenda of the peace process."

It is obvious that whenever and however the conflict ends, it will leave in its wake massive economic loss and human suffering, by both Israelis and Palestinians. The commitment and the resources of the United States and many other countries will be tested by the need to alleviate that suffering, and to build the foundation for the economic growth and job creation that will be necessary for a durable peace. Sustained, long-term economic development will be necessary to achieve that objective.

Contributing to the difficulty of finding a resolution of the conflict is the fact that the circumstances and objectives of the two sides are different. The Israelis have a state. What they want is security. That is their overriding objective.

The Palestinians don't have a state and they want one. They want an end to the occupation and the establishment of an independent, economically viable, geographically contiguous state. That is their overriding objective.

I believe that neither can attain its objective by denying to the other its objective. Palestinians will not achieve their state if Israel does not have security. Israel will not have sustainable security if the Palestinians don't have a state.

Unfortunately, the culture of peace, so carefully nurtured over the previous decade, has been shattered. In its place there is total mutual mistrust.

Yet, as recently as a few weeks ago public opinion polls on both sides showed consistent majorities in support of a two-state solution and the political process that could bring it about. But because of the impact of the prolonged violence, a strong majority of Palestinians support suicide bombings of Israelis and a strong majority of Israelis support the use of whatever force is deemed necessary to suppress these attacks.

In other words, majorities of the publics on both sides appear to agree on the solution but they no longer trust the other side's intentions to reach it. The violence and terrorism has led them into a zero sum game in which each is inflicting suffering on the other side.

That is why American leadership is so essential to the establishment and implementation of a plan of action to help move the parties away from conflict and to negotiation.

I believe the Administration is sensitive to this need and is working to meet it. Any plan must involve reciprocal action to reverse the downward spiral that has taken hold. No one will take a first step on trust because there is no trust. There will have to be some assurance that each gesture is met by one from the other side. That already is the pattern for acts of violence. It must become the pattern for acts of peace.

I don't underestimate the difficulties. But I believe an end to this conflict is possible. What's needed is strong leadership from the parties and from the United States, and a lot of patience and perseverance, all of which were present in Northern Ireland.

In conclusion, I'd like to briefly mention one aspect of my experience there and in so doing return to the need for economic development.

I recall clearly my first day in Northern Ireland, more than seven years ago. I saw for the first time the huge wall which physically separates the communities in Belfast. Thirty feet high, topped in places with barbed wire, it is, ironically, called The Peace Line.

On that first morning I met with Catholics on their side of the wall, in the afternoon with Protestants on their side. Their messages had not been coordinated, but they were the same: In Belfast, they told me, there is a high correlation between unemployment and violence. In powerful presentations, with emotional, at times unforgettable oratory, they said that where men and women despair, where they have no opportunity, no hope, they are more likely to take the path of violence.

As I sat and listened to them, I thought that I could just as easily be in Chicago, or Calcutta, or Johannesburg, or in the Middle East. Despair is the fuel for instability and conflict everywhere. Hope and opportunity are essential to peace and stability. Men and women everywhere need income to support their families, and they need the satisfaction of doing something worthwhile and meaningful with their lives.

The conflicts in Northern Ireland and the Middle East are obviously not exclusively or even primarily economic. They involve religion, territory, and national identity; but there is an important economic factor.

The most effective way to achieve growth in the Middle East will be for the conflict to end, and then the establishment or expansion of democratic political institutions, free market economic structures, and sound social and fiscal policies.

In Ireland, a far-sighted combination of education reform, tax policy, and technological skill led to a burst of growth that made that country's economy the fastest growing in Europe over the past decade.

No two countries are the same so that combination cannot be precisely replicated elsewhere. But it offers an example of what can happen when peace makes economic growth possible.

We all hope and pray that the killing will soon stop. When it does, it will be of critical importance to build a foundation for a durable peace and, eventually, genuine reconciliation. On that long journey, no step will be more significant than economic growth and job creation, to give Israelis and Palestinians alike opportunity and hope.

I commend this Committee for its attention to that need, and I thank you for giving me the opportunity to address you today.

Chairman HYDE. Thank you very much, Senator. Normally I ask my questions last, but having gotten you in the hot seat, I am going to take advantage of it by asking you a couple of questions.

It is my belief that the hopelessness of the Palestinian people has made them abandon civility and a love of peace and the fact that they believe they are hopeless and, therefore, throwing stones or shooting guns is about all that is left for the enemy, and we have to dispel that. It would seem to me, if they want a sustainable state of their own, that can be had. I think Israel is ready to cooperate, but the violence has to stop, and nothing is going to happen while the violence goes on. How do we stop the violence?

My thought is that we convince the Palestinians that this Marshall Plan is a reality. There is hope. There are going to be homes and jobs and schools and opportunities for growth. In other words, there will be hope for the Palestinian people.

How do we convince them that we are sincere, and this will be a reality after the violence ceases?

Senator MITCHELL. Mr. Chairman, I believe that is one of several essential steps that must be taken, and I commend you for this initiative.

I think before that, there has to be a specific plan of action that will encourage both parties to believe their objectives can be achieved. As I said in my remarks, the people of Israel want and deserve security. That is their overriding objective. The Palestinians want and deserve a state. That is their overriding objective.

They must be convinced there is a clear alternative, a non-violent path, to the achievement of their objectives. That requires a specific plan of reciprocal action that I believe the parties are incapable of producing on their own and which will require active American leadership; I believe the Administration is in the process of attempting to provide this leadership in a very difficult and dangerous circumstance.

Clearly, there has to be the opportunity to achieve the vision that you have described here today; that of a prosperous, opportunity filled society in which people can get jobs and earn an income to support their families. I think the two are essential and are inseparable—a non-violent path, the achievement of their objective, and the opportunity to be able to succeed in the manner that you have described once that is achieved.

Chairman HYDE. We will, of course, study the transcripts of what you have said and other witnesses, but your service goes on and on. I am wondering if sometime you might reduce to writing your idea of this plan, because that is the first step. That is the all important first step to get commitments, political commitments, from the players, which is everybody, that this is where we will go if the violence ceases. If you could share those ideas with us, I would be profoundly grateful.

Senator MITCHELL. I will be happy to do that, Mr. Chairman. Let me say that I think one must be totally immersed in the current situation to be able to do that with the degree of detail and precision that is necessary.

Let me, if I might, describe to you my experience in Northern Ireland, which is at least indirectly relevant. I begin with a caveat. The two situations are similar in some respects, but the differences are greater, and you cannot follow precisely a pattern that occurred in one place in another, but I think my experience was instructive.

The peace agreement in Northern Ireland was reached in April 1998. In July 1999, 14 months later, the process dissolved. The Northern Ireland Assembly created pursuant to the agreement fell apart in deep difference and bickering between the parties. The Prime Ministers of Britain and Ireland and the President of the United States called me and asked me if I would go back to try to help put it together. I spent 3½ months back there. It took me only 3 days to figure out what had to be done. It took 3½ months to get the parties to agree to it.

There was a painstaking process by which first one side agreed that this would be the first step, and it was so precise that we agreed on the date, the time and the exact words which would be spoken. Then the other side would take a step and so on. We had 18 steps choreographed in advance over a 3-week period.

When the first action occurred—a statement by one of the party leaders—when he stood up at 9 a.m. on November 27, he knew exactly what was going to be said and happen over the next 3 weeks by every one of the parties, because the one thing that existed

there that now exists in the Middle East is there was total mutual mistrust. Nobody believed a word that the other one said, and no one would take a first step because they believed there would be no reciprocal action.

There has to be that kind of plan to try to get the parties to move off this violence, which I believe strongly, Mr. Chairman, both sides want to end despite the broad public support on both sides for the continuing actions. There is, as I noted, a very substantial majority of two-thirds on both sides for a two state solution and for the process to reach it, so I think that is what has to occur.

I will do my best, but not being deeply immersed in it now, I would be reluctant to try to prescribe precisely which steps to take. But I can set forth what I believe are some principles that must be applied and repeat some of the recommendations made in our report.

Chairman HYDE. That would be most valuable. Thank you, Senator.

Senator MITCHELL. Thank you.

Chairman HYDE. Mr. Lantos?

Mr. LANTOS. Thank you, Mr. Chairman. I want to commend my friend, Senator Mitchell, for an outstanding statement.

I would like to raise some specific questions if I may, Senator, because it is my hope that you will be able to undertake this mission as perhaps the next chapter of your most distinguished public career of trying to promote stability and peace and coexistence in this region. I could not think of a more appropriate person or a more noble task.

I think it is important for us, if we are to succeed in this venture, to understand the items which are symmetrical and the items which are asymmetrical. I passionately believe, Mr. Chairman, that suffering is a symmetrical phenomenon. When an Israeli mother loses a child and when a Palestinian mother loses a child, their anguish is unlimited, infinite, and our heart must go out in equal measure to both.

I think it is also important to realize that in this conflict there are profound asymmetrical elements, and until we recognize that those are present and have been present in the recent past, we will make no headway.

There was one phrase in your brilliant paper, Senator Mitchell, that struck me as one worthy of exploration. You say, "Unfortunately, the culture of peace so carefully nurtured over the previous decade has been shattered." Now, as one who follows this region with great intensity, I failed to have noticed the culture of peace carefully nourished or nurtured by the Palestinian side. I have seen the precise opposite. I have seen a culture of hate and violence, non-acceptance not only nurtured, but acted upon.

The culture of peace was present at Camp David where the democratically elected Prime Minister of the State of Israel, with the assistance of our own former President, presented a phenomenally far reaching and generous peace accord which was responded to by this blood bath of the last 2 years.

I think it important in our attempt to move ahead to be mindful of recent history. You are absolutely correct. The Israelis want security, the Palestinians want a state, and they are both entitled to

their objectives. I think it is important to have the moral equivalence that some claim is present in this conflict. I think that the death of a child is a tragedy, but I think there is an enormous difference between that and the deliberate attempt to assassinate innocent civilians and the tragic consequences of military actions.

After all, it is not that far away and long ago that the United States Air Force engaged in carpet bombing of German cities in an attempt to defeat Hitler's Germany. I do not know how many little German children and babies were massacred in that process. That was not our goal.

I think it is extremely important, if we are to move ahead, that at long last we speak with a degree of clarity that will enable us to move ahead. I very much hope that Chairman Hyde and I will be able to craft legislation following these hearings that will provide the economic attraction for both sides to move ahead, but I truly believe that until terrorism is controlled by the Palestinian power, whether it is a new authority, a differently structured authority as I believe will be needed, or in some other measure through international means, we will not be able to move forward.

It is long overdue that the Palestinians be allowed to return to some degree of normalcy, that their lives be made more prosperous, more pleasant, more civilized, more peaceful. That can come about only if a Palestinian security force totally controls terrorist acts, and that step, which is the beginning of taking subsequent steps, it seems to me was recognized by President Bush in his June 24 speech.

I would be grateful, Senator Mitchell, if you would comment on the President's speech and indicate whether you agree with it, or to what extent you diverge in your analysis from it.

Senator MITCHELL. Mr. Lantos, thank you. I have several points I would like to make. I was making some notes so I would not overlook any of the questions and comments.

First, my reference to the culture of peace in the previous decade. At no time did I state or suggest any moral equivalence. I wish to make that clear. I have stayed away from that word. I have never used it on my own except in response to its use by others.

Mr. LANTOS. I appreciate that.

Senator MITCHELL. Prior to the Oslo process, which really began in Madrid under the leadership of then President Bush, there was a widespread belief among Palestinians that Israelis did not really want, and would never permit, the creation of a Palestinian state, certainly not one that is independent, economically viable and geographically contiguous.

There was a corresponding belief by a majority of Israelis that the Palestinians would never accept the existence of a Jewish state in the Middle East and would never end their efforts to destroy that state. As a consequence of, and during what has come to be known as the Oslo process, majorities on both sides willed themselves to believe the contrary.

The majority of Palestinians came to believe that Israelis would accept and permit the creation of a viable Palestinian state, and a majority of Israelis came to believe that Palestinians would accept the existence of a Jewish state in the Middle East.

It is the profound sense of betrayal on both sides that has led to the reversion to the prior attitude, accentuated by the strong emotions aroused by the violence that is occurring. So that is what I referred to; the change in attitude that went from disbelief to belief to disbelief again; the feeling that we believed in them, and they betrayed us. They really do not want us to have what we want. That is what I referred to, and I did not intend to carry it any further than that.

Mr. LANTOS. Senator Mitchell, may I just pursue that?

Senator MITCHELL. Yes.

Mr. LANTOS. I mean, what did the disbelief stem from in the wake of the Barak offer? The Barak offer was the fulfillment of the belief, and I, frankly, do not follow your logic at that point. The Barak offer represented the fulfillment of the belief that an offer of a state was made and then rejected.

Senator MITCHELL. Mr. Lantos, first, I was referring to what other people believed. I did not ascribe or impute logic or illogic to it. When you describe another person's state of mind as you understand it, you do not describe the process or factors which lead up to it. I think it is indisputable that the states of mind which I described existed and exist today.

As to your comment, as you well know, you being one of the keenest observers and most careful students of the process, there is extensive dispute and disagreement over what occurred and what was accepted or not accepted at Camp David, later at Taba and in other discussions. I am not going to make an effort here, because it would take most of the day and detract from the purpose of this hearing, to get into that description. But I will tell you what Palestinians have said to me. It describes the situation which preceded Camp David.

Unemployment significantly increased among Palestinians during the Oslo process prior to the time of Camp David, so the hope of things getting better was not realized, instead things got worse. Settlements doubled, and the number of settlers doubled during the process, so the hope that there would be a reversal in that respect did not materialize. And so on down the list, and on both sides.

What I want to say to you is that the process of disillusionment with Oslo did not begin at Camp David. The Oslo process was founded on the principle that if we can reach agreement on small things and easier things first, gradually confidence will build up to the point where we can tackle the tougher issues. It was not an unreasonable approach. It did not work. Things got worse, not better. Mistrust grew. It did not decline.

If I could make one comment on one other point you made, Mr. Lantos, with which I profoundly agree? Each of us has indelible memories of things that happen in our lives that we can never forget and that we remember with clarity that suggest it happened 5 minutes ago.

That happened on my visits to the Middle East. The Government of Israel arranged one day for our Committee to meet with the victims of people who were killed in suicide bombings—children, fathers, mothers, brothers, sisters. The Palestinian Authority arranged for us to have a similar meeting on the following day.

As you might expect, both chose the most sympathetic of victims, and it was one of the most moving and emotional experiences I have ever had. It takes you beyond the numbers. It takes you beyond the televised image to meet real people who have lost real children and to hear from them.

The one thing you said with which I strongly agree is grief is symmetrical. A mother who has lost her child, whether she be Palestinian or Israeli, expresses grief in a way that in our mind, our committee, caused us to redouble our efforts to try to bring it to an end.

Mr. LANTOS. You mean you strongly agree with what I said?

Senator MITCHELL. On that aspect I strongly do.

Mr. LANTOS. I appreciate that.

Chairman HYDE. Mr. Gilman?

Mr. GILMAN. Mr. Chairman, I certainly want to welcome Senator Mitchell before us today with his astute analysis. I thank you, Mr. Chairman, for your proposal. It is vitally important that we explore new and innovative ways to promote stability and peace in the Middle East.

I am also pleased to welcome our distinguished panel of witnesses who follow Senator Mitchell, Mrs. Rima Khalaf Hunaidi, Mr. Hernando de Soto and Mr. Stef Wertheimer, among the other private sector witnesses.

Senator Mitchell, we commend you for your outstanding peace efforts throughout the world, particularly in the Middle East and Northern Ireland, for your noting the problems with the troubles in Northern Ireland and the need for a very patient approach to those problems, and for your fact-finding mission on the violence in the Middle East which helped many of us as we examined your report. Your success in bringing peace is highly commended.

Rather than addressing any questions to Senator Mitchell, Mr. Chairman, permit me to comment on the Chairman's proposal. The Marshall Plan was a rational effort by our nation aimed at reducing the homelessness and unemployment of Western Europe after World War II. However, Marshall Plan funds were not wholly directed toward buildings, toward houses, toward schools or factories, but in strengthening the underlying economic superstructure that Europe possessed.

The original Marshall Plan worked because it was aimed at aiding well-educated, industrialized people who were temporarily down but not out. It operated in a society that had in place all the skills and resources to repair itself, not to mention a political and economic history that allowed for its successful implementation.

As a result, the Marshall Plan will forever be cited as an immense infusion of capital that was applied to enormous problems; yet, it is hardly a phenomenon transferrable to other regions of the world and particularly to the Middle East. We should be cautious not to presume that it can be automatically replicated elsewhere.

The Jordan Valley is certainly not the Rohr, and Ramallah is certainly not Berlin. While I believe that a Marshall Plan for the Middle East is a sound idea, it must be predicated on a move toward democracy through social and economic reforms, just as there needs to be a generous Marshall Plan for the Middle East that focuses on millions of jobs and economic viability beyond the petro

dollars. So, too, we need a Marshall Plan which focuses on religious freedom and political pluralism.

Those in the Middle East who have toiled for democracy, for religious tolerance, for human rights, for women's rights and the pursuit of peace and social justice should be given the support they need and deserve. They should not have to live behind the shadow of repressive regimes and even more repressive terrorist networks. We should see to it that they are given the voice that they deserve; we must provide these societies with the tools to repair themselves socially.

The Middle East needs a program of support and incentives for private investment that will broaden its current economies and gradually create a truly competitive, market oriented economy. Economic efforts are a valuable aspect of peace facilitation between the Arabs and the Israelis. They are successful for promoting prosperity and forging people to people contact regardless of politics, and creating constituencies with a vested interest in peace.

However, we must recognize that the impact of successful economic development and integration does have limitations. While economic efforts can be useful in supporting and cementing progress toward peace, they will rarely constitute enough of a force by themselves to pave a path from war to peace.

It is imperative that we insure that the state of Israel is fully included in any formula for regional economic integration. Israel not only possesses the most dynamic and diverse economy in the region, but also possesses the necessary social and political institutions to insure continued success.

Economic cooperation between Israel and its neighboring Arab states must be recognized as necessary and indispensable to this process. The failure to do so will only perpetuate mutual mistrust and hatred, as Senator Mitchell has emphasized.

We should be very cautious, therefore, in our pursuit of economic reforms. Some economic initiatives can be destructive as they create unfulfilled expectations that then embitter those they were destined to help. Many have the mistaken impression that an economic initiative can make a quick difference, when in fact most projects take years to become fully effective, as Senator Mitchell well knows in Northern Ireland. Accordingly, it is vitally important for us to avoid making unrealistic forecasts.

In closing, let me note that while we have many challenges ahead of us, it is important that we bear in mind that the success of any Middle East Marshall Plan can only be secured through the transparency, the good governance and the investor confidence that is accompanied with the adoption of democratic and pluralistic ideals.

I want to commend Senator Mitchell for his input and his astute analysis of the problem. You may want to comment on my remarks.

Senator MITCHELL. Mr. Chairman, I will simply say that Representative Gilman, when he was Chairman of this Committee, was extremely active in the Northern Ireland peace process. He came there many times. I met with him personally, as did British and Irish government leaders.

I want to thank him and the other Members of the Committee who joined him. They were of invaluable support to me the 5 years

I was in Northern Ireland and to all of those involved in the peace process. In a real sense, this Committee played a role in that process.

Chairman HYDE. Thank you, Senator Mitchell. Thank you, Mr. Gilman.

If I may parenthetically comment on Mr. Gilman's statement, two things are indispensable. One is nothing happens unless there is peace in the region. Violence stops. Secondly, nothing happens without Israel.

Now Mr. Schiff?

Mr. SCHIFF. I yield my time back to the Chair. Thank you.

Chairman HYDE. Mr. Menendez?

Mr. MENENDEZ. Thank you, Mr. Chairman. Senator, I want to join the chorus of voices who have lauded your service to our country and your continuing service not only to our country, but I really think to people throughout the world. It is an exemplary life to follow.

I have three questions. I will throw them out to you and then let you take the rest of the time to respond to them if I may.

You have said in your statement that what is important is that the parties recognize there is no military solution to the conflict. I am wondering, at this point in time, do you think the parties recognize that? If not, how do we get them to recognize that? If so, how do we move to the next step?

Second, I think many, including myself, would be strongly supportive of this type of effort, of a Marshall Plan, for lack of a better term, in the context of economic development. But many of us are concerned about how we could weave in elements of democracy into this plan.

I often say from my own personal perspective that the Arab street is so important because so often Arab parliaments are not—in the context of responsive democratic governments—responsive to the needs of their own people in creating opportunities for change. Opportunities we have in this country and exist in other democratic countries.

As we look beyond Israel and the Palestinian Authority, although there are certain elements of this in the Palestinian Authority obviously, but at other Arab countries which will play key roles, how do we weave in the democracy components that I think are essential to longstanding peace?

Not only do people need to have a way in which to express their hopes and dreams and aspirations, but they need to be able to find mechanics to fulfill them, and not have entities shun their responsibilities and then blame some other group for that lack of achievement.

Lastly, having served with great distinction in the Senate, what role do you think the Congress can play now and in the future in the context of achieving the goals that you outlined in your opening statement?

Senator MITCHELL. Thank you very much, Representative Menendez. First, no military solution: You asked whether the parties recognize that. If we define the parties as the Government of Israel and the Palestinian Authority, I believe they do. However, I do not think that includes every member of both societies.

I think there are some on both sides who still think they can achieve a victory through military means or through the use of force. Therefore, the question is how can the governing authorities be encouraged to take the steps to end the conflict, resume negotiation, and bring about an essential agreement to resolve the conflict peacefully and justly.

That means, as the Chairman has said several times this morning, there must be an end to violence. The one thing I learned in Northern Ireland was that it is extremely difficult for political leaders, all of whom, including every elected official in this room, face a continuing tension between the demands of their immediate constituency and the needs of the larger society.

That tension is exacerbated enormously in a conflict situation in a sharply divided and usually highly segregated society. It is very difficult to take a step that will be seen by critics on your side as a sign of weakness, or lack of conviction, or selling out, in these conflict situations. So there has to be a reduction in violence, and there has to be at the same time courageous political leadership that is prepared to lead their constituencies on the need for an end to conflict.

As I think the very few facts included in my statement convincingly demonstrate, the best economic program is peace. It is the prerequisite, the essential condition. I think that the Israeli Government and the Palestinian Authority recognize it. I do not think everyone in their societies does.

Secondly, democracies and free markets: It is a problem which has bedeviled American foreign policy for more than a half century. We confront the circumstance in which we are wholly dependent upon oil, and the largest repositories of oil in the world are in a region in which there is not American style democracy. Indeed, there are regimes which we support, which we continue to deal with, which are not democratic, and we continue to do so because we have deemed it to be in our national interest.

It is the same with us as individuals. Each of us wakes up every morning knowing what the right thing to do is and pledging not to commit error or sin that day. We fail. We get up the next morning and we try again. Countries are not fully consistent in their policies, and they act out of the national interest of the moment. It is something we have got to do better at, I believe.

This has nothing to do with party or Administration or President or Congress. This is just a definition of the national interest. I believe we have got to do better in encouraging democratic institutions and free markets, not imposing them.

Representative Menendez, for most of this country's history, American leaders believed in leading by example only. We did not participate. We were not the leader of the world nor, as we are now, the dominant economy or dominant military. We sought to lead solely by example. I think we have to do better at that, and also at trying to encourage.

I do not have a magic wand, but let me say one thing about the Arab street that you mentioned. The hostility of the Arab people to the United States and the American people is not historically inevitable. What we now call the Middle East was ruled by the Ottoman Empire for 400 years. When that empire collapsed in the

wake of the First World War, the victorious powers gathered at Versailles to decide who would govern the region.

Britain and France competed for the mandate. The one thing they did not do was to seriously consult with the Arab inhabitants of the region. If they had, they would have learned what President Wilson's commission reported: That the Arab inhabitants of the region overwhelmingly wanted an American mandate.

The one country in the world the Arab people wanted to have the mandate to govern their region was the United States. Wilson got sick. He never actually read the report. We turned inward after the war. Britain and France got the mandate. History was changed in ways that cannot be unchanged.

I believe that there is an underlying goodwill toward the United States that will resurface if, through our leadership, we can bring this conflict to an end.

Chairman HYDE. Mr. Issa?

Mr. ISSA. Thank you, Mr. Chairman, and thank you for being here today, Senator.

I paid particular note to what I think was a very significant statement you made. Hopefully you could even embellish it for the benefit of the Members who have joined us. You said that there was betrayal on both sides, and particularly when you talked about a relentless and continued and unlawful building of settlements, unlawful under international law, by Israel dating back to when this Congress, in support of the President, began limiting funds specifically as a message—not a retaliation, but a message—that Israel could not do this, and this was not productive for peace.

I would hope that we could go one more round on that because I think the effect it has on the street in the Middle East is so misunderstood. Maybe I will pause and let you comment on that.

Senator MITCHELL. Yes. Thank you, Representative Issa. First, my description was of the attitudes of the two peoples.

Mr. ISSA. Yes.

Senator MITCHELL. I described their sense of betrayal as literally dozens, by now in the aggregate hundreds of them have described to me—private citizens, business people, officials—describing their sense of betrayal. This accounts for the even heightened emotion now, because when you think you have a partner and then you think that partner has not lived up to your expectations, you are even more disappointed than you were if you had never had the view in the first place. That is what I was describing—their attitudes.

Second, if I may respectfully say I did not use the words relentless, continued and unlawful.

Mr. ISSA. No, Senator. I consider a dozen years of that actually dating back to Ronald Reagan as relentless, continuous and certainly not productive.

Senator MITCHELL. Yes.

Mr. ISSA. I do not ask you to form a personal opinion, but—

Senator MITCHELL. Right.

Mr. ISSA [continuing]. I am concerned that if your perceptions of what is being seen by the parties and what has been seen by this Congress as not productive, then is it not by definition one of the great impediments to peace?

Senator MITCHELL. I refer you, Representative Issa and all Members of the Committee, to the report of our committee in which we describe in detail and which I will now summarize in the briefest of comments that the United States and Israel are very close friends and allies, but they are two sovereign countries.

In even the best of relationships, there are differences. One prominent difference is on the policy of the Government of Israel with respect to settlements. Every American Administration going back to President Carter and including President Reagan, President Bush, President Clinton and the current President Bush, have opposed the policy of the Government of Israel on settlements, in varying degrees of criticism, but all of them in opposition.

When we conducted our mission, we concluded that we could not produce a report dealing with violence in the Middle East without including the issue of settlements because it was raised over and over again and clearly is a central issue.

I will search for the quote from Secretary of State James Baker in our report, when he said on May 22, 1991,

“Every time I have gone to Israel in connection with the peace process, on each of my four trips I have been met with the announcement of new settlement activity. This does violate United States policy. It is the first thing that Arab governments, the first thing that Palestinians in the territories whose situation is really quite desperate, the first thing they raise when we talk to them. I do not think there is any bigger obstacle to peace than the settlement activity that continues, not only unabated, but at an enhanced pace.”

President Reagan, 9 years before that, made a statement similar in content and effect. As I said, every President has said that. U.S. policy has been in opposition, but that has not changed the policy of the Government of Israel.

Mr. ISSA. I appreciate that, Senator. Since my time is extremely limited here, I will skip past a great many other questions I hope to get to on the second round and tee up something that you did not discuss directly, which is that you have looked at the situation in Syria and Lebanon for a very long time. The Marshall Plan, overall, somewhat brushes over that region.

This Member is of the opinion that America has not met its obligation to leave a free Lebanon, one that in fact can become a good neighbor to Israel. It concerns me that we, and hopefully with your guidance, need to make efforts to facilitate a Lebanon that can follow what I believe is a natural course for Lebanon of good relations with Israel.

Senator MITCHELL. I take the concept of a Marshall Plan to be regional in nature, not limited to one or two countries or peoples, which I think would be essential.

I think that what the Lebanese people most need is the right to decide their own future and the freedom to pursue their brand of democracy and economic development.

Chairman HYDE. The gentleman's time has expired.

Mr. Schiff?

Mr. SCHIFF. I thank the Chair for yielding. Senator, thank you for your testimony and all the work you have done. We are all fans and admirers of yours.

Senator MITCHELL. Thank you.

Mr. SCHIFF. I wanted to go back to one of the points that Mr. Menendez was making, and that is the necessity of democratization in the region.

I think you identified one of the impediments, our dependence on foreign oil. That I think is a very surmountable obstacle if we bend our minds and our effort to the technological avenues that are out there, but let us say that we were energy self-sufficient today. How would we go about encouraging and pushing democracy in the region?

Is it realistic to expect, for example, that the Palestinian community would be the only democracy within the Arab world in the region? Can you have a democracy which apart from Israel would be an island surrounded by authoritarian regimes?

The second question is what happens when a representative form of government in this part of the world turns out to be more repressive than the authoritarian regime? If you had elections in the Palestinian territories and Hamas won a majority of seats or you had elections in Saudi Arabia and the members of the assembly turned back the clock to the degree it is possible on the rights of women in Saudi Arabia, where do you go then?

Senator MITCHELL. Well, may I begin by saying what I do not think we can or should do? I do not think we can or should attempt to impose our values on others. If America stands for anything, it stands for democracy. If democracy means anything, it means the right of self-determination.

The very word is a combination of the two Greek words demos, the people, and kratia, the reign or rule. Democracy means the rule of people and the right of self-determination, and so I do not think we can, or should dictate to people what they should do. Rather, we should lead by example, encourage. And I believe we have the moral and legal right, when persons ask us for assistance, to then encourage them to move in certain directions.

I do not have a right to tell you what to do, but if you ask me to help you on something, I have a right to condition the assistance in some way. The fact is that while we are dependent on foreign oil, many oil producing countries are dependent on exports to the United States and the western world. So there is a mutuality of benefit and responsibility that exists, and is increasing with the increased internationalization of trade and what has come to be known as globalization. And so I think we should do that as well.

I cannot say to you that we can, should or will be in every instance completely consistent because there will, from time to time, be overwhelming emergencies, or exigencies, or circumstances which cause us to act in a manner inconsistent with our overall stated policy. We have done that throughout our history, as has every nation and people. But the general thrust of our policy should be to encourage, as best we can, democratic institutions and free market economies because where democracy does well, America does well.

Mr. SCHIFF. How do we do that? What position do we take when those representative forms of government turn out to be more repressive? I recognize your desire not to impose our values. On the other hand, one of our values is democracy, is the freedom of association, the freedom of speech, the free exercise of religion. Part of what this country has also stood for is the propagation of those ideals.

Senator MITCHELL. Well, Representative Schiff, as Winston Churchill once said, democracy is the worst possible form of government except for anything else human beings have tried.

There is nothing in democracy which guarantees that good people will be elected. There is nothing in democracy that guarantees that the best person will win every election. There is nothing in democracy that says that people who choose freely, openly and democratically are going to pick the persons we like.

But, the alternatives are far worse. So we have to accept the reality that if we urge people to engage, to create democratic institutions and to engage in free and open elections, that there will be times when the results are not consistent with our interests and will displease us. I do not think that gives us a right to topple those regimes or to deny the right of those people to select who they want as their leaders.

Chairman HYDE. The gentlelady from Virginia's First District, Mrs. Davis?

Mrs. DAVIS. Thank you, Mr. Chairman. Thank you, Senator, for being here today and for all your service to our country.

Senator MITCHELL. Thank you.

Mrs. DAVIS. In your comments a little earlier, you said that for the Marshall Plan to work it would take courageous leadership within the government. One, do you think Arafat can accomplish that?

Two, when you are talking about the economy and the Marshall Plan, and I respect greatly my Chairman, but do you think improving the economy can work when they are still teaching hatred in the schools?

Three, if we do this massive plan and the American taxpayer dollars are used, how would we protect our American taxpayer dollars from fraudulent use in these countries?

Senator MITCHELL. In our Committee's report, we had a specific recommendation on the subject of incitement to hatred. As I said earlier, both parties praised our report and accepted all of its recommendations.

There have been no steps toward implementing it, which has been profoundly disappointing to us, but I hope the day will soon come when our report or some other recommendation will be accepted and which will include an active effort on the part of all concerned to end all incitement and hatred.

But let us be clear. The demonization of enemies did not begin in the Middle East, and it did not begin with this conflict. It is as old as mankind and as old as conflict. What we must do is to end the conflict and end the demonization, the incitement that is occurring. That to me is an essential step, and it is an essential part of this process.

Mrs. DAVIS. Let me just interrupt 1 second here, Senator. We have had hearings in this Committee on the incitement and the hatred that is taught in the schools and have seen it actually in the school books. How could you accomplish that when it has been taught all this time in the school books?

Senator MITCHELL. The same way attitudes have changed in every society and every circumstance. You have new school books and new lessons and new role models and new leaders and new attitudes. I think it can be done. I believe it will be done.

Mrs. DAVIS. With Arafat or without him?

Senator MITCHELL. That I do not know. I believe the likely outcome of the current developments is that there will be at the very least a broadened leadership among Palestinians, including other significant decision makers, and the establishment of more democratic, less corrupt and more efficient institutions.

It is something I think that will come about in part because we and Europeans and others demand it, but more so because the Palestinian people demand it and want it, as they should and as they do.

Mrs. DAVIS. The third question you did not respond to, the taxpayer dollars.

Senator MITCHELL. There is going to have to be a much more aggressive and efficient system of monitoring contributions, more so from the Europeans who provide much larger sums of money to the Palestinian Authority than does the United States, and others. They are demanding it as are the other Arab governments. I think there has to be a more effective way to do it.

All of us here who served in the U.S. Congress are familiar with the inappropriate use of American taxpayers' money in domestic institutions and others around the world. So I think we are on notice that there is a history of inefficient use of funds, and we have to be on our guard and have a much more active and efficient system of monitoring the use of those funds.

Mrs. DAVIS. Thank you, Senator, and thank you, Mr. Chairman.

Senator MITCHELL. Thank you.

Chairman HYDE. The gentlelady from Nevada, Ms. Berkley?

Ms. BERKLEY. Thank you, Mr. Chairman. It is always a pleasure sitting down here and looking up at you.

I would like to welcome you, Senator. I have been a fan of yours for many years, and this is the first time I have had an opportunity to hear you testify. I appreciate your thoughtful testimony.

I recognize that there is great suffering right now in the Middle East, and I agree with the President that we need to do everything we can to reach a just and lasting peace. If a Marshall Plan can help achieve that peace, then I am willing to listen.

However, I think I need to be unequivocal in my view that no aid must go to any group engaging in, inciting or supporting terrorism of any kind, and even that is not enough. The Palestinian leadership must renounce terrorism in the strongest terms and actively destroy the terrorist infrastructure. They must prove to us that our support will not aid terrorists or in any way add to the hostilities against Israel or the United States.

Further, the Palestinians must build enduring democratic institutions, draft a constitution, live by that constitution and dem-

onstrate to the world that they are ready to be able to act civilly among the family of nations. I expect no less from them, and neither should Israel or the United States or the international community.

My vision for a peaceful Middle East is yet to be seen. One of the main reasons in my opinion is Yasir Arafat, a man who has lied, who has cheated, distorted the truth and a man who has never given up terrorism. Indeed, he is the epitome of what a terrorist is.

The U.S. and its allies have been through this far too many times with Arafat, and I do not see how he can lead the Palestinians forward. In fact, the Palestinians would already have a peaceful and prosperous state had Arafat renounced terrorism and accepted former Prime Minister Barak's generous offer at Camp David in December 2000.

Instead, Arafat rejected a deal that would have given the Palestinians 100 percent of the Gaza Strip, 97 percent of the West Bank, control of parts of Jerusalem and a guarantee from the European and American nations to build infrastructure and a guarantee of billions of dollars to do that.

He walked away from the negotiating table without ever offering a counter proposal, and I disagree with you that there is debate over what happened. I think I am going to go along with President Clinton and Prime Minister Barak. I have had the opportunity to speak with many heads of state in the Arab world after the fact. I think many of them will share with you behind closed doors, as they did with me, that they missed an opportunity, and they should have backed President Clinton in the strongest possible terms to make this happen.

Now, I agree with your statement that what Israel wants is security. I disagree with you that the Palestinians' overriding interest is a state. If that were the case, if that was an overriding interest, then the Palestinians would already have a state. In my opinion, the Palestinians' overriding interest is the elimination and extermination of the State of Israel. It is extremely difficult to sit down and negotiate at a peace table with a partner that will not recognize your right to exist.

If, and only if, a decidedly new and respectable Palestinian leadership takes shape, drafts a constitution and lives by it, renounces and actively dismantles the terrorist infrastructure and builds enduring democratic institutions will I stand ready to support a Marshall Plan as a means to strengthen that peace, but before we see such a change, however, I cannot support U.S. aid to the terrorists.

One moment, please, Mr. Chairman. I would appreciate if you could answer, and if I have taken too much time, if you could answer in writing. If it is already contained in this, I will be looking forward to reading what was handed out to us.

What should be the criteria for receiving aid under the Marshall Plan? What specific demonstrable conduct must the Palestinians undertake or any nation undertake to qualify for such assistance? How long must they sustain this conduct? A day? A week? A month?

What assurances do we have that they will be held to such standards of conduct? Who will administer this aid? What mecha-

nisms of accountability would we establish? How would we be assured that these funds would not go to support terrorist infrastructure? Who specifically would qualify for such aid? How does the Administration reconcile the idea of a Marshall Plan with its decision that Arafat must go? What if Arafat wins the upcoming election?

If I could echo what Congressman Schiff said, I agree with you that we cannot determine another nation's state and we should not be toppling governments, but, on the other hand, we should not be sending millions and millions of dollars into a region where we completely disagree with the nation's positions and philosophies and treatment of their own people.

Senator MITCHELL. Thank you, Representative Berkley. As to your last series of questions, I am not the author of the legislation. You may direct those questions to the author.

Secondly, we can respectfully disagree on the subject of no debate. I said there is a debate on what happened, which means that there are some who express a point of view different from that which is expressed by you and Representative Lantos. You say there is no debate, suggesting that there is no one who disagrees with that point of view. I think we can just leave it at that, in disagreement.

I have had many, many people who have expressed to me privately disagreement with that interpretation. If you think there is no one who disagrees with you and that there is no debate, I respect your point of view. But I do not agree with it. We can just leave it as a disagreement on that.

Finally, you say that the objective of Palestinians is to eliminate and exterminate the State of Israel. I do not think you can speak for every Palestinian. I think there are many Palestinians who do not hold that view. I can only refer to the most recent series of public opinion polls which have consistently shown over a long period of time that a majority of Palestinians favor a two state solution and the process that goes with it. I discussed that in detail in my testimony here earlier today.

Ms. BERKLEY. Which I enjoyed listening to. Do you think that the current Palestinian leadership, Yasir Arafat, is interested in a two state solution?

Senator MITCHELL. He has said so many times. What is inside his mind I do not know, just as I do not know what is inside your mind.

Ms. BERKLEY. Do you think that his actions are consistent with a two state solution?

Senator MITCHELL. No, not all of them.

Ms. BERKLEY. Thank you.

Senator MITCHELL. All right.

Chairman HYDE. Senator, the witching hour has arrived.

Senator MITCHELL. Yes.

Chairman HYDE. You have been generous and stretched your availability already, so we will not impose further. This is a fascinating subject and a critical subject, and you added a great deal to our understanding. I will await your written comments on the concept of how we get this off the ground.

There will be a myriad of details, as Ms. Berkley's question indicated. I think she views the Marshall Plan as a reward for violence

rather than an incentive to stop the violence. That is the approach that I would like to use.

In any event, this Committee is profoundly grateful to you for your contribution today and your ongoing contribution to your country. Thank you, sir.

Senator MITCHELL. Thank you, Mr. Chairman.

Mr. LANTOS. May I join you, Mr. Chairman, in expressing our deepest appreciation to Senator Mitchell for his extraordinary public service and for his appearance here today?

Senator MITCHELL. Thank you very much. I thank all the Members of the Committee.

Chairman HYDE. We have a second panel that we will ask to step up to the table. We welcome Dr. Rima Khalaf Hunaidi, the United Nations Assistant Secretary General and Assistant Administrator and Regional Director of the Regional Bureau for Arab States of the United Nations Development Programme.

Dr. Hunaidi is a Jordanian citizen who studied economics at the American University of Beirut and completed her graduate education at Portland State University. Dr. Hunaidi has held high ranking positions in Jordan: Serving as Minister of Industry and Trade from 1993 to 1995, Minister of Planning from 1995 to 1998 and, most recently, Deputy Prime Minister and Minister of Planning, 1999 to 2000.

Dr. Hunaidi—and I hope I am pronouncing that right; I am probably not—has been in the news lately as the coordinator of a groundbreaking report on human development in the Arab world. A study of the Arab world by Arab scholars, this report points to deficits in some areas of political participation, women's participation, and the spread of information technology, while noting positive aspects of life such as improvements in education, the solidarity of the family, and the ability of Islamic charities to keep many people from falling into destitution.

Dr. Hunaidi, we look forward to hearing your testimony and hope to hear how the lessons of your most recent study can inform economic development programs for the region.

We also would like to extend our welcome to Hernando de Soto, who is President of the Institute for Liberty and Democracy (ILD) headquartered in Lima, Peru. Mr. de Soto was President Alberto Fujimori's personal representative and principal advisor until he resigned 2 months before the President's auto-coup d'etat. He was instrumental in modernizing Peru's economy, allowing it to return to international financial markets.

Today, Mr. de Soto and the ILD are designing and implementing capital formation programs to empower the poor in Asia, Latin America and the Middle East. He asks simple, but important, questions, such as why do poor people not know what the law is, and why can poor people not use their own property productively, and suggests answers that bring all the benefits of hard work and property ownership to a wider segment of society.

We are indeed very happy to have both of you with us today. Dr. Hunaidi, if you would open and make your remarks? If you can confine them to 5 minutes or so, we will have time to ask you some questions. Your full statement will be made a part of the record.

**STATEMENT OF RIMA KHALAF HUNAIDI, PH.D., U.N. ASSISTANT SECRETARY-GENERAL, ASSISTANT ADMINISTRATOR AND REGIONAL DIRECTOR, REGIONAL BUREAU FOR THE ARAB STATES, UNITED NATIONS DEVELOPMENT PROGRAMME**

Ms. HUNAIDI. Thank you, Mr. Chairman, Congressman Lantos. My name is Rima Khalaf Hunaidi, and I am the U.N. Assistant Secretary-General and Director of UNDP's Regional Bureau for Arab States. I am here to speak about the Arab human development report for the year 2002.

The report, which was published earlier this month, was commissioned by UNDP and was prepared by a team of some 30 Arab experts guided by a senior advisory board consisting of distinguished academics and political figures from the region.

In my 5 minute remarks, I shall focus on the implications of the report's findings on development strategies for the region. I then look forward to answering any questions you may have.

The report acknowledges progress made by Arab countries in some areas of development, notably in increasing life expectancy at birth and reducing infant mortality. Moreover, there is much less dire poverty in Arab states than in any other developing region.

The report also flags some warning signs that cannot be ignored. Growth over the past 2 decades has been the lowest in the world except for sub-Saharan Africa. Labor productivity has been on the decline since 1960. Sixty-five million people are illiterate. One out of every two women can neither write nor read. Ten million children are out of school. Unemployment has reached 15 percent, with regional hotspots suffering from much higher rates, 50 percent in the Palestinian territories.

The region has lagged behind other developing regions in achieving human development and behind the aspirations of its people. The report notes the serious implications of such a crisis in development. As an indicator, the report team polled a cross section of Arab youth. Fifty-one percent of older adolescents interviewed and 45 percent of younger ones expressed a desire to emigrate.

The report probes the roots of this crisis. Occupation, conflicts, sanctions and instability undoubtedly had their toll on human development in the region. In addition, the report looks at internal sources and traces them to three key deficits.

A freedom deficit is stifling creativity and full participation. Secondly, a women's empowerment deficit is depriving societies of half of their productive potential. Thirdly, a knowledge deficit is weighing heavily on the ability to grow and compete.

The report concludes that the solution lies in adopting and implementing a three-pronged strategy that simultaneously aims at: One, building human capabilities through quality education, health and social services, and quality research and development activities, promoting creativity and technological empowerment; two, using human capabilities through revitalizing the economies and providing equal opportunities to all, especially women; and, three, liberating human capabilities through promoting systems of good governance, including the reform of state institutions and activating the voice of the people.

This is a huge undertaking that demands substantial resources and requires the concerted efforts of many actors, including governments, donors and the private sector. An equivalent of a Marshall Plan for the region cannot be timelier to provide people of the region with hope and bring them closer to their aspirations for a better life. The report notes that the mismatch between aspirations and their fulfillment has in some cases led to alienation and its offspring, apathy and discontent.

Any effort to be successful needs to focus on simultaneous measures for building, using and liberating human capabilities. Estrangement and frustration arise not only when one is deprived of capabilities such as quality health and education, but also when one is deprived of the opportunity to use such capabilities in productive employment due to economic stagnation or legal biases or when such capabilities are stifled by lack of freedoms or poor systems of governance.

Such a strategy may require adjustment of current development strategies advocated by donors, international financial institutions and implemented by governments. The fiscal and current account deficits—which are the focus of such strategies—may have hindered growth in some countries and, hence, the focus on reducing them. Without addressing the other real and more critical deficits, the dream of development will remain elusive.

The private sector can play an important role in revitalizing economies, but creating job opportunities by the private sector will remain of limited effect if capabilities are not built or liberated to benefit from such opportunities.

Governments, with the support of donors, will need to shoulder the responsibility of building the capabilities of people, particularly the poor and the marginalized. This requires establishing responsive and fair health systems, combating illiteracy, extending compulsory basic education to 10 years, expanding and improving the quality of higher education, creating an institutional system for adult education that continues for life and paves the way for renewal, excellence and creativity.

Governments and donors need to facilitate and encourage the role of the private sector through establishing the necessary infrastructure and an enabling business and legal environment. Systems of good governance need to be promoted. For the non oil producing countries, this requires huge investment outlays that are currently beyond their financial means. The Marshall Plan approach can tremendously help in pulling them out of their predicament. It can be instrumental in making that shift from a struggling region to a progressing one.

Mr. Chairman and Members of the Committee, I would like to thank you for giving me this opportunity, and I look forward to answering any questions you may have in light of my opening remarks and supporting documents you received.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Hunaidi follows:]

PREPARED STATEMENT OF RIMA KHALAF HUNAIDI, PH.D., U.N. ASSISTANT SECRETARY-GENERAL, ASSISTANT ADMINISTRATOR AND REGIONAL DIRECTOR, REGIONAL BUREAU FOR THE ARAB STATES, UNITED NATIONS DEVELOPMENT PROGRAMME

Mr. Chairman, Congressman Lantos, and Members of the Committee, good morning. My name is Rima Khalaf Hunaidi. I am a UN Assistant Secretary-General and the Director of UNDP's Regional Bureau for the Arab States. Before joining UNDP, I served as the Deputy Prime Minister of Jordan and as a member of its Senate.

I am here to speak about the Arab Human Development Report 2002. The report, published earlier this month, was commissioned by UNDP and was prepared by a team of some 30 Arab experts and guided by a senior Advisory Board consisting of distinguished academics and political figures from the region. In my five-minute remarks, I shall focus on the implication of the Report's findings on development strategies for the region. I then look forward to answering any questions you may have. I have also asked that an Executive Summary of the Report be included in the record.

The report acknowledges progress made by Arab countries in some areas of development, notably in increasing life expectancy at birth and reducing infant mortality. Moreover, there is much less dire poverty in Arab states than in any other developing region. But the Report also flags some warning signs that cannot be ignored.

- Growth over the past two decades has been the lowest in the world except for Sub-Saharan Africa.
- Labor productivity has been on the decline since 1960.
- Sixty-five million people are illiterate.
- One out of every two women can neither read nor write.
- Ten million children are out of school.
- Unemployment has reached 15%, with regional hotspots suffering from much higher rates (50% in the Palestinian territories)

The region has lagged behind other developing regions in achieving human development, and behind the aspirations of its people. The Report notes the serious implications of such a crisis in development. As an indicator, the Report team polled a cross-section of Arab youth. Fifty-one percent of older adolescents interviewed and 45% of younger ones expressed a desire to emigrate.

The Report probes the roots of this crisis. Occupation, conflicts, sanctions and instability undoubtedly had their toll on human development in the region. But in addition, the report looks at internal sources and traces them to three key deficits:

- A freedom deficit is stifling creativity and full participation;
- A women's empowerment deficit is depriving societies of half of their productive potential; and
- A knowledge deficit is weighing heavily on the ability to grow and compete.

The report concludes that the solution lies in adopting and implementing a three-pronged strategy that simultaneously aims at:

- Building human capabilities through quality education, health and social services, and quality research and development activities, promoting creativity and technological empowerment.
- Using human capabilities, through revitalizing the economies and providing equal opportunities to all, especially women.
- And liberating human capabilities through promoting systems of good governance including the reform of state institutions and activating the voice of people.

This is a huge undertaking that demands substantial resources and requires the concerted efforts of many actors including governments, donors and the private sector. An equivalent of a "Marshall Plan" for the region cannot be timelier to provide people of the region with hope and bring them closer to their aspirations for a better life. The report notes that the mismatch between aspirations and their fulfillment has in some cases led to alienation and its offspring, apathy or discontent.

Any effort, to be successful, needs to focus on simultaneous measures for building, using and liberating human capabilities. Estrangement and frustration arise not only when one is deprived of capabilities such as quality health and education, but also when one is deprived of the opportunity to use such capabilities in productive employment due to economic stagnation or legal biases, or when such capabilities are stifled by lack of freedoms or poor systems of governance.

Such a strategy may require adjustment of current development strategies advocated by donors, international financial institutions and implemented by governments. The fiscal and current account deficits, which are the focus of such strategies, may have hindered growth in some countries, and hence the focus on reducing them. But without addressing the other real and more critical deficits, the dream of development will remain elusive. The private sector can play an important role in revitalizing economies; but creating job opportunities by the private sector will remain of limited effect if capabilities are not built or liberated to benefit from such opportunities. Governments, with the support of donors will need to shoulder the responsibility of building the capabilities of the people, particularly the poor or the marginalized. This requires establishing responsive and fair health systems, combating illiteracy, extending compulsory basic education to ten years, expanding and improving the quality of higher education, creating an institutional system for adult education that continues for life and paves the way for renewal, excellence and creativity. Governments and donors need to facilitate and encourage the role of the private sector through establishing the necessary infrastructure and an enabling business and legal environment. Systems of good governance need to be promoted. For the non-oil-producing countries, this requires huge investment outlays that are currently beyond their financial means. A Marshall Plan approach can tremendously help in pulling them out of their predicament. It can be instrumental to making that shift from a struggling region to a progressing one.

Mr. Chairman and members of the Committee, I would like to thank you for giving me this opportunity and I look forward to answering any questions you may have in light of my opening remarks and the supporting documents you received. Thank you.

Chairman HYDE. Thank you, Doctor.  
Mr. de Soto?

**STATEMENT OF HERNANDO DE SOTO, FOUNDER, INSTITUTE  
FOR LIBERTY AND DEMOCRACY, LIME, PERU**

Mr. DE SOTO. Thank you, Mr. Chairman. Thank you, Mr. Ranking Member Lantos.

I thought the previous words of Senator Mitchell were really very interesting. He said something which I have testified myself when I have been traveling through the Middle East during these past years, that it is full of knowledgeable, skilled and energetic people.

As a matter of fact, all over the world the reputation and the dexterity of Middle Eastern businessmen is very well known, and it is very hard to walk in the streets of any Middle Eastern country without actually seeing people trying to make deals every block, so here we have widespread entrepreneurship.

The question is why is there no development, the kind of development we would like to see in Latin America and elsewhere. I think it has to do with the fact that there is a lack of a property system, understanding the property system as the entry point into the rule of law.

I have come here, Mr. Chairman, with my apple. This is my apple, I would like to say, and I have various witnesses who say it is my apple. No matter where I look at this apple—on top of the apple, around the apple or even if I break it open and look inside—there is no way to actually distinguish an apple that is mine from a stolen apple. There is nothing on that apple that says whether it is mine. Neither does it say whether I can pledge it, use it as collateral, transfer it, rent it, loan it, distribute it in shares, or mortgage it. There is nothing in the apple itself that allows it to enter the market.

What allows things to enter the market are the property titles and the property rules that are behind them, so the real question is, how do things enter markets? When somebody in the United

States wants to sell 10,000 head of cattle in the Chicago Mercantile Exchange, they do not drive 10,000 head of cattle into the Chicago Mercantile Exchange. They come in with property paper.

When someone at the London Metal Exchange wants to sell copper coming from Jordan, nobody comes in with forklifts and lifts the copper from one side to the other. They have property documents that are exchanged.

When on Wall Street you try and see whether the capital value of your goods are going up and down. You do not look at the goods. You look at the property titles, which are the shares and the bonds and all things represented about the asset on property paper.

The real question, Mr. Chairman, is how much of the assets in Middle Eastern countries are on property paper and can, therefore, enter the market and, therefore, allow the country to have a viable market economy where countries where obviously they are thriving in terms of entrepreneurship, but not in terms of law.

I distributed among you gentlemen and ladies a set of charts, which we drew up during the initial phase of our work in Egypt. It is a good example of the kinds of results we are getting throughout the world, where we are working with different governments. Working together with a group of over 100 Egyptians, these are the results we got for Egypt. It shows that only 8 percent of all real estate is within the property system, and only 12 percent of all businesses operate within the property system and are legally established.

In other words, 92 percent, and this is not much different than in my country, Peru, or other Latin American countries. Only 8 percent of all physical real estate assets in Egypt, which is the country I am using as an example, but it is not an exception, are within the law, and 88 percent of businesses are outside the law. The question then, Mr. Chairman, is the following. If the majority, if nine-tenths of the assets of these countries are outside the law, how can they function?

You will see at the end of the document that I have given you that titles and deeds that are currently being used in Egypt. The interesting thing about these titles and deeds over real estate, as well as over businesses, is that none of them are really issued by the government. They are issued by local organizations, which also means, therefore, that there is no lack of respect for law. It is just that there is not a common, standard legal system in those countries to which its citizens can relate.

How much are all of these assets that are outside the economy worth? The assets that the poor hold outside the law are worth about \$245 billion. This is 55 times greater than foreign direct investment in Egypt since the time of Napoleon, 200 years ago. It is 30 times bigger than the market value of all the companies registered on the Cairo Stock Exchange.

In fact, when we have calculated the value of the poor in the Middle East outside the legal system, it is 40 times greater than all the World Bank loans and all the bilateral aid that you and the Europeans have given to them.

What that tells us, Mr. Chairman, is that maybe it is not so much a Marshall Plan that you may need for that part of the world, as Congressman Gilman was saying, but rather a Mac-

Arthur Program that you yourselves induced and began in Japan after the Second World War, where a feudal regime was changed into a property-earning regime through initiatives carried out by the Americans and the Japanese.

That is why it was very interesting to hear Congressman Gilman talking about being cautious on resources and, as a matter of fact, thinking of laws and institutions. Interestingly enough, we can find some good examples in Europe, when they began to think about development. When Spain and Portugal, for example, wanted to accede to the European Union and they were receiving foreign aid up until 1978, what the European Union did was not so much toss money at them, but help them in their legal reforms to create good property law and good company law. Today Spain, which 22 years ago was receiving foreign aid, is now actually giving foreign aid.

My problem, generally speaking, since you have asked me here to become a witness, has never been talking to leaders of developing countries, whether they be in the Middle East, the former Soviet Union, or Latin America. I have talked to various of them, and they understand property law.

The interesting thing is that in countries such as yours, in the developed world, I do not even see one budget item relating to property law, or major legal change in those countries, which was what gave you your success in Japan, the two former colonies, Formosa or Taiwan and Korea, and your own country.

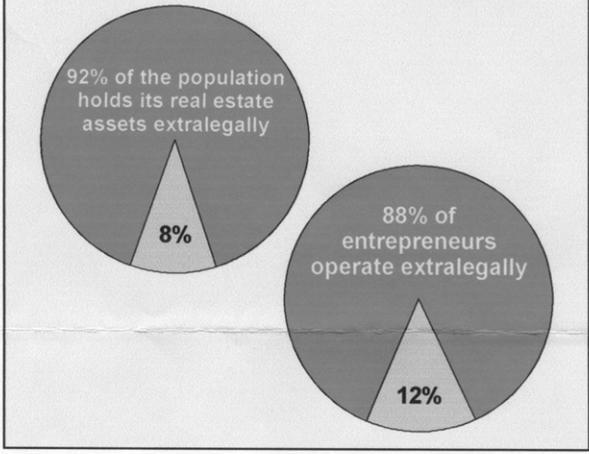
This very Congress, Mr. Chairman, interestingly enough, all through the nineteenth century created 32 preemption Acts which established the property system of the United States and gave you your prosperity of today. That seems to have been forgotten, Mr. Chairman. It is very important to recall it because I think those are the challenges that you also have in the Middle East today.

Thank you, sir.

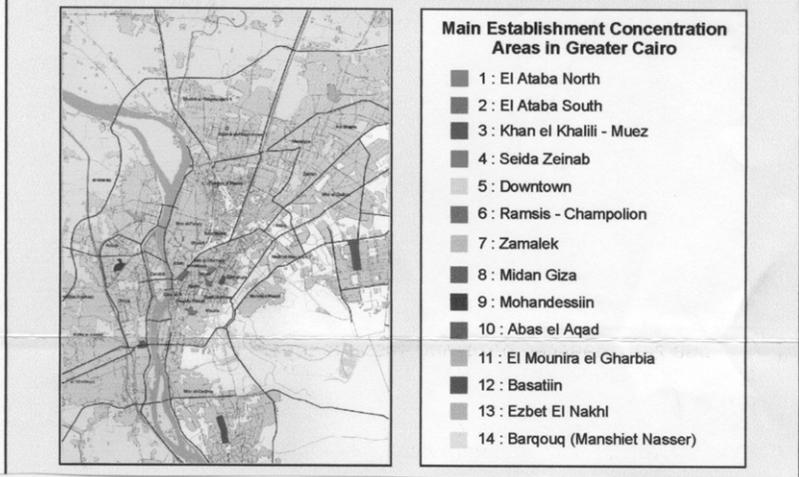
[The information referred to follows:]

## DEAD CAPITAL OF THE POOR IN EGYPT

### THE VAST MAJORITY OF EGYPTIANS ARE KEPT OUTSIDE THE LEGAL MARKET



### MOST EGYPTIAN ENTERPRISES ARE OWNED AND OPERATED PRIVATELY, ALBEIT IN THE EXTRALEGAL SECTOR



**MOST EGYPTIAN BUILDINGS ARE IN THE EXTRALEGAL SECTOR**

**Types of Urban Informality in Cairo**





**THE TOTAL VALUE OF THE EXTRALEGAL ASSETS IN EGYPT  
EXCEEDS US\$ 245 BILLION OF DEAD CAPITAL AND IT  
MAKES THE BELONGINGS OF THE POOR BY FAR  
THE LARGEST STOCK OF ASSETS IN THE NATION:**

| Dead Capital      | US\$ Billion |   |
|-------------------|--------------|---|
| <b>Urban</b>      |              |   |
| Greater Cairo     | 79,4         |  |
| Alexandria        | 23,1         |   |
| Other cities      | 51,8         |   |
| Residential rural | 40,9         |   |
| <b>Total</b>      | <b>195,2</b> |   |
| <b>Rural</b>      |              |   |
| Lower Egypt       | 28,1         |  |
| Upper Egypt       | 18,1         |   |
| <b>Total</b>      | <b>46,2</b>  |   |
|                   |              | <b>US\$ 241,4 Billion</b>   |

| Dead Capital  | US\$ Billion |   |
|---|--------------|---|
| Production and Services (Clothing, Coffee Shop, etc.) | 1,0          |  |
| Commerce (Grocery, etc.)                              | 3,2          |  |
|   |              | <b>US\$ 4,2 Billion</b>   |

**US\$ 245 billion of assets in the extralegal sector is:**

- 6 times** greater than total savings and time deposits in commercial banks in Egypt.
- 30 times** greater than the market value of the 746 companies that registered in the Cairo Stock Exchange in response to incentives provided by the Capital Market Law.
- 55 times** greater than the value of direct foreign investment in Egypt up to 1996.
- 116 times** greater than the value of the 63 public enterprises privatized between 1992 and 1996

**THE EXTRALEGAL SECTOR HAS ITS OWN INSTITUTIONS. THEY CANNOT BE IGNORED. THEY MUST BE INCORPORATED INTO THE REFORMED CAPITALIST SYSTEM.**

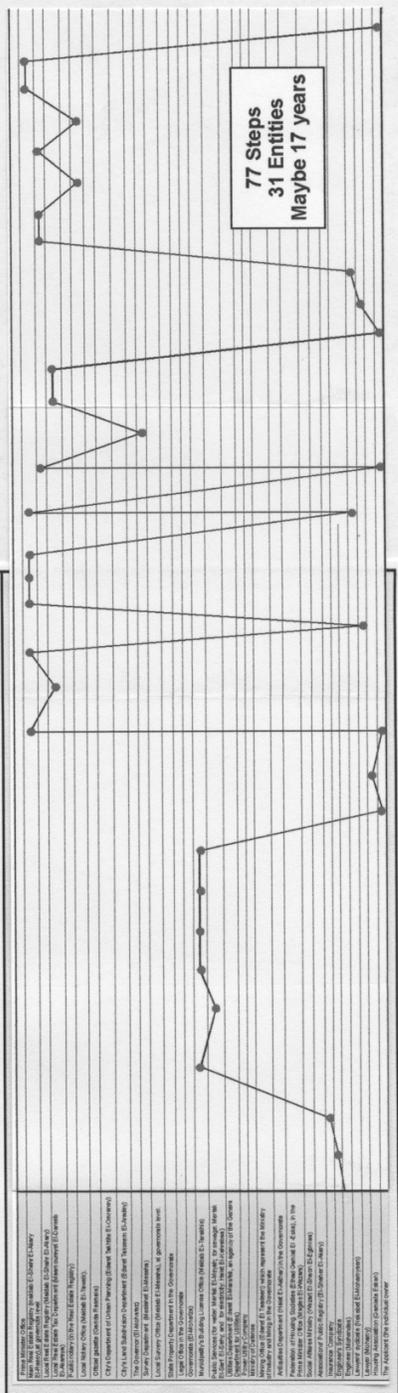
**Samples of deeds provided extralegally**

Handwritten deed in Arabic script, dated 1992. The text describes a transaction involving the transfer of property or assets, mentioning specific details like the date and the parties involved. The script is dense and fills most of the page.

Handwritten deed in Arabic script, titled "عقود" (Contracts) and "إيجار الممتلكات" (Lease of Property). It details a lease agreement, including the names of the parties, the property being leased, and the terms of the agreement. The document is framed with a decorative border.



**PROCEDURES TO GAIN ACCESS TO DESERT LAND FOR BUILDING PURPOSES AND TO REGISTER THESE PROPERTY RIGHTS IN EGYPT**



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Chairman HYDE. Thank you, sir.  
Mr. Rohrabacher?

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. I am disappointed that I did not get a chance to ask questions of the last panel. Let me say officially, I was here for the opening statements of the Chairman and the Ranking Member. Usually that position permits someone a chance to ask questions.

Chairman HYDE. If I may respond, Mr. Rohrabacher? I do not watch the door or see when people come in. I rely on staff to make that list. The rule is that if you are here early you get called early. We try to do the best we can.

There is no disposition to deliberately avoid you because your questions are always among the most illuminating, so I hope you will forgive us. Next time, we will try to do better.

Mr. ROHRABACHER. Yes. I understand. Being the Chairman of a Subcommittee, I understand that staff does make the list. Certainly the Chairman cannot see who is coming in the door and at what time.

With that said, thank you very much for giving me this opportunity to ask Mr. de Soto, or Dr. de Soto I should say, I think it is fascinating that you are suggesting a dichotomy between the Marshall Plan and the MacArthur Plan in terms of development. I do not think many people in this Committee and this Congress have ever really thought about that point.

Certainly MacArthur was dealing with a situation that was far different than what happened in Europe. Maybe you could enlighten us a little more about the difference between those two approaches and why the MacArthur approach is more applicable toward the situation in the Middle East and other developing countries.

Mr. DE SOTO. May I answer, Mr. Chairman? Thank you.

Well, I wonder if the reason that this was not so well recorded or significantly recorded in U.S. history was that maybe the objectives at that time were not necessarily the development of Japan.

When the war against Japan ended in 1945, General MacArthur was particularly concerned about one thing: That the United States should not allow another regime to concentrate so much power and wage war again.

To a great extent, the revenues that had allowed the Japanese expansion before the Second World War actually came from the feudal class. The objective was to undo the feudal class, compensate it, of course, and create a widespread property system. This way the basis for Japanese military expansion would be removed.

This was, as a matter of fact, being planned by a commission headed by, I believe, somebody in the United States Department of Agriculture called Wolfland Ladejinsky in Hawaii since about 1942. It was a carefully thought-out plan.

The second problem, of course, that MacArthur had at that time was that a traditional ally in China, Chiang Kai-shek under the Kuomintang, was being defeated by Mao Zedong. Mao Zedong was coming down from Manchuria to the south and in the process issuing property. Of course, not private property, but collective property.

What the United States wanted to do was give a response to all of that. The response was an edict by MacArthur instructing the Japanese to do something to change the property regime. They had found that since the Meiji restoration over the previous 60 years, many Japanese had come to believe in the transformation of a feudal system to a property system.

A group of Japanese, some of whom I had the privilege of interviewing just a few years ago to bring this history together, which is so badly collected, actually put together the transformation of the property system. It was not carried out by the United States. It was sponsored by the States.

Mr. ROHRABACHER. Was this accompanied by large amounts of foreign aid? Did the United States pump in a lot of money into Japan? Was that part of the Japanese miracle, or was it more just a restructuring?

Mr. DE SOTO. Do you know that I am not familiar with that, but the big effort, as in the case of Spain, Portugal, or the other countries that are acceding to the European Union, was essentially the restructuring of legal society.

You know I am Peruvian, and at that time, Japan's GNP per capita was not much higher than Peru's. They were only about 10 percent higher. You will remember that a Peruvian President, Fujimori of Peru, actually came from Japan to Peru just before the Second World War because we were a more prosperous country than Japan.

What really changed Japan around, as you will see from your own aid budgets, was not your aid as much as the fact that Japan put in place the legal institutions of a market economy. We continually forget that a market economy is not stable money, which of course is very important. It is not fiscal balance. It is essentially a system of rules which, to a great extent, seem to have slipped out of your development or your foreign assistance budgets.

Mr. ROHRABACHER. Again, before my time runs out, you are suggesting that a huge percentage of property in countries like Egypt and other developing countries and the countries we are talking about today as well, that the property is not titled. Thus, you compared the value of that would be 40 times the amount of Export/Import Bank loans into Egypt.

If we wanted to see an immediate increase in the wealth availability in those societies, we would not depend on wealth transfers from the United States, but instead on a restructuring of their legal system to provide title, thus ownership, thus giving economic value to the property that they already have. Is that correct?

Mr. DE SOTO. This is correct. I would like to insist on the last words about giving economic value to assets. Let me give you an idea of some of Latin America's experiences throughout the 1990s, which were all not bad.

For example, when we retitled state corporations, which is an exercise generally called privatization, we took the Peruvian Telephone Company, which in 1990 had a value on the Lima Stock Exchange of \$53 million, and retitled it. We changed its property documents and the underlying property law so that it would be acceptable for investment by the Bell Souths and the AT&Ts of this world.

Three years later, we were able to sell it in an auction, and it was bought by Telefonica of Spain for \$2 billion. In other words, the value of the company jumped from \$53 million to \$2 billion, 37 times its value. We did not paint the building. We did not repair the broken windows of the Peruvian Telephone Company. We did not even mow the lawn. We did not touch the apple. We inserted it in the legal system so that it entered the expanded market, so that bonds could be issued for loans and shares could be issued to welcome investment.

Of course, if you have some 90 percent of the assets in the Middle East, and something similar in Latin America, untitled but especially ungoverned by good law, the result is relative poverty as you had in the United States in the nineteenth century when you were a third world country.

Mr. ROHRBACHER. Thank you, your Honor.

Chairman HYDE. Ms. Lee?

Ms. LEE. Thank you, Mr. Chairman. I want to thank both of you for your testimony. I wanted to ask Dr. Hunaidi a couple of questions. You paint quite a sobering and I guess the report painted quite a sobering picture of the Arab world. Many of the facts are quite astounding.

I wanted to ask you. Many of us believe, and it is often said, that poverty breeds terrorism, yet many of the hijackers of 9-11 were middle class and well educated. In your view, I would like to just ask you, what is the connection between poverty and terrorism, and what do you think in terms of the Marshall Plan?

I would support a Marshall Plan, but you heard the questions and statements of Senator Mitchell before this Committee. Quite frankly, I would like to find out, in the absence of a political settlement and a cessation of violence in the Middle East, do you think that the conditions are such that a Marshall Plan would actually provide for economic development of the region and begin to address some of the statistics that you have provided?

Ms. HUNDAI. Mr. Chairman, on the issue of poverty and whether poverty breeds terrorism or not, probably I would go beyond what is in the report to venture my personal opinion. I do not think that poverty per se breeds terrorism. You can look at the poorest countries in the world are not breeding terrorism.

The report does not address the issue of terrorism, but the report points out the fact that it is the mismatch between opportunities and potential that can in some cases lead to alienation. It is also the deprivation of rights, political rights, that can lead in many cases to frustration. It can take more than one path. It could be apathy, or it could be discontent.

What the report is advocating is basically how to overcome this mismatch, and we think it is essential. It is from that perspective that I was looking at the Marshall Plan. The mismatch is arising because in some cases, or in some countries of the region, capabilities are not built. You have less educated people than in other regions.

In other parts, in other countries of the region, people are more educated, but they are deprived of two types of opportunities; first, the opportunity to participate in the economy fully because of lagging, or the economy is in recession, economies that are not being

revitalized. This issue can be addressed. In this case probably the private sector can play a big role.

The second is what I call, or what the report calls, political opportunity. The only way to overcome this is by political participation and making sure that we have the rule of law, all the items that were discussed this morning.

Would a Marshall Plan make sense in the absence of a political settlement? Also now at this point I am venturing my personal opinion because of my knowledge of the region. I think two types of action are needed. One is to help the region reach a political settlement, and the second is peace building once political settlement is reached.

In order to move toward a political settlement, probably a lot needs to be done in the areas that were identified in the report. They touched not only on the Palestinians, but also other countries of the region.

I look at this as activities that will help us reach that goal and then activities that will help us build on any political settlement to make sure that peace has a chance and will change the lives of people in the region.

Ms. LEE. Let me just ask you one other question. Mr. Chairman, do I have a little bit more time?

Your report also called for the complete empowerment of Arab women. How do you see that emerging, and what is it that we can do to enable Arab women to move forward in full empowerment efforts? How long do you think that may take?

Ms. HUNAIDI. There are a number of impediments. A certain set of impediments has to do with whether women are getting the proper education and whether they are being trained and they are given the capabilities that are necessary for them to participate fully in economic and political decision making. This is an area where I think U.S. aid or assistance that goes to countries of the region can focus on, which is how women obtain the capabilities.

The second has to do with the legal rights of women. As we mentioned in the report, women are deprived of many legal rights and reforms of the law in some cases. They are not allowed to vote or participate in elections and so on. In many of these cases you will find that governments have been more progressive.

In Jordan, it was the government which proposed legislation in order to address the issue. In Kuwait, it was the government that proposed legislation that the objective of which was to give women equal political rights.

In certain cases I think governments of the region can benefit a lot from technical assistance and probably support from the United States in order to make this happen.

Ms. LEE. How important is culture and religion, though, as it relates to impediments to the empowerment of women? Is that an obstacle as you see it? Did your report go into that at all?

Ms. HUNAIDI. Well, some maintain that it is an obstacle; but my opinion is, probably the most serious obstacle is a lack of opportunity. I mean, it has been the case in our countries and many other regions of the world where you have a recession, and people start fighting for job opportunities. They just cannot find them. Usually the first victim would be women's opportunities in obtain-

ing a job. That is why we are calling that any move or any strategy by governments of the region will really need to look at the three: Which is you build capabilities, and then you create opportunities, and you also liberate capabilities. If we focus on one and we ignore the others, then we risk the emergence of a mismatch or an imbalance that may not be helpful for our countries

Ms. LEE. Thank you, Mr. Chairman.

Chairman HYDE. Mr. Leach?

Mr. LEACH. Thank you, Mr. Chairman. First let me say I think that Mr. de Soto has raised a very interesting philosophical contrast between the Marshall Plan and MacArthur, but it is a very frail one. After all, General MacArthur was the military commander of a foreign country, and we do not visualize that happening in the Middle East, so that contrast is a very serious one.

You do raise some timing and substantive kinds of concerns that I think are really at the heart of what Congress has to be concerned about. What Chairman Hyde is suggesting implicitly is that within all of the context of all of the Middle East issues, the United States Congress is prepared to help provide hope at the end of the road if there is a peace agreement, and that is a very important ingredient in the whole circumstance.

Then there is a timing situation. From America's point of view, it is pretty clear that an Israeli-Palestinian settlement is probably the single greatest issue in our foreign policy; not just the foreign policy and the concerns of the region, but in the United States' national interest.

The difficulty we and the world are confronted with are two parties that have decision making outside of our control; that is, it is important to the United States' national interest, but to get there we have to have Mr. Sharon and Mr. Arafat or other leaders somehow come to agreement with each other.

Here it strikes me that there are some very interesting dilemmas and catch-22s and chicken and egg circumstances. For instance, there has been a lot of emphasis on process and negotiations without quite the same emphasis on what is the final delineation of borders, and so one of the questions always is: Is a prerequisite of peace ending the violence? If it is, can you ever end violence?

Then the question is, can you have a peace process that works without a delineation of the final product. I think that is one of the most or maybe the largest issue on the table today.

Now having said that, that then ties into whether you can have a Marshall Plan without peace? That seems fairly unlikely. If you cannot have peace without a delineation of a final product, you are holding up the Marshall Plan to that particular approach, so it is almost a chicken and egg circumstance without an incubating environment.

My question is first to Mr. de Soto because of this intriguing notion of MacArthur setting down new rules for society and the Marshall Plan, which is basically assisting societies that had rules, at least historical rules, that were more appropriate.

Can we proceed with anything like substantial American assistance without a finely delineated border circumstance or at least the process to achieve a final delineation that everybody knows? What comes first, the aid or the agreements?

Mr. DE SOTO. Regarding your question, Congressman, about the situations in which General MacArthur found himself, I used that example to show the results of a very successful U.S. program, but that program of creating property rights in defining peace is not only found in the example of MacArthur in Japan. It is also found in the case of Switzerland in 1908, and Germany in 1806.

All of the property systems in Europe, to use another example, were borne out of conflict, and took place during times of conflict. In the case of Germany, the idea was essentially to fight Napoleon by creating a sense of sovereignty within Germany by giving people property rights. That is what the Stein-Hardenburg reforms were about.

I chose the MacArthur example so that it would be easier for you in the United States to relate to and understand. Essentially what I am saying is that the rule of law, with property rights as the entry point seems to have been what achieved peace in many countries, not only in Japan when it was occupied by the United States.

You raise another interesting point there, and I would like to take up the question asked before to Dr. Hunaidi, which was how does this relate to terrorism? That I would like to relate to property rights in just 1 minute.

Ever since we have worked in countries plagued by terrorism, like my own, which was in war throughout the 1980s and early 1990s, we have not found that it is poverty that is at the root of violence. It is exclusion. Poor people are generally docile, peaceful people. When poor people feel excluded, however, and this is basic Marx 101, they become alienated, and that is when they get very angry and take up arms.

There are plenty of examples in Europe, and I will stay away from Japan, though the laws of Japan and the historical experience of Japan remains perfectly valid. To illustrate my point with an alternative example, when you examine a case like France, you have this territory between France and Germany called Lorraine, which has shifted sovereignty many times just like the Palestinians have shifted sovereignty many times, as we heard Senator Mitchell say.

The interesting thing about it is that property law was fully established at that time. Herr Schmidt owned his property, and Mr. Dupont owned his property, and you did not have terrorism because people did not have to rely only on sovereignty to protect their assets. They could rely on property rights, which is a much less conflictive way of looking at things.

I would tell you that, yes, there is no reason why money well spent is not going to save lives. It is not going to save a lot of suffering. Until you change the institutions, until you give people property rights, as well as sovereignty, you will find that, generally speaking, you will not achieve the peace or the prosperity you would have found if you first dealt with the issue of creating a prosperous market economy where people were individually secure.

Mr. LEACH. I thank you. My time is expired. I would only stress that I am in agreement with you on the importance of property rights. In fact, Locke was a philosophical godfather of Jefferson, who talked about the rights of life, liberty and property.

Having said that, the real issue for peace right now is property, not property rights. What is the property of a new state? What is

it going to look like? I think you may be right that a potential prerequisite for aid is to make sure that any aid that is given is given in a structure where people can take advantage of the circumstance in a socially important way that involves property rights so that you have, among other things, not simply the right of theft of people in high office.

I think property at the moment in terms of sovereignty probably comes before property rights in terms of getting to peace itself.

Mr. DE SOTO. Am I allowed to react to that?

Chairman HYDE. You certainly are. You are encouraged to react.

Mr. DE SOTO. Thank you very much. The way we see it from my institute, from my research organization, is that essentially human beings have found two ways to organize the surface of the earth, which is what we live on. One is called the concept of sovereignty where essentially it is government to government. The other one is the concept of property, which is individual to government and individual to individual. They are both highly interrelated.

The countries that have sovereignty and property rights are generally more successful. For example, when your troops fought against Latin American troops back in the nineteenth century, yours had not only the possibility of a sovereign United States, but also a property title in their back pocket. They were a lot more efficient, and you definitely created a much more prosperous country than we did.

Next, property rights not only help create wealth. It also helps the enforcement of the rule of law. How can you enforce the rule of law where you do not have addresses? You were victims of an atrocious attack back on September 11, but 3 days afterwards you knew where all the terrorists had been and how they got organized because they left, thanks to property rights and records, a paper trail so you could identify them and eventually annihilate the cell that created that violence.

Osama bin Laden, who lives in a country without property rights, is very difficult to locate. You cannot enforce the law to start off with if you do not have property rights.

You may recall, Mr. Congressman, that there is a very amusing series on U.S. television, or there was at least at one time, called Miami Vice, which consisted of basically two good looking American policemen that generally were after a Colombian or a Peruvian like myself.

As you go through that series, you will see that at the beginning they go to one address, and they ask where is Hernando? They say he is not here. He is at 101 Ocean Drive. Then they go to a second address, and they find out that he is at 353 Stewart Street. Forty-five minutes later they catch him.

You cannot have police action and you cannot enforce anything against terrorism in a civilized manner without addresses. Addresses are a product of property rights, as well as wealth.

Mr. LEACH. You are welcome in this country at any time.

Mr. DE SOTO. Thank you, your Honor.

Chairman HYDE. Thank you, Doctor and Mr. de Soto. We will take a recess, and you are dismissed so you do not have to hang around. You have made a great contribution. We will feel free to

get back to you with more specific questions if we have them. I want to thank you for your contribution.

Ms. HUNAIDI. Thank you, your Honor.

Mr. LANTOS. Mr. Chairman, I want to join you in thanking our two distinguished guests. They have made a significant contribution.

Chairman HYDE. I will announce a resumption at 1:30, so you have 45 minutes to get lunch or whatever. We will see you at 1:30 except Mr. de Soto and Dr. Hunaidi, who are free to go.

Ms. HUNAIDI. Thank you, Mr. Chairman.

[Recess.]

Chairman HYDE. Will the Committee come to order? The Chair apologizes profusely for the long delay. We are just about an hour and 10 minutes late from our assigned time, but we cannot control the calendar on the Floor, and we are subject to it. I hope you understand. I admire enormously your commitment by staying with us.

This panel has some extremely informed people who will make a contribution to this discussion. It is not a debate. It is a discussion. I appreciate your presence.

Mr. Stef Wertheimer is the Founder and Chairman of Iscar, Ltd., one of the world's top two manufacturers of carbide cutting tools. A leading Israeli industrialist, Mr. Wertheimer has built four industrial parks in Israel.

Between 1977 and 1981, Mr. Wertheimer served in the Ninth Israeli Knesset as a member of the Dash Party. Mr. Wertheimer has devoted his life to fostering the economic independence of Israel and to promoting peaceful coexistence with its neighbors.

Mr. Samir Hulileh is the marketing and sales manager for Nasser Investment and a board member of Pal Trade in Ramallah and the Palestine Banking Corporation and other NGOs working in the economic field.

Mr. Hulileh received his M.A. from the American University of Beirut after finishing his undergraduate studies at Bir Zeit University. Mr. Hulileh was a member of the Palestinian team for the Economic Multilateral Group and then joined the bilateral economic talks in Paris that were being conducted with Israel.

Formerly, Mr. Hulileh was Assistant Under Secretary for Trade Affairs in the Palestinian Authority Ministry of Economy and Trade and coordinated the joint economic effort between Israel and the Palestinian Authority. Mr. Hulileh will be joining us today via video conference.

Ms. Dina Khayat is Chairman and Managing Director of Lazard Asset Management Egypt, a subsidiary of Lazard Asset Management New York, and Vice-Chairman of Lazard Kato Asset Management, a joint venture between Lazard Asset Management Egypt and Kato Investment. Ms. Khayat joined Lazard Asset Management in New York in 1995 after working for 3 years at the International Finance Corporation in Washington.

Mr. Omar Salah is Founder and Chairman of Century Investment Group, a Jordanian public shareholding company which specializes in the creation of industrial joint ventures with foreign multilateral or multinational corporations. Century Investment Group is the first company to pioneer joint projects with Israel.

Among many other honors, Mr. Salah was named a global leader for tomorrow by the World Economic Forum in 1998 and was awarded the Albert Einstein medal for high technology in March, 2001.

Ms. Hiba Hussein is the Founder and Managing Partner of Hussein and Dajani. Ms. Hussein established the firm in 1998 to participate in setting the legal foundation for the economic, financial and corporate development of Palestine. The firm has a dynamic international and domestic law practice serving clients throughout the Palestinian territories and abroad. Ms. Hussein is a graduate of Georgetown University and a member of the bar in the Commonwealth of Pennsylvania and the Palestinian Bar Association.

Mr. Akel E. Biltaji is a Jordanian born in Gaza, Palestine. He is married to Nawar Fariz and has two sons. A graduate of the American School in Ramallah with further education in London, he is a retired Major General with the Royal Medical Corps. He is currently the Chief Commissioner of the Aqaba Special Economic Zone Authority in Jordan and also serves as Chairman of the board of the Aqaba Ports Corporation.

Mr. Biltaji has also served recently as Minister of Tourism and Antiquities, and before that he enjoyed a lengthy career with the Royal Jordanian Airlines where he rose to the level of Senior Vice-President. He has also served as Commonwealth Tumpain at Dahran Military Base in Dahran, Saudi Arabia. Prior to that time, he was assistant business manager in the training department of Arabian American Oil Company in Dahran.

We shall start with you, Mr. Wertheimer. If you can condense your remarks to close to 5 minutes, that will give us all a chance to participate.

Mr. WERTHEIMER. Could you please show a film first? Is that okay with you?

Chairman HYDE. All right. I am just informed by staff at this moment that we have arranged to show the film. Please show the film.

[Video shown.]

Chairman HYDE. Well, I surely want to compliment you on a splendid presentation. I have to say I agreed with every reel. It was wonderfully told and told well. The refugee camps have to be made a part of the economy. That was terrific.

If you have some remarks to make, please make them.

Mr. WERTHEIMER. Thanks, Mr. Chairman.

**STATEMENT OF STEF WERTHEIMER, FOUNDER AND  
CHAIRMAN, ISCAR, LTD., ISRAEL**

Mr. WERTHEIMER. Thanks, Chairman Hyde. Thanks, Congressman Lantos. I am honored to be here. It is a really big honor for me to be here.

As you saw in the film, our area has a problem. September 11 has shown that it affects not only us, but everybody. The Palestine and Israeli issue is not the main problem. The eastern Mediterranean has no oil. The Gulf states are ten times richer. This is a real problem. Oil is a problem, and Israel and the Palestinians are a by-product.

I propose that you should create a new Marshall Plan for Jordan, Turkey, Israel and eventually add in the Palestinians, Lebanon and Egypt. It should have less government, less politics, no more free meals. Instead of giving people fish, teach them how to use hooks. Do not wait for an ending of the conflict. Do it now.

Ezra Vogel from Harvard clearly explains how effective the combination of U.S. aid, education and industry was in Asia. The U.S. helped South Korea, Singapore, Taiwan and Hong Kong to succeed, and Mexico and Ireland are good examples, too.

What can I offer to you, Mr. Chairman? Fifty years of experience creating industry in Israel, of which the result is \$2 billion, half in my own company and half in the four parks in Israel. The parks are not what you would normally expect. They have a deep social responsibility also. They include museums, schools, incubators and actually are the social center of an area.

Our area has 50 percent Arabs and 50 percent Jews. We have proven that it can be done—to live together and work together. Think what this model will do to our area. I think we should start with Jordan. It is a small country relatively. The results can be shown on the ground quickly.

We can start in Aqaba as a model. We will need for the first 5 to 7 years \$200 million of government. Maybe it should come from America, from Europe or a group of different people. We need \$100 million from private resources to invest in it parallel.

We should start immediately in rented space. Do not wait to build or plan to do something. We have to create jobs. Begin to educate and recruit managers, get orders, make commitments to customers and go to international trade shows. Show your product. As a result of it, I expect that within 5 to 7 years to create 2,500 jobs and generate sales of \$200 million to \$300 million yearly mainly from exports.

I would not have bothered to come here only asking for one park. I have built already four myself. Probably my Jordanian friends could have done this themselves. I come here because I believe if we can duplicate that story first for five parks in Jordan, that would double their GDP and probably double their exports. Then start with Turkey or the Palestinian area or any other area which could help. It is your decision, Mr. Chairman.

Actually my goal here is to get a commitment from you to make out of this idea a whole plan. In this area are about 80 million people, and we need 5 to 10 years to change it around to make it effective, actually competitive with the oil countries to some extent.

How will the U.S. benefit from it? It will open new markets. The whole area is 80 million people. It will insure a smoother flow of oil. It will prove that world peace can be measured by export industries from these countries. In the long run, it will reduce the problem of terror because people have something to lose.

What I am asking from you and your Committee is a commitment. We will now create a model, hopefully very quick. I hope that you will push your Marshall Plan idea through and have the free world help this area to stand on its own feet and be competitive with oil countries and not be the poor brother beside.

Thank you.

[The prepared statement of Mr. Wertheimer follows:]

PREPARED STATEMENT OF STEF WERTHEIMER, FOUNDER AND CHAIRMAN, ISCAR,  
LTD., ISRAEL

I wish to thank Chairman Henry Hyde for having the foresight to initiate this hearing, as well as Ranking Democrat Tom Lantos and Chairman Gilman. I am also thankful to the members of the Committee who have allowed me to testify before them. I am honored to be here.

This morning could prove to be an historic session. It could change the course of events in my troubled region of the eastern Mediterranean. Congressman Hyde has been voicing the need for a new bold approach to certain parts of this area. He has used the term “a new Marshall Plan” to describe his vision. As all of you in this room know, that plan changed the course of the 20th century by rebuilding Europe after WWII. It may be in your power to transform another region of great strategic importance to the U.S.

I am here to make a few observations and, perhaps, to expand the concept that Congressman Hyde has envisioned. He and I—and I know many others—share an interest in calming my region. I believe there is only one solution: a vigorous plan for industrial development that will be enhanced sometime in the future by a political solution to the Arab-Israeli conflict.

What is needed is not continuing aid, but rather the willingness of the U.S. and other OECD countries to make a limited-term investment in the future of the eastern Mediterranean. Unlike social welfare, the proposed plan will make people self-sufficient rather than continually dependent. It is a program that will offer hooks rather than fish.

My testimony is based on 50 years of successful entrepreneurship in a developing region. I started my own metal tool cutting company, ISCAR, Ltd., in 1952, not long after the end of the Israeli War of Independence. It is now one of the two leading companies in its field in the world, with annual revenues of \$1 billion. I have also built four industrial parks in Israel that generate an additional \$1 billion, much of which derives from the 150 emerging industries that have been launched in the parks' incubator spaces.

My own experience allows me to make two points with conviction. First, since my own corporation grew during times of war on Israeli soil, I can vouch that we need not wait for a peace agreement before embarking on this plan. *We should begin as soon as possible.* Second, having launched my company from a remote area in the Galilee, I can testify that it is possible for the eastern Mediterranean to be competitive in the global market.

REDRAWING THE MAP OF THE MIDDLE EAST

I use the term “eastern Mediterranean” deliberately. It is time to redraw the map of the Middle East. For far too long, *political* maps have defined this region. We now need a new *economic* map, one that will distinguish the oil-producing states in the Gulf from the non-oil states in the east.

Oil wealth has also contributed to some of our most menacing problems today. Let me mention three in particular.

First, oil riches have created an enormous disparity in the wealth of neighboring states of this region. For instance, Kuwait's GDP per capita is about ten times that of Jordan's. It is almost inevitable that unrest will result from such gross economic inequality. Still worse is the fact that oil revenues have generally been invested *not* in the region but rather in the West. Very high unemployment exists now in parts of the region. As a result—and I quote from UNDP's recently published *Arab Human Development Report 2002*—“while it is shocking, it is not surprising that . . . more than half of young Arab people surveyed wanted to emigrate to other countries, mostly to industrialized countries outside the region.”

Second, Saddam Hussein, Osama BinLadin, and 15 of the 19 who carried out the September 11 attacks come from Middle Eastern oil-producing countries that support a xenophobic form of religious education.

Third, the Arab oil-producing states have turned a blind eye to their brethren, the Palestinian refugees. They offered them neither shelter nor any support meaningful enough to create a secure and stable society.

For a solution, we should turn our sights to the Old Levant countries. Concentrate first on Jordan, Turkey, and Israel, and then expand the program to include the Palestinians, the Lebanese, and other neighbors seeking a higher standard of living.

Why Jordan, Turkey, and Israel? Lacking natural resources, these three have the greatest potential for economic success because they cannot expect idle riches. Israel has succeeded precisely because it lacks oil. To reach its relatively high GDP per capita, it has had to rely on hard work, technological and other innovations, and export-driven industries—the same ingredients that underlie the recent success of

Ireland, Finland, Singapore, Taiwan, and South Korea. In addition, Jordan, Turkey, and Israel have been oriented to the West and wish for stronger ties with the EU and NASTA.

The Middle East was once a bustling economic region. No longer. The above-mentioned *Report*, written by Arab intellectuals, frankly outlines the distressing situation. It claims that the Arab world (defined as 22 countries of 280 million people) now has the lowest growth of per capita income in the world, with the exception of sub-Saharan Africa. The *Report* cites three reasons for this: lack of political freedom, the repression of women, and inadequate knowledge of the world beyond.

There is a glaring omission in this otherwise excellent document. Nowhere does it stress the need for industrialization. Yet industry is the engine of economic stability, a vehicle by which a nation can quickly become empowered.

Consider this: the economic success of Taiwan, Singapore, Hong Kong and South Korea has been achieved in a matter of decades. With post WWII American aid, they industrialized and become self sufficient in the process. These Asian Tigers had few natural resources, yet their success is indisputable. Another example: since the fall of the Berlin Wall, one can see the same success unfolding in some of the Eastern European nations. Nothing could better demonstrate the soundness of the original Marshall Plan's concept. The approach can be copied.

#### THE TEFEN MODEL

The main way that I can contribute to Congressman Hyde's vision for a Marshall Plan is through Tefen, my model of an industrial park that has been extremely successful in Israel. Its formula could be exported. Today there are four parks in Israel based on this model, and a fifth will soon be constructed in the north. In addition, it will also soon be tested for the first time on foreign soil: in Gebze, Turkey.

Only two years ago the model was to be built in Gaza. I was engaged in a partnership with the Palestinians to build twin parks, one near Rafah, the other just across the border in Israel. Leaders of both Israel and the Palestinian Authority approved the plan. The Harvard University School of Design completed a planning study of the area. Unfortunately, however, the second Intifada has postponed that project.

The Tefen model stresses creativity through an unusual combination of aims: to provide high quality products to a global market, to advance entrepreneurial education and industrial training, to foster new indigenous industries, and to showcase art and culture. To these ends, the four parks all have incubator spaces, educational and training facilities, museums, and sculpture gardens.

As in any business enterprise, Tefen's success can be quantified in numbers. The model park and its two replications in the Galilee and one in the Negev have launched 150 new firms that currently generate \$1 billion in sales and have given rise to 5,000 new jobs. They prove that this part of the world can compete successfully in the global market.

#### A PROPOSED PILOT

A Marshall Plan for this region will be an ambitious undertaking. Why not test the concept first in one specific place? Jordan, a relatively small nation with a highly literate population of 5 million, would serve as an ideal showcase. His Majesty King Abdallah and his late father have been close allies of the U.S., and Jordan's continued stability is vital, both for this region and for the West.

An expenditure of \$1 billion over five years (*in addition* to the current U.S. funding) in industrial development, infrastructure, and technical education would bolster the economy and increase its GDP significantly in a short period of time, similar to what happened in Europe with the Marshall Plan. The plan is to build five industrial parks in diverse areas of the country and to assist in establishing industrial facilities within those parks. They will change the pattern of poverty and unemployment and prove that industry can pave the way for economic stability. The funds should be managed and dispensed by a U.S. or international institution. A preliminary plan and budget for Jordan is attached.

Jordan's stability is critical for this region as well as for the West. If it does not receive the funds to enable it to increase its standard of living, it could well cease to exist in the near future.

#### EXPANSION OF THE PLAN

Once Jordan is deemed to be a success, then the Marshall Plan could be extended to other countries in the region: Turkey, the Palestinian Authority, the developing communities of Israel and, eventually perhaps, Egypt and Lebanon. One hundred parks of the Tefen model would transform this region, enhance the quality of its

workforce, increase its standard of living, and provide the environment for more democratic societies to emerge

BENEFITS TO THE U.S. AND OTHER PARTICIPATING DONOR COUNTRIES

The Middle East has a way of besmirching the entire world with its conflicts. It is of global interest to quiet this area. A Marshall Plan for this area would produce a variety of benefits:

*A reduction of terrorism worldwide.* The majority of the world's terrorists hail from this region. Terrorism thrives in areas of poverty. Narrowing the gap between the financial status of neighboring countries and enhancing a population's standard of living automatically changes attitudes. Job opportunities and a higher standard of living for people in this area will reduce the power that terrorist groups offer to the deprived masses.

*Continued free flow of oil to the West.* Developed countries are particularly dependent on oil. By raising the standard of living in the region's non-oil-producing countries, the Plan will reduce some of the glaring financial injustices that produce turmoil here and thus ensure the free flow of oil.

*Enhanced trade opportunities for the West.* To develop this region will require the expertise and equipment of the industrialized countries. The West has much to offer in terms of its know-how and its goods.

Industrialization of these countries will enable American companies committed to buyback agreements to find *sources for purchasing*.

*A foreign policy victory.* While economic disparities are not the only issue plaguing this region, an ambitious program of industrial development in the eastern Mediterranean will bring positive political, economic, and social results. This will prove to be the best investment for the future.

In summary, I would welcome the support of this Committee, which would greatly enhance the prospects of peace. A long-term solution to the problems besetting us now rests on narrowing the gap of wealth distribution. Industrialization is the key to achieve this.

Chairman HYDE. Thank you, Mr. Wertheimer.  
Ms. Khayat?

**STATEMENT OF DINA KHAYAT, CHAIRMAN AND MANAGING  
DIRECTOR, LAZARD ASSET MANAGEMENT EGYPT**

Ms. KHAYAT. Thank you, Mr. Chairman, Congressmen.

As stated by President Bush, the U.S. peace building mission in the Middle East rests on three parallel tracks—political, economic and security. For years now Lazard has been trying to lead a fund comprised of private sector investors. Unfortunately, circumstances 2 years ago stalled the effort.

Long-term sustainability in the Middle East cannot be achieved without addressing economic, as well as political issues. A halt to the hostilities and the tension in the region is only the first part of the equation. The second stage, the reconstruction, will require massive assistance in which the U.S., Canada, the European Union, Japan, as well as regional countries such as Egypt, Israel, Jordan and other GCC states, fund and support the process.

Mine is a specific concept. Lazard wants to participate on the economic front by proposing an idea that acts on two fronts. One is the immediate establishment of a Palestinian reconstruction fund led and sponsored by the U.S. in conjunction with other countries.

In parallel, the goal will be the establishment of a regional fund that would integrate the region's economic interest. One will beget the other, creating the right environment for the regional fund.

The management of the fund will be an interplay between government and private sector. At the very bottom-most level will be Lazard as a manager of the fund. They will source the deals and

do the financial analysis on the deals. Above that there will be a layer of entrepreneurs, one from each country, from Jordan, from Israel, from Egypt, from the rest of the countries who are involved in the fund, from Palestine, as well as the U.S. and Europe.

Their affiliations will be encouraged to co-invest with the funds and the projects. The advisory board will be comprised over and above the entrepreneurial one. It will be comprised of government representatives and charged with the overall oversight of the operations of the fund.

Lazard has a role to play here. The key to success will be the presence of private sector management to insure the proper allocation of resources and efficient professional project management. This will allow for better governance, proper allocation of funds, timely strategies and will correct the mistakes of other similar concepts that have failed.

Additionally, government and private sector entrepreneurial support should increase and improve deal flow, as well as insure that funds are channeled into economically feasible projects.

There are spin-off benefits for all for this project. For the United States, a U.S. sponsorship of such an initiative would deliver an effective and strong public diplomacy message and reinforce the U.S.'s role as the central peace builder in the region. It would afford direct investment opportunities for U.S. businesses, as well as the potential for technical assistance contracts.

There is a snowball effect to this structure I have just discussed in that initial U.S. seed capital—not much of it—would be leveraged from the attraction of additional resources from other donor countries. In addition, by serving to attract and encourage foreign and local private sector participation, the proposed initial capital of \$300 million of which not all of it is from the U.S., could be leveraged up to in excess of \$1.2 billion. As the project generates returns, the funds can be reinvested so that the initial capital is a one time investment.

For the region, the benefits are we hope, first of all, that this initiative would encourage participation by other countries in the region. Collaboration of this kind could act as a catalyst for future Middle East economic cooperation. If we can claim one small success to build on, we will have gone a long way in facilitating intra-regional partnerships.

The Arabs and Israelis, in conjunction with the U.S. and Canada and Japan, have a role to play and a responsibility toward jointly instilling hope, as well as articulating and implementing a common vision for the region.

We need to formulate the concept that gives all the people in the Middle East a stake in their common future, and creates trickle-down economic benefits a peace class, as it were, borne out of the support of the global community. It is not too early to build toward a peaceful future.

Thank you; any questions?

[The prepared statement of Ms. Khayat follows:]

PREPARED STATEMENT OF DINA KHAYAT, CHAIRMAN AND MANAGING DIRECTOR,  
LAZARD ASSET MANAGEMENT EGYPT

*Testimonial Summary*

As stated by President Bush, the US's peace building mission in the Middle East rests on three parallel tracks: political, economic and security.

Long-term, sustained stability in the Middle East cannot be achieved without addressing economic as well as political issues. A halt to the hostilities and the tension in the region is only the first part of the equation. The second stage of the challenge, the reconstruction, will require massive assistance in which the United States, Canada, European Union and Japan as well as regional countries (Egypt, Israel, Saudi Arabia, Jordan and other GCC states) fund and support the process.

*The Concept*

Lazard wants to participate on the economic front by proposing a conceptual idea that acts on two fronts. One is the immediate establishment of a Palestinian reconstruction fund, led and sponsored by the US in conjunction with the above-mentioned countries. In parallel, the goal will be the establishment of a regional fund that would integrate the region's economic interests. The investment focus will be on industrial companies as well as selectively chosen infrastructure projects.

*Management Structure*

Lazard Kato will manage the funds, subject to the general supervision and direction of the Advisory Board and Investment Committee.

The Investment Committee will be comprised of prominent private sector business entrepreneurs from various MENA region countries. Their affiliations will also be encouraged to co-invest with the fund in the projects.

The Advisory Board will be comprised of government representatives and charged with overall oversight of the operations of the fund.

*Lazard's Role*

The key to success will be the presence of private sector management to ensure the proper allocation of resources and efficient professional project management. This will allow for better governance, proper allocation of funds, timely strategies and will correct the mistakes of other similar concepts that have failed. Additionally, government and private sector entrepreneurial support should increase and improve deal flow as well as ensure that funds are channeled into economically feasible projects.

*Spin-Off Benefits*

*For the US*

A US sponsorship of such an initiative would deliver an effective and strong public diplomacy message and reinforce its role as the central peace-builder in the region.

It would afford direct investment opportunities for US businesses, as well as the potential for technical assistance contracts.

There is a "snowball" effect in the proposed structure, in that initial US seed capital would be leveraged from the attraction of additional resources from other donor countries. In addition, by serving to attract and encourage foreign and local private sector participation, the proposed initial capital of US\$ 300 million could be leveraged up to a level in excess of US\$ 1.2 billion. In addition, as the projects generate returns, the funds can be reinvested so that the initial capital is a one-time investment.

*For the Region*

Egypt's support and involvement will likely encourage the participation of other Arab countries. As the region cooperates in the Palestinian reconstruction effort, businessmen from Israel and the Arab states will be brought together. Collaboration of this kind could act as a catalyst for future Middle East economic cooperation. If we can claim one small success to build on, we will have gone a long way in facilitating intra-regional partnerships.

The Arabs and Israelis in conjunction with the US, EU, Canada and Japan have a role to play and a responsibility towards jointly instilling hope as well as articulating and implementing a common vision for the region. We need to formulate a concept that gives all the people of the Middle East a stake in their common future and creates through trickle down economic benefits—a "peace" class—born out of the support of the global community. It is not too early to work toward a peaceful future.

## THE PALESTINIAN RECONSTRUCTION FUND

*Concept*

A long-term government sponsored growth fund with a minimum target size of US\$300 million, which will focus on target investments in Palestinian start-ups and existing companies. The focus will be on industrial companies as well as selectively chosen infrastructure projects and joint Palestinian and Israeli industrial parks.

*The Case for the Fund*

The fund will seek to:

Rebuild, virtually from scratch, Palestinian infrastructure, while ensuring that funds are channeled into economically feasible projects.

Rapidly initiate the creation of jobs leading to overall economic stability, using government funding, as private sector funding may be scarce in the early stages of deployment.

Attract and encourage foreign and local private sector participation, leveraging the initial capital up to a level in excess of US\$ 1.2 billion.

*The Fund's Resources*

It is the intention of the manager to raise the bulk of the funds from government funding. The manager believes that after initially using government funding to launch the Fund, the probability of attracting foreign and local private sector participation will increase, enabling the Fund to leverage the initial capital.

*The Fund's Objective*

The objectives of the Fund are as follows:

Creating and financing industrial facilities and other profitable infrastructure projects in virtually any sustainable industrial and economic sector, including telecommunications, technology, transportation, construction, energy and general industrial companies in the Palestinian Territories.

Investing in and facilitating start-ups in all areas, where a strong management team and validated business plan exist.

Encouraging MENA region and Palestinian partnerships and work opportunities.

*Corporate Structure and Management*

The Fund will be a closed-end limited investment company. The company will have a life of 10 years, with the possibility of extensions for another 5 one-year periods. Lazard Kato will be the manager. Lazard Kato is an Egyptian joint stock company owned by Lazard Asset Management Egypt (a wholly owned subsidiary of Lazard Freres, 51%), Kato Investment (39%) and Dr. Ibrahim Kamel (10%).

The key to success will be the presence of private sector management to ensure the proper allocation of resources and efficient professional project management. This will allow for better governance, proper allocation of funds, timely strategies and will correct the mistakes of other similar concepts that have failed. Additionally, government and private sector entrepreneurial support should increase and improve deal flow as well as ensure that funds are channeled into economically feasible projects.

*Management Structure*

In *reverse* hierarchy, the management structure will be as follows:

Lazard Kato will manage the Fund, subject to the general supervision and direction of the Advisory Board and Investment Committee. The manager will be responsible for identifying potential investments and for conducting initial reviews. Once the manager has identified suitable opportunities, it will produce a proposal for review by the Investment Committee and the Advisory Board.

The Investment Committee will be comprised of prominent private sector business entrepreneurs from various MENA region countries, inclusive of Palestinians and will be under the purview of the Advisory Board. All decisions regarding the acquisition, restructuring or liquidation of the investments of the Fund will be subject to the unanimous approval of the Investment Committee and further review of the Advisory Board.

The Advisory Board will be comprised of government representatives and charged with overall oversight of the operations of the fund.

*Exit Strategies*

At the inception of every investment decision, a clearly identified exit strategy will be determined. These strategies will include the following:

Businesses can be completely or partially sold to an outside third party or strategic industry co-investor. In addition to co-investing with the Fund, multinationals can look to acquire larger stakes in projects after they have matured.

The businesses can be taken public in initial offerings as the region's securities markets continue to evolve.

Businesses can be sold in their entirety or partially to management.

Businesses with substantial cash flows and/or assets may allow the fund to exit through changes/restructuring of their capital structure.

#### THE MENA PEACE FUND

##### *Concept*

A long-term growth fund with a minimum target size of US\$500 million, which will focus on target investments in MENA region start-ups and existing companies. The focus will be on industrial companies as well as selectively chosen infrastructure projects.

##### *The Case for the Fund*

The Fund's concept is founded on the following principles:

Partnerships between MENA businessmen will be mutually profitable for all parties concerned; workers, entrepreneurs and governments. The Fund is intended to promote regional cooperation, which will translate to both, economic and political gains. The Fund's founders and management team believe that political and economic stability go hand in hand with healthy financial returns.

Placing economic benefits aside, the Fund sees an opportunity to advance regional stability by facilitating and more importantly financing partnerships between MENA Countries. Politically, the manager believes that the use of government funding (as private sector funding may be scarce in the early stages), to create stable infrastructure, provide job opportunities, promote industry and trade, can combat regional instability.

Relative to infrastructure development, the Middle East has the greatest development needs but the least access to development capital. In accordance to a World Bank study, only 2 per cent of the foreign direct investment directed at emerging markets finds its way to the Middle East and North Africa. It is estimated that the region's infrastructure investment needs will exceed US\$ 300 billion in the next 10-year period.

Venture financing in the MENA region is still in its infancy. Entrepreneurial activity in the region exists but has no natural partner in the regional finance world, which is ultra-conservative. There have been a few attempts at initiating venture funds for the MENA region but these have largely failed due to the fact that they were not privately managed and more importantly, the management teams lacked operational experience that entrepreneurs have, while deal flow was also inadequate.

MENA region countries have many assets, including a labor force that is highly educated, globally oriented and governments that are very supportive of economic reform and deregulation. The Fund's management team and advisors believe that now is the time to create a public/private vehicle to spark successful entrepreneurial activity in the MENA region, strengthening regional ties as well as the ties with the United States, Canada, the European Union and Japan.

##### *The Fund's Resources*

It is the intention of the manager to raise the bulk of the funds from government funding. The manager believes that after initially using government funding to launch the Fund, the probability of attracting foreign and local private sector participation will increase, enabling the Fund to leverage the initial capital up to a level in excess of US\$ 2 billion.

##### *The Fund's Objective*

The objectives of the Fund are as follows:

Creating and financing industrial facilities and other profitable infrastructure projects in virtually any sustainable industrial and economic sector, including telecommunications, industrial parks, technology, transportation, construction, energy and general industrial companies in the MENA region.

Investing in and facilitating start-ups in all areas, where a strong management team and validated business plan exist.

Encouraging MENA region partnerships and work opportunities.

*Corporate Structure and Management*

The Fund will be a closed-end limited investment company. The company will have a life of 10 years, with the possibility of extensions for another 5 one-year periods.

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Businesses can be sold in their entirety or partially to management.

Businesses with substantial cash flows and/or assets may allow the fund to exit through changes/restructuring of their capital structure.

Chairman HYDE. Thank you, if you do not mind, we will get to questions, but I would like to have the other folks give their statements, and then we will ask everybody questions.

Next, we are going to be joined by video conference from Aman, Jordan, by Mr. Hulileh. There he is now. He has been listening to us, I think. Through the wonders of electronics, he is now going to make a statement to us, and submit himself to questions.

**STATEMENT OF SAMIR HULILEH, EXPORT MANAGER, NASSER INVESTMENT GROUP, WEST BANK (VIA VIDEO CONFERENCE)**

Mr. HULILEH. Thank you, Mr. Chairman, and distinguished Members of the House. Thank you for giving me this opportunity. I was enjoying listening to the two proposals, and I am sure that other proposals will be presented in this hearing that are vital and extremely important to bring this region to a—

I hope that you do hear me well.

Chairman HYDE. Yes.

Mr. HULILEH. At this point, I am not having a specific proposal for the region. However, I do want you to have a deeper feeling of how we operate and we function under the worse circumstances

ever in the region, and in particular, in the Palestinian Territories, in the West Bank and Gaza.

As you have briefly said, I was involved in government, and I am a business man and a marketing manager now. Our plant employs 300 workers in Bethlehem.

In 2001, Israeli tanks shelled our factory. At that time, we had to make a decision, shall we close the factory, shall we get rid of the workers that we have?

I saw it in the eyes of the workers, they were completely afraid that I was going to change our investment portfolio from Palestine into other countries; that we would leave the Palestine territories and go into Jordan or other regional countries.

We had to make a decision, and we made the decision to continue operating in Bethlehem, Palestine, with all the pressures and violence that was prevailing in that area.

We had to take the risk and continue our work under the worst business environment, where even I could not reach my factory for days and days; where my products could not reach their ports; and recently, where I had to accommodate 100 of our workers, within the plant facility, for weeks, in order to function and work under continuous pressures.

I know that the political conflict will need years to reach a conclusion, and I know that the current violence with closures and curfews will continue for another year or so. I do believe that unemployment in the West Bank and Gaza has reached unprecedented figures that is igniting more violence.

So what do you expect me to do? I am a believer in peace and the regional corporation, in addition to being a Palestinian patriot. However, I am at a crossroad where I know that I will not be able to function properly and profitably forever under such an environment.

I believe that paired with the efforts to secure peace in the region, the United States and the international community must secure more public funds to support the creation and the allotment of serious business in the West Bank and Gaza.

Your investment will be instrumental, with the dynamic private sector partner, in securing jobs and employment under a high risk business environment.

The local and the regional private sector is reluctant to invest under the prevailing uncertainty. Therefore, we have to turn to the outside assistance and funding, within the scope that we are promoting civility and peace in the region, and that we are active partners in the global war against terrorism.

Mr. Chairman, in the time of conflict and war, some may think that a cold peace, but secure one, is an acceptable formula for regional relationships. I believe it is an impossible task.

Our united vision has to be clear. Even in the worst situation, the unstable region needs genuine cooperation, where security is only an outcome of investment, employment, and regional prosperity, and not only for offensory measures.

Thank you, Mr. Chairman; thank you distinguished Members of the House.

[The prepared statement of Mr. Hulileh follows:]

PREPARED STATEMENT OF SAMIR HULILEH, EXPORT MANAGER, NASSER INVESTMENT GROUP, WEST BANK

Mr. Chairman, distinguished members of the House, thank you for this opportunity to appear before you, and provide you with my perspective on the Palestinian economy, focusing on the role of the Palestinian private sector within a regional dimension.

I am a former Deputy Minister of Economics, Trade and Industry in the Palestinian Authority till 1997, and was involved for a long time in the Palestinian-Israeli negotiation on economic relations. Currently I am a businessman and manager for Nassar Investment Co., one of the largest manufacturers and exporters of stone and marble in the Middle East.

I have 300 workers, and Israeli tanks shelled my plant on April 2001 without any justification. I have seen it in the eyes of my workers, who were afraid that I would just close the factory and look for investment somewhere else. This frightening feeling of despair and helplessness. I knew that such a decision was the right business decision to make. However, how can I take it while believing firmly that they will have no option but start participating in a popular activity that is throwing stones at Israeli soldiers and maybe become more violent and turn into terrorism. Hunger and political despair are the worst enemies for the stability of the region, in particular the Palestinian Territories.

I had to take the risk and continue under the worst business environment, where I couldn't reach my factory for days and days, where my products could not reach the ports on time, and recently where I had to accommodate 180 of my employees within the plant facility, for weeks, in order to function under a continuous curfew.

I know that the political conflict will need years to reach a conclusion, and I know that the current violence with closures and curfews will continue for another year or so, and I do believe that unemployment in the West Bank and Gaza has reached unprecedented figures that is igniting more violence, so what do you expect me to do? I am a believer in the peace process, and in regional cooperation, in addition to being a Palestinian patriot. However, I am at a cross road, where I know that I will not be able to function properly and profitably under such environment.

Parallel with their efforts to secure peace in the region, the United States and the International community must secure public funds to support the creation and development of sustainable businesses in the West Bank and Gaza. Your investment will be instrumental, with a dynamic Palestinian private sector partner, in securing jobs and employment under a high-risk business environment. The local and regional private sector is reluctant to invest under the prevailing uncertainty; therefore we have to turn to the outside assistance and funding, within the scope that we are promoting stability and peace in the region, and that we are active partners in the global war against terrorism.

In the time of conflict and war, some may think that a "cold peace" but secure one is an acceptable formula for regional relationships. I believe it is an impossible task. Our united vision has to be clear; even in the worst situation, a viable and stable region needs genuine cooperation where security is the outcome of investment, employment and regional prosperity.

Mr. ISSA. [Presiding.] Thank you, Mr. Hulileh.

Will you be able to stay with us throughout the panel?

Mr. HULILEH. Yes.

Mr. ISSA. Great, then we will go on with the remaining testimony, and then take questions.

Mr. Salah?

**STATEMENT OF OMAR SALAH, FOUNDER AND CHAIRMAN OF THE BOARD, CENTURY INVESTMENT GROUP, JORDAN**

Mr. SALAH. Mr. Chairman and distinguished Members of the House, thank you for this opportunity to appear before you and provide you with my perspective on the proposed economic recovery plan for the troubled Middle East.

Over the past 20 months, as we have heard, the Palestinians have suffered economic and social devastation. As we have also heard, unemployment has risen dramatically, while much of the infrastructure, industry, and private property has been destroyed.

Furthermore, and as a result of the current political and security situation, private investors in the whole region are reluctant to risk the limited capital that they have.

The current crisis in Palestine has also drastically impacted the economic situation in Jordan, and has no doubt turned public sentiment against Israel.

Therefore, Mr. Chairman, I acknowledge your thoughts that indeed, the region is in desperate need of a Marshall Plan, a systemized economic development program.

My experience, as head of Century Group, Jordan's largest private sector employer, and with the qualifying industrial zone, gives me, I hope, a unique perspective on this matter.

In the early 1990s, I visited Israel and initiated the first contact with the Israeli business community. This led to the first regional joint ventures, as a result of which, I developed and lobbied for the establishment of the qualified industrial zone (QIZ).

Since its inception in 1997, the QIZ has been tremendously successful. It has resulted in the creation of 30,000 jobs, and generated nearly \$400 million in exports. It has proven that peace can indeed be cemented, via warm ties between former enemies, now purposefully working hand-in-hand for a common future.

Our invitation mentioned that we, today, make concrete proposals and ideas that would employ people and improve their life.

Drawing on my experience and the lessons I have learned, I propose establishment of the qualifying investment fund (QIF) as a vehicle of the agency that Chairman Hyde suggested this morning. If you will, allow me to provide you with an overview of the rationale, mission and structure of this proposed fund. Underlying this concept are the following beliefs, that the Palestinian people need a stake in their own future, that economic operation can, as it has with us, break down social barriers, and that engaging the private sector is critical to achieving economic integration and growth.

As such, the mission of the proposed QIF is to create sustainable businesses that will first improve the economic conditions in Palestine and Jordan; and second, promote economic ties between Israelis, Palestinians, Jordanians and other parties to peace in the region.

It is our conviction that the consequent increase in prosperity will indeed support political stability in the region, even reducing the current violence today.

While similar to the Marshall Plan, the QIF proposes a publicly-funded program, with significant private sector involvement to maximize efficiency and transparency. The QIF would invest in joint ventures between Israel and other peace partners, present and future, to drive the creation of sustainable businesses in the region. We will initiate activities in Jordan, and expand its scope into Palestine, and eventually incorporate all parties to peace in the region.

The fund would be unique in its selection and evaluation of investment opportunities. We would qualify investments based on a blended measure of the venture's contribution to peace and economic performance. The economic return will reflect traditional measures of success, while the peace return will reflect the unique

set of metrics, such as employment generated, regional corporation created, and human development impact.

In developing this proposal with Israeli, Palestinian, Egyptian, and Jordanian partners, we have drawn on the experience and learning of other related regional development funds.

I believe that our proposal is unique, as it will first endorse joint Arab/Israeli ventures. Second, it will be managed by experienced private sector professionals, bypassing the politicians.

As I look back at our success with the QIZ, I am convinced that with the support and engagement of the international community and the U.S. Government, the fund can have an even greater impact on the future of the region.

The QIF blends necessary government involvement with effective private management, to fulfill in the Middle East the mission laid out by George C. Marshall. In his words, the remedy lies in breaking the vicious circle, and restoring the confidence of the people in the economic futures of their own countries.

Distinguished Members, I commend your leadership to make this difference. Thank you for your time and attention.

[The prepared statement of Mr. Salah follows:]

PREPARED STATEMENT OF OMAR SALAH, FOUNDER AND CHAIRMAN OF THE BOARD,  
CENTURY INVESTMENT GROUP, JORDAN

Mr. Chairman, distinguished members of the House, thank you for this opportunity to appear before you, and provide you with my perspective on a proposed economic recovery plan for Palestine.

Over the past 20 months, the Palestinians have suffered economic and social devastation. Unemployment has risen dramatically while much of the infrastructure, industry and private property has been destroyed. As a result of the current political and security situation, private investors in the region are reluctant to risk the limited capital that is available.

The current crisis in Palestine has drastically impacted the economic situation in Jordan and has turned public sentiment against Israel.

Therefore, the region is in desperate need of a “Marshall Plan”—a systemized economic development program.

My experience as Chairman of the Century Investment Group, and with the Qualified Industrial Zone (which I believe you are familiar with), gives me a unique perspective on this matter.

In the early 1990s, I visited Israel and initiated contact with the Israeli business community. I developed and lobbied for the establishment of the Qualified Industrial Zone (QIZ). Since its inception in 1997, the QIZ has been tremendously successful. It has resulted in the direct creation of 30,000 jobs and generated nearly \$400 million in exports.

Drawing on this experience, I propose the establishment of the “Qualifying Investment Fund” (QIF). Please allow me to provide you with an overview of the rationale, mission and structure of the proposed Fund.

Underlying the fund concept is our belief that:

The Palestinian people need a stake in the own future;

Economic cooperation can break down social barriers; and

Engaging the private sector is critical to achieving economic integration and growth

As such, the mission of the QIF is to:

“Create sustainable businesses that will:

Improve the economic conditions in Palestine and Jordan; and

Promote economic ties between Israelis, Palestinians, Jordanians and other parties to peace in the region.

It is our hope that the consequent increase in prosperity will support political stability in the region.”

While similar to the Marshall Plan, the QIF proposes a publicly funded program with significant private sector involvement to maximize efficiency and transparency.

The QIF would invest in joint ventures between Israel and other peace partners—present and future—to drive the creation of sustainable businesses in the region.

The QIF will initiate activities in Jordan and expand its scope into Palestine and eventually will incorporate all parties to peace in the region.

The QIF would be unique in its selection and evaluation of investment opportunities. We will qualify investments based on a blended measure of the venture's contribution to peace and financial performance. The financial return will reflect traditional financial measures of success, while the "peace" return will reflect a unique set of metrics such as employment generated, regional cooperation created and human development impact.

In developing this proposal, we have drawn on the experience and learnings of other related regional development funds. I believe that our proposal for the QIF is unique as it:

Will favor joint Arab-Israeli ventures

Will be managed by experienced private sector professionals; and

Will support sustainable commercial enterprises in all sectors of the economy

As I look back at our success with the QIZ, I am convinced that with the support and engagement of the International community and the US government, the QIF can have an even greater impact on the future of the region.

The QIF blends necessary government involvement with effective private management to fulfill in the Middle East the mission laid out by George C. Marshall:

"The remedy lies in breaking the vicious circle and restoring the confidence of the people in the economic futures of their own countries."

Thank you for your time and attention at this hearing.

Mr. ISSA. Thank you, and we will go on to Ms. Hussein.

**STATEMENT OF HIBA HUSSEINI, ATTORNEY AT LAW,  
MANAGING PARTNER, HUSSEINI AND DAJANI, WEST BANK**

Ms. HUSSEINI. Thank you.

Before I begin, I want to share with you two personal remarks. I want to share with you the fact that my family has lived in Palestine for over 1,000 years, and the fact that I am here representing over 99 percent of the Palestinian people, those people that you never see on CNN.

The people I represent are the private sector. This private sector has normal aspirations. We want to build an economy. We want to make money to care for our families, see our children well educated, and live in peace.

My testimony is premised on a historic reality. Economies always exist before states. History tells us that people grow crops, make goods, trade and enter commerce. President Bush endorsed the creation of a Palestinian state in 3 years. I suggest to you respectfully that developing the Palestinian economy is the surest way to help achieve that result.

How might the United States Congress help do this? I suggested two immediate approaches. The first approach must deal with the rampant economic collapse that is occurring now in Palestine. The Palestinian private sector is being crushed, because it cannot move goods. It must operate under curfews, and cannot import or export; and is essentially in an economic freefall.

Mr. ISSA. I will note for the record that after your testimony, we unfortunately will have to take a quick break. I am informed it is a single vote; oh, is it three? Okay, then we will come back as quickly as possible. We will remain through your testimony, and then run like crazy.

Ms. HUSSEINI. Okay, thank you.

As I said, we cannot operate under curfews. We cannot import or export, and the private sector is essentially in an economic freefall, where survivability of the private sector is truly at issue.

The United States assistance is mandatory for our businesses for two reasons. Because no lender will lend and no investor would invest in a Palestinian business that has a bulldozer sitting next to it, with its engine running.

That is the current situation in Palestine. For these reasons, emergency crisis intervention funds are imperative. The Palestinian private sector needs money simply to sustain itself, so that it can get to survivability. That survivability assistance must be accompanied by political decisions that need to include an end to economic strangulation that is optimized by the closures and occupation.

Phase II of this proposal is akin to the Marshall Plan. That plan had, as its hallmark, massive infrastructure building, so imperative to a destroyed Europe.

I commend your thinking, Members of the Committee and Mr. Chairman, to operate on equal terms, and have a Marshall Plan for Palestine.

Because what are the indices of a state? One is certainly infrastructure. We need to have airport facilities, electricity, water, and transportation. We need an airport to move goods and enter commerce. We need electricity in order to ensure that the plants operate. We need a continuous water supply, and we need to improve the road infrastructure.

So what do all of these infrastructure needs have in common? It is an environment of confident expectations, about how our economy functions. These confident expectations are essential to economic progress, and to lending and investment activity, both by foreigners and Palestinians in our enterprises.

The expectations are simple. When a businessman switches on the switch in the morning at a factory, the machinery operates and the lights go on. When he turns the spigot on, water comes out. When raw materials are ordered, the goods show up when a businessman makes a deal to export finished goods. The goods move freely.

So the Palestinian private sector wants America's assistance for this. We want to succeed as an economy, and believe this will help set the ground for a Palestinian state.

I ask you, respectfully, to consider that we Palestinians are fully aware that the United States provides Israel \$4 billion every year; and has done so for decades. Please consider what an investment or a fraction of that overall amount could mean to Palestine.

I urge this Committee to think large. In the next few years, the Palestinian economy can readily absorb a billion dollars of aid to build its private and public businesses. That includes highways and it includes seed money for risk sharing through loan guarantee funds, so that lending by the private sector can be renewed, as setting up an education fund.

The Palestine private sector has always been resilient and remains resilient today. Give it the hope to resume its role as an engine of economic growth. Continue its resolve to build a vibrant economy, and thus, offer stability to bring about a Palestinian state.

Thank you.

[The prepared statement of Ms. Hussein follows:]

PREPARED STATEMENT OF HIBA HUSSEINI, ATTORNEY AT LAW, MANAGING PARTNER,  
HUSSEINI AND DAJANI, WEST BANK

I testify before this Committee on behalf of 99% of the Palestinian businesses who want to grow, prosper and build a viable Palestinian economy. These businesses have made huge investments in the West Bank/Gaza Strip. Today, they face a struggle to merely survive. And, yet despite the formidable challenges posed by curfews, checkpoints, border closure and restrictions on the movement of goods and people, they have a clear vision of the future but cannot achieve it on their own. They need assistance that facilitates financing and capital mobilization. President Bush, in his speech on June 24, called for a Palestinian state three years from now. A state needs an economy and our private sector can build this economy. The economy, however, cannot wait three years. We must start today.

INTRODUCTION

When the peace process was launched in 1993, a vibrant private sector in Palestine was regarded as a powerful force to create a competitive economic environment. The Palestinian private sector was rightly viewed as the engine of economic growth, jobs, and increased living standards for the Palestinian people. When the Oslo Agreement was signed here on the lawn of the White House, the energy and drive of the business community was unsurpassed. I will give you an example. A group of Palestinian businessmen from the Diaspora was able to raise \$180 million (over the phone) to form a holding company that invested this seed money to create: the telecom companies (fixed and cellular), the Palestine Securities Exchange, the Gaza Industrial Estates, the Bethlehem Jacir Palace Hotel (Intercontinental), the largest real estate company and numerous industrial plants. Scores of other medium size, and hundreds of small businesses sprung up; thousands of jobs were created.

Without a doubt, the path for private sector-led economic growth was laid down between 1995 and 2000, despite the political setbacks and Israeli closures experienced in 1997. The jobs created then started a cycle for a much needed domestic employment of the ever-increasing Palestinian working force. Palestinians needed to progressively reduce reliance on external economic and political factors that affect the domestic labor force. The macroeconomic indicators showed progress.

The commitment of the private sector triggered a dynamic capital inflow to the Palestinian market. With the emergence of globalization, the Palestinian business community was positioning itself to become a participant in world markets. Today, it faces severe hardship which, if not reversed, will inevitably lead to increasing hardship for the Palestinian people, and continued turmoil in the Middle East. The Palestinian economy faces unprecedented unemployment and, for the first time in history, Palestinians are starving. Recent World Bank reports have cited cases of mal-nutrition.

The Palestinian economy and its private sector have been in crisis since September 28, 2000, and with the Israeli incursions in March 2002, are on the verge of collapse. The restrictions on movement of workers, people and goods by the Israeli Defense Force (IDF) have led to a dramatic increase in business failures. Many businesses are facing failure because of reduced demand and restricted access to raw materials and markets.

Although much of the entrepreneurial resilience of the Palestinian private sector is still evident, few businesses are currently able to maintain break-even levels of operation. Internal and external closures, curfews, logistics delays, and administrative barriers produced several damaging economic results. Businesses are defaulting on loans and banks have ceased lending. An illustration of the adverse effect includes:

- Per capita income has declined an estimated US\$2.4 billion in Palestinian GNI by March 2002. This is equivalent to 1/3 of the annual GNI and over 50% of the GDP.
- Infrastructure losses reached at least US\$305 million.
- Over 50% of the population are living below the poverty line which is US\$2 per day.
- 70% of the Palestinian private sector labor force is currently unemployed.
- Basic utilities and physical infrastructure such as water, electricity generation and grids, solid waste disposal stations, road networks, as well as public and private institutions suffered direct losses estimated at US\$360 million.
- Cash flows of private sector enterprises have been substantially curtailed while, at the same time, they have obligations towards creditors and employ-

ees. Businesses are defaulting on loans to lenders. The banking industry as a result is experiencing adverse conditions and has stopped all lending.

- Investments in all productive sectors of the economy have been severely curtailed, if not forced to stop, including agriculture, tourism, manufacturing, production, and construction.
- Import and export activity has come to a near standstill.
- The net result is that the private sector in the Palestinian economy is the hardest hit, contrary to the repeatedly and publicly stated Israeli policy that the private sector is not the target of their measures.

#### FUTURE OUTLOOK

It was a strong sense of commitment that brought private sector investments to Palestine, and it is this very spirit that continues to hold sway among private entrepreneurs today. Hope, despite the hardship, and faith, despite the losses, remain central to the resilience of the private sector. Its long-standing interests have not wavered. Core to all businesses is to ride out this period in anticipation of better times. This resilience is very particular to Palestinians: Our people do not just fold and give up. This long-term commitment prevents total flight of capital.

Tenacity and resilience cannot stand-alone. Support becomes crucial and must not be cut off. The strategic outlook of the US for the Palestinian private sector has had tremendous impact on growth and development between 1993-present. It is the private sector, with promise of improved times, that will match this support and result in a qualitative shift.

The private sector wants peace—like every other business community, its wants to make money and increase cash flows. A close look at the nature of investments over the past 8 years shows that the private sector had strategic goals that required large multi-million capital commitments including telecommunications, IT, industrial zones, tourism, pharmaceuticals, stone and marble, food and beverage, among others. Many businesses entered into joint ventures with multinationals and, despite the inherit risks, the private sector maintained its interest. Today, the private sector is drawing damage control plans. It has decided to remain invested. No where else in the world, under a similar collapse of the private sector, would business decide to remain active. This is the nature of the Palestinian spirit and this is what we need support for. We need to sustain it in anticipation of better times.

The Palestinian private sector pioneered privatization in the Arab World. The Palestinian private sector played a key role in directing official policy regarding investment and finance of the infrastructure. It leap-frogged the tradition of having the government establish telecommunications, industrial zones, power plants, stock market, pharmaceuticals, just to name a few. It is also remarkable what the private sector accomplished in the past 8 years.

#### UNITED STATES SUPPORT

To sustain the survivability of the Palestinian private sector and create sustainable economic development, United States support is critical in both the near and medium-term.

The short-term assistance required is an immediate infusion of capital by the donor community. Under the present circumstances and risks, no investor, seeing an Israeli bulldozer in the heart of Palestinian cities, will invest, and no bank will lend. Recognizing this, the World Bank is discussing the injection of US\$100 million into viable companies. This Committee can encourage this and similar initiatives, and support similar efforts to target emergency financing for Palestinian businesses.

Over the medium-term, the Marshall Plan for building the Palestinian economy can succeed only if the indices of statehood are there. A state needs an economy first and a viable economy requires:

- Creation of a developed economic infrastructure, including independent electrical generation, water facilities, and air/seaport facilities.
- Continuation of the internal Palestinian reform effort and institution building capacity.
- Creation of a trade regime focused on reciprocity, as a matter of policy.
- Provision of post-crisis business recovery support including export and general market development, financial restructuring and related strategic technical assistance, business reorganization, and joint venture and foreign investment promotion.
- Establishment of an education scholarship fund

Mr. Chairman and Committee Members, the Palestinian private sector needs America's help. I urge you to inject immediate capital into its enterprises and proceed with plans for a Marshall Plan.

Mr. ISSA. Thank you, and because Mr. Berman has another Committee on which he is the Ranking Member, he is going to ask just a quick question, and then we are going to recess. Then I will come back with other Members, as quickly as we can; please, Mr. Berman?

Mr. BERMAN. Well, Mr. Chairman, I am not going to even ask, given the short of time before we have to go vote. These are fascinating presentations so far.

I mean, I have always wondered, and I could never understand why, although everyone said it, that in the context of the first implementations of Oslo and the withdrawals, people would say the plight of the Palestinian people has gotten worse, not better, since the withdrawal of Israeli security forces from Area A.

I would have hoped to have had, but do not, an opportunity to ask those who are familiar with that, is that an accurate picture, and why was that so; some of the ideas here, some have been implemented, but why has it not had more of an effect?

Just to pursue this further, the examples in other parts of the world like East Asia, where people went from essentially very weak, undeveloped economies with very lower per capita income, to very high per capita income, within a few decades; what did they do and how could we emulate that?

I cannot think of anything more important than helping to solve, participating in the solutions to these underlying economic problems. Because I really do believe that in the end, that is the ticket out of all of this.

Then, can that go on in the context of the unresolved political conflict? People here have said, it must start while it goes on. Mr. Wertheimer started saying that. But can it; can it physically go on?

So those are all the kinds of questions I had, but I cannot wait for the answers. But I am sure others will be asking similar questions, and I will learn more. I apologize for not being able to come back after the votes.

Mr. ISSA. When we return, there will be time to give both oral answers, and of course, follow-up in writing. We will be gone for about 20 minutes, and we beg your indulgence one more time. We stand in recess.

[Recess.]

Mr. ISSA. Well, I want to thank you all for your patience. Without any further ado, Mr. Biltaji, you have been very patient, and we look forward to hearing your testimony; thank you.

**STATEMENT OF AKEL BILTAJI, CHIEF COMMISSIONER, AQABA SPECIAL ECONOMIC ZONE, JORDAN**

Mr. BILTAJI. Well, thank you, Mr. Congressman in the Chair; it is indeed a great honor to be invited to your Committee on a subject that I not only preach with conviction, but practice throughout my daily activities and throughout my career.

I am currently the Chief Commissioner for the Aqaba Special Economic Zone, with an acronym of ASEZ, an initiative that is a true reflection of the essence and the spirit of the subject of this

hearing, the economic development and integration as a catalyst for peace.

Our vision statement for the Aqaba Special Economic Zone is to make it a world class Red Sea business hub and a leisure destination, enhancing the quality of life and prosperity of the regional community.

When we talk about the regional community there, we are talking about four countries: Israel, Saudi Arabia, Jordan, and of course, Egypt, which can extend within an hour north to Jericho, and an hour and-a-half west to Gaza.

Our mission statement translates the vision into the following: To improve the quality of life for all community members, to create, regulate, and sustain a globally competitive, investor-friendly environment, and to effect a transparent and accountable corporate structure governance and culture.

The 18 month-old economic zone comes as a result of His Majesty King Abdallah's initiative for social-economic transformation and reform, and that deals with the reform in administrative, judicial, legislative, fiscal, and education spheres. I think these reforms are now in demand, even before any aid is given by the United States.

Jordan is already a model in the region in human development, political, and economic liberalization, peacekeeping, and peace-making, as well as peace-building. Jordan launched Aqaba Special Economic Zone initiative as one of the vehicles to address some of the key challenges facing the local and regional economies, particularly in terms of raising the standard of living, and creating a sustainable level of jobs to reduce the double digit unemployment.

This initiative also will help create an economic development growth for the southern part of Jordan, setting a new model of economic governance in the region, and increasing Jordan's ability to attract export-oriented investments.

In addition, the zone has the ability, with the right level of support, to become a pilot case for successful regional economic integration initiatives that are private sector-driven. I think you heard Mr. Wertheimer talk about Aqaba, and we have concluded, in the corridor after lunch, a \$2.5 million deal, which will go through next week.

Mr. ISSA. Without objection, so ordered. [Laughter.]

Mr. BILTAJI. Some of the resources under the proposed Middle East Marshall Plan may be channeled beyond the existing levels of support, in order to create the critical mass needed for a high potential for regional complementarity.

I submit to you, Mr. Chairman, that Jordan, as a model country, with Aqaba Special Economic Zone as key recipient, are targets of your initiative, and will achieve the needed results and objectives of this Marshall Plan.

This should provide the ability to focus resources into a location which creates the biggest bang and allows resources to be channeled to a diverse base of multi-sectional targets, thus ensuring a high level of diversification at no risk.

Skipping some of the written statement, as you have it there in the record,

“Development of border industrial and business parks, things that Mr. Wertheimer was talking about, the IT cyber-parks,

logic parks, will serve as incubators for regional joint ventures in businesses, technologies, and industries.<sup>5</sup>

The creation of industrial facilities, coupled with technological and vocational training institutions, will eventually produce the skilled workers needed immediately into any emerging joint ventures, thus bringing Jordanians, Palestinians, Egyptians, and Israelis together.

Jordan and the ASEZ provide an ideal target for the plan, Mr. Chairman, so as to produce immediate results and inspire the entire region. We, in Jordan, stand ready to deliver this vision of regional economic integration.

Receiving additional support from the plan would allow Jordan to accelerate its socio-economic transformation program, thus uprooting the cause of unemployment, frustration, and tendencies toward extremism and fundamentalism.

Jordan, as you know, was the first Arab and Muslim country to strongly denounce terror and has gone further to commit its forces, not only in peacekeeping, but also in the mine sweeping operations in Afghanistan.

Mr. Chairman, if Arnold Toynbe concluded that history is geography in motion, today's history is globalization. It is economies in motion.

We have to start with a strong core, to be partners in a vibrant region. I have presented to you the Aqaba Special Economic Zone case study as a catalyst for peace through regional economic integration.

At the end of the day, there are three basic elements that make things happen: The physical capital, the intellectual capital, and the opportunity capital. For your proposed plan, I see that Jordan, ASEZ and the region as our physical capital.

The people in this room, along with the sincere and peace-loving people in the region, are truly our own intellectual capital. Now, for you, sir, to bring us, at this time of critical importance, is our opportunity capital. How fortunate are we to seize the moment. Thank you.

[The prepared statement of Mr. Biltaji follows:]

PREPARED STATEMENT OF AKEL BILTAJI, CHIEF COMMISSIONER, AQABA SPECIAL ECONOMIC ZONE, JORDAN

The Honorable Chairman and Members of the House Committee on International Relations:

It is indeed a great honor to be invited to address such an esteemed gathering on a subject that I not only preach with conviction but practice throughout my daily activities and throughout my career. I am currently the Chief Commissioner for the Aqaba Special Economic Zone which is a initiative that is a true reflection of the essence and the spirit of the subject of this hearing.

The Government of Jordan has embarked on an aggressive strategy to position Jordan within the global economy and as a role model for socioeconomic transformation within the region. A key initiative within this strategy is the establishment of the Aqaba Special Economic Zone (ASEZ). Strategically situated at the crossroads of four countries and three continents, the zone was created as a liberalized, low-tax, duty-free, and multi-sector development area. A simplified business environment has been designed with streamlined administrative systems to attract investment and maximize private sector participation in all aspects of zone operations and development.

The historic city of Aqaba—Jordan's sole seaport—is located on the Red Sea. The Aqaba Zone covers approximately 375 km<sup>2</sup> and includes the land borders of Israel and Saudi Arabia extending to the territorial waters of Egypt. The ASEZ, which in-

corporates the City of Aqaba with a population of approximately 70,000 people, has all the physical and social infrastructure to serve a flourishing regional city which is expected to grow to over 250,000 people by 2020.

The Aqaba Special Economic Zone can emerge as a major regional economic development node for tourism, recreational services, professional services, multi-modal transportation, and value-added industries in the Middle East. Aqaba offers global business opportunities in a competitive location with a high-quality lifestyle while providing investors a springboard into a variety of regional markets and the global economy.

Aqaba is considered a Multi-Modal Transport Hub on the Red Sea. It can be accessed by air through Aqaba International Airport or by Sea through Aqaba Port which can handle General Cargo and bulk shipments and Containers, or by land through an excellent road network that connects Aqaba with the rest of Jordan and with the neighboring countries (Israel, Saudi Arabia, Egypt).

Our vision in Jordan is to make Aqaba a world-class, Red sea, business hub and leisure destination enhancing the quality of life and prosperity of the regional community through sustainable development, and a driving force for the economic growth of Jordan. The zone is meant to serve Aqaba, Jordan and the entire Middle East.

Our mission to translate this vision into reality is four-folds:

To improve the quality of life for all community members;

To create, regulate and sustain a globally competitive investor friendly environment;

To optimize the efficient utilization of entrusted resources in harmony with the Master plan to internationally recognized best practices; and

To effect a transparent and accountable corporate structure, governance and culture that synergizes the activities of the organization.

This 18-month old economic zone comes as a result of His Majesty King Abdullah's initiative for socioeconomic transformation within the country and to position Jordan at the forefront within the region in terms of economic and political reform. Jordan, already a model in the region in human development, political and economic liberalization, peace-making as well as peace building, launched the ASEZ initiative as one of the vehicles that Jordan embarked upon to address some of the key challenges facing the Jordanian economy particularly in terms of raising the standard of living, and creating a sustainable level of jobs to reduce the double digit employment. In addition, this initiative creates an economic development growth pole for the south of Jordan, sets a new model of economic governance in the region and increases Jordan's ability to attract export oriented investments. In addition, the zone has the ability with the right level of support to become a pilot case for successful regional economic integration initiatives that are private sector driven and that aim to increase the standard of living as well as the quality of life for the residents of the region.

Already, day in and day out, 10% of the containers coming through the port of Aqaba are destined to Israel. Israeli and Jordanian scientists and experts meet regularly to improve environmental protection of the Gulf of Aqaba. Model farms along the Araba Valley in Jordan use Israeli agricultural know-how. Every day 200-300 Jordanian workers cross the border to work in Eilat as part of labor protocol between the two cities which we are about to renew. The Aqaba International Industrial Estate which is under development has been designated as a Qualifying Industrial Zone where regional industrial inputs from Jordan, Israel, Palestine and the US converge to create products that are entitled to enter the US market duty-free and quota-free. Eilat and Aqaba also implemented the initiative of the Red Sea Marine Peace Park as a model for regional environmental cooperation. Everyday, the foundations for regional economic integration get further supported, yet a lot more can be done if we had more resources. This comes as no surprise for Jordan's commitment to peace-building remains steadfast. Not to forget that the Aqaba Special Economic Zone was created with the vision of regional economic integration in mind and as a vehicle to create a critical mass of regional initiatives.

Notwithstanding, to further unlock this potential, resources are urgently needed to create the infrastructure, skills and incubators of regional cooperation. Today, more than ever, resources are needed to develop many elements in a zone which can become the true showcase and example for regional economic integration. These resources would accelerate the realization of this vision, which is the *raison d'être* behind the creation of the ASEZ.

Allow me to site few examples of where some of the envisaged resources under the proposed Middle East Marshall Plan may be channeled beyond the existing levels of support in order to create the critical mass needed for creating a visible impact in terms of regional economic integration but into a target that already has

shown some initial track record for regional cooperation and high potential for regional complementarity. I submit to you Honorable Chairman and Members of the House Committee on International Relations, that Jordan as a model country and the Aqaba Special Economic Zone as key recipient targets of this Marshall plan which would achieve the needed results and objectives. This should provide the ability to focus resources into a location which creates the biggest bang, and allows resources to be channeled to a diverse base of multi-sectoral targets thus ensuring a higher level of diversification and lesser risk. Allow me to mention few examples to demonstrate the potential: developing the regional Riviera whereby peace through tourism using Aqaba as a regional gateway can serve as a true passage for historical and natural wonders to four neighboring countries; developing the peace airport initiative with the Aqaba airport serving both the cities of Aqaba and Eilat; developing a railway connection linking the Red Sea with the Dead Sea which will bring Israeli and Jordanian Dead Sea products to the Gulf of Aqaba to be exported to the markets of the far east; developing the Red Sea-Dead Sea water conveyance system (canal) which will generate electricity, produce water, save the diminishing water levels of the Dead Sea, and restore the biblical green meadows across the entire Araba Valley; development of border industrial and business parks such as IT/cyber parks, logistics parks, industrial parks that will be the incubators for regional joint ventures in businesses, technologies and industries where the Marshall plan would support creation of these parks, the creation of industrial facilities within these parks and the technological education needed to enable Jordanians to be employed by the emerging joint ventures; technological and vocational training that produces skilled workers that can be plugged immediately into the emerging joint venture industries and businesses; not to mention the need to create the needed social upliftment within the ASEZ.

Jordan and the ASEZ provide an ideal target for the Marshall Plan to produce immediate results and inspire the entire region. We in Jordan stand ready to deliver this vision of regional economic integration. Receiving additional support from the proposed Marshall Plan would allow Jordan to accelerate its socioeconomic transformation program and reward a pivotal country in peace-building efforts in our turbulent region.

Mr. Chairman, honorable members, if Arnold Toynbe concluded that history is geography in motion, King Abdullah II reminds us that today's history is globalization; it is economies in motion. We have to start with a strong core to be partners in a vibrant region, to reach the world at large. I presented to you the Aqaba Special Economic Zone case study as a hub that will jumpstart the potential for regional economic integration.

At the end of the day, there are three basic elements that make things happen; the physical capital, the intellectual capital and the opportunity capital. For the "Marshall Plan" I see that Jordan and the ASEZ is our physical capital. The people in this room are the intellectual capital, and now, for you Sir to bring us around at this time, is the opportunity capital. How fortunate are we to seize the moment.

Mr. ISSA. And thank you; for all of your speeches, both your actual verbatims and your "for the record," will be submitted and will be available.

Additionally, I regret to announce that Mr. Hulileh was not able to stay on. You can imagine the time difference. It got beyond a little late.

Also, I would ask unanimous consent that Mr. Elisha Yanay, Corporate Vice President of Motorola and Chairman of the Board and General Manager of Motorola, Israel, Limited, who was going to be with us on panel three, have his written statement presented for the record; without objection so ordered.

At this time, I recognize our Chairman Emeritus and distinguished Member from New York, Mr. Gilman, for a first round of questions.

Mr. GILMAN. Thank you, Mr. Chairman; I regret that I was called away for other hearings.

What, if any kind of economic aid would have a bearing on the Palestinian behavior and tendency to live in peace with their neighbors? Would the likelihood or promise of increased job oppor-

tunities be sufficient? I address to any of the panelists who would like to respond; yes?

Mr. SALAH. Do I understand, that would it be sufficient to create jobs?

Mr. GILMAN. Yes, would the promise of increased jobs be enough?

Mr. SALAH. Absolutely, I believe that it is the only and the most important thing. Today, the fact that there are jobs means that the people have the propensity to behave in such a way that supports the interests of peace.

I believe that what we have heard, and a friend of mine, Mr. Hulileh, whom we heard earlier, has said that in his experience, people who have jobs are always supporting peace, and that time and time again, when any of those people have lost their jobs, they have become militant in their behavior.

So the business leaders have to be empowered, in order to drive a set of behaviors that are in line with the policy of the United States and, indeed, the interests of the people of the region.

Mr. GILMAN. Thank you, Mr. Salah.

Any other panelists; yes, Mr. Biltaji?

Mr. BILTAJI. Thank you, sir; I will just give you a little story. A couple of months ago, when things went wrong, and as things are still wrong in the area, some of the people in Aqaba, the Special Economic Zone, decided to have a demonstration.

They set the time at 5. About 5:30, a lot of them, as they were marching, looked at their time, and they realized that the shops are open at this time, and that is their business. They all walked away from the demonstration and went back to their jobs and to their shops.

So this shows you, if we can keep people busy making money, to have a decent standard of living, alleviate poverty, I assure you, Mr. Gilman, as you well know, this will keep them away from mischief.

The most important thing in the Middle East now is to keep everybody occupied into a potential prosperity, and we have it. When Stef Wertheimer invited me 10 days ago, I was in Tefen, in Israel. When I took that helicopter ride from the bridge over that beautiful terrain, I looked out. It was minarets, churches, golden domes for the Druze and synagogues here.

I said, where am I? I realized I was in a little paradise called Tefen, and with Stef there, 35 percent of his people were Arabs from the area, who had come from farming and cattle tending and things of the sort, are now dealing with the most sophisticated machines. That is the thing that he is going to bring down to Aqaba. Those are the things he is going to bring down to the border to the industrial parks.

If we can get more and more people in the camps, as suggested in the film, with Mr. Salah and his experience in the century, of 5,000, up to 35,000 jobs now, I assure you, sir, when we get people away from frustration and gathering of despair and hopelessness, as the Chair earlier this morning referred to, I believe we can get them focused into the future, into the betterment of life.

Mr. GILMAN. Thank you, Mr. Biltaji.

Ms. Husseini?

Ms. HUSSEINI. Yes, if I may add, although I agree with my Jordanian friends, I just wanted to add that jobs are very, very important for the Palestinian economy and the stability.

But it has to happen also within the context of a political and economic solution, so that we maintain the momentum. So it will not be a simple band-aid for a temporary period. It is a longer term prospective and a sense of future hope that we give to the Palestinian people; thank you.

Mr. GILMAN. Thank you, Ms. Hussein.

Should the United States insist on free trade between the nations, which would help us get a new Marshall fund investment? What are your thoughts, free trade, yes, again, please?

Mr. SALAH. Mr. Chairman, Mr. Gilman, I have been a proponent of free trade between Jordan and the United States; and, of course, there is now a free trade agreement, a very successful one. Today, we see that the exports of Jordan to the United States are more than \$400 million; whereas, about 5 years ago, they were only \$100,000.

But it is sad to see that inter-regional trade is actually among the lowest in the world. Indeed, it stifles regional economic development.

I believe that free trade agreements between all nations in the region, including Israel, are very necessary, in order to break down all barriers to allow for a level playing field.

Mr. GILMAN. Thank you.

Ms. Khayat?

Ms. KHAYAT. Thank you.

Mr. Chairman, I believe that free trade will help the region, especially between the Arabs and Israelis. We badly need that, and we would compliment each other.

However, I would caution against insisting on anything like that up front. It will not be easy. I suggest that you allow it to come from the region itself, as they start working together.

It will be a lot easier, and the initiative will come from them. This is so you can ensure success. I want it, but an imposition of it would not produce the results that you want.

Mr. GILMAN. Thank you.

Mr. Wertheimer?

Mr. WERTHEIMER. Yes, I would like to add a word to that, which fits into what Senator Mitchell said this morning.

The free world is in a bind. It needs oil. It has spent, I do not know, \$500 billion for the oil, in an area where the people do not know to handle it. Out of that, you created the problem.

Israel is not the solution. The Palestinians are not the solution. The solution is the 80 million people between Europe and the oil, which is basically Turkey, Israel, Jordan, the Palestinians, Lebanon. This is the old Levant. You somehow have to bring them up to a level where they could be competitive with the oil countries.

Because they are stuck in the middle, Jordan gets \$1,500. In Europe, everybody makes \$10,000 to \$15,000. Jordan and Turkey are stuck in the middle, and we have to help them.

I think if you need any kind of Marshall Plan, this is the time for you to solve it. You do not have any solution now.

All the things which were said here are correct. You have to make all of them together and quick. If you do not do it, you will have all the problems over again. You will spend all the money on security; 100 times more than a small Marshall Plan for the area.

Mr. GILMAN. Thank you, Mr. Wertheimer.

Does anyone else want to comment; yes, Ms. Khayat?

Ms. KHAYAT. This is not related to your question directly. But I think the purpose, the reason why we are here, is that we are looking for the U.S. to lead various initiatives that will empower the private sector in the region.

As was said before, but I want to make this point clear, we started on a project like that, on a regional fund, in 1999. Money was skiddish; private sector money was skiddish. It is much more so today.

If you can lead with a little bit of money, around which the EU and other countries would put money or add to it in terms of capital, if you can lead an initiative like that, you would be: (A) a catalyst and you would encourage private sector money to come into the region; (B) you would provide immediate relief and provide new facts on the ground that are a success, that people can look at and say, well, they have succeeded, and we can do that.

It is U.S. leadership we are looking for, in terms of that, and leading with seed capital to change the events on the ground; but not asking for the particular details in terms of whether should you try to get that. We will. We will, when it happens.

Mr. GILMAN. Thank you.

Anyone else?

Mr. WERTHEIMER. Maybe you do not want to call it a Marshall Plan; you might want to call it a different name. But basically, you did the same thing with Singapore. You did the same thing with Korea. You did the same thing in Taiwan. You did the same thing in Hong Kong. You did it all over.

It usually took 10 to 15 years to get these countries going, if you really put your interest in it. You probably should ask everybody who uses oil and wants to have a good supply of oil, to spend some money, equalizing this factor.

I quoted today, Mr. Vogel, from Harvard. He wrote a marvelous book that I can show you here, which states the whole thing. It states it very simply. It took one country 12 years. In 12 years, it was off of U.S. aid. Otherwise, people have aid without end for 50 years, if you do not make a massive approach and get these people busy and out of mischief.

Mr. GILMAN. Thank you, Mr. Wertheimer.

I have one last question, Mr. Chairman, with your indulgence. Do you believe the arrangements similar to the Enterprise Fund that was used in Poland could be appropriate for the Middle East; yes, again, Mr. Salah?

Mr. SALAH. Mr. Chairman, Mr. Gilman, I have studied very much the Enterprise Funds that were done in Eastern Europe. The Polish example is actually a great success. Other examples, unfortunately, failed.

There are a lot of things that we can learn from these experiences. First, the amount of money that needs to be put in needs to be substantial enough to make a difference. The private sector

has to be involved. In the Polish example, the private sector in Poland was very much involved. Today, the Enterprise Fund in Poland is actually very profitable and, in fact, kick-started the whole liberalization of the economy there.

In other countries, the money was not spent wisely. The private sector was not very much involved, and it was managed by remote control.

So I believe that we can learn much from the Enterprise Funds. If we said that we wanted to do an Enterprise Fund, then it would fall on critical ears, because of the fact that, on the whole, the reports say that they have not been successful.

Mr. GILMAN. Ms. Khayat?

Ms. KHAYAT. I want to second what Mr. Salah said. Private sector management is key here. Private sector management is not going to be tempted to give governance. Private sector management is going to be transparent. It is going to be trackable.

The way you can do it is you can add a layer of government through a board to oversee what is happening, definitely, absolutely. But the direct involvement should come from the private sector, within the region, since they are directly involved, and they know what is going on.

So, yes, Enterprise Funds, when they work in collaboration with the private sector, as was the case with Poland, as pointed out by Mr. Salah, will work.

Mr. GILMAN. Thank you.

My time is up. Mr. Wertheimer, did you want to comment?

Mr. WERTHEIMER. Yes, just one thing, I am for the private sector. There is no question, I am a private man. I believe that anybody who needs one's help, and these people did a good job, apparently, they should get help under one condition; how many jobs will it be and how many dollars will you export? I think that is the best thing to be done. Maybe one day, you will have put the whole cake together.

Mr. GILMAN. Thank you.

Thank you, Mr. Chairman.

Mr. ISSA. Thank you, and now the gentleman from Iowa, Mr. Leach.

Mr. LEACH. Well, thank you, Mr. Chairman.

This hearing is all about the notion of trying to provide a clear indication that Congress is willing to be sympathetic, if we have a peace settlement, in terms of issues of development.

But it strikes me, there are a lot of catch-22s in the region. Some relate to issues of timing. Some relate to issues of peace. Some relate to issues of honest government, public as well as corporate.

Behind it all are both public versus private issues, and then most of all, the issues of violence and peace. Peace is principally a public function; development is principally a private function. Although, in many ways, governments can assist, I think, in helping with infrastructure and also helping in getting development off the ground.

I am impressed at some very private initiatives on the peace side, both groups interested in that issue; but also, you have very serious, high level people in the American high tech world, that are literally willing to give computers to every classroom in Palestine,

if there is a peace settlement. It is a private sector gesture of some significance.

But it all comes down to issues of peace and violence. On the Israeli side, there is an understandable assumption that one wants to stop the violence before one can talk peace. On the Palestinian side, there is a belief that one has to see a final, precise end of the road settlement, before one is willing to give up all violence. That is a catch-22 that seems to be at the heart of almost everything.

So I would simply like to ask you, do you think that there is a prayer to start the economy before there is a peace settlement; and then do you think there is prayer to have a peace settlement that is workable, unless you have a defined result at the end of the road, that everybody understands?

The reason I say that is that a lot of people are into process. That is, we will make some steps about talking further if such and such occurs. Other people say, you have got to have that end result in mind. What is your view? Do you need to have the end result; yes, ma'am?

Ms. HUSSEINI. Thank you, Congressman; while the debate rages, actually, as you have correctly described it, I think if one looks at the Palestinian conflict today and the level of desperation, and the level of collapse of the private sector, and the economy itself, the rates of unemployment that are very, very high, reaching over 70 percent and so forth and so on, the poverty that has become more and more apparent and prevailing, the argument goes stronger in the direction of, let us work on the economy and the private sector first; while the discussions are going on toward a more final settlement, which is a longer term issue. I think more and more, you see an imperative need to go forward.

One such example, actually, is what the United States Agency for International Development is doing. It plans to inject a small sum of a few million dollars into the banking sector for direct lending, recognizing that the businesses are faltering to a level where they are collapsing.

So I think there is a recognition, on a practical level and a day-to-day level, that we need to move first and immediately on economic issues, and not wait for the comprehensive, longer-term final supplement issues.

Mr. LEACH. Yes, sir?

Mr. BILTAJI. Mr. Congressman, rubbing elbows on a daily basis with my friends in the Eilat, I learned a very good Hebrew saying, which translates as: Throw the bread to the fish; you are going to eat the fish.

This brings us to the success story. We have to start immediately somewhere, and success breeds success, and we have got to do it. We just cannot freeze the whole region until a solution takes place.

I think the initiative of your Committee, sir, is in place. You are expediting that process, and instead of availing this aid to those governments and what have you in the region, go straight to the private sector. Let them feel it.

Believe me, I see it. I live in a city where I wake up, and through my french window I see three other countries and my country is the fourth. Not a single bullet has been shot for the last 50-plus years, simply because people worked together, and they have some-

thing to share: The water of the Gulf, the air, the environment; they have something in common.

So let us give them things in common that they can share and cherish and build into prosperity; thank you.

Mr. LEACH. Yes, sir, Mr. Wertheimer?

Mr. WERTHEIMER. You will find on the paper that I submitted to you, a heading under the name Gaza. If you look at it, and you will find that we planned an industrial park in the Rafiah area, a combined park. Part was in Israel and a part should have been in Rafiah, and the other part was maybe in Egypt; a kind of a free zone area.

We were ready for it 2 years ago. We had the help of the Harvard people in designing it, and then it came to an end; there was no use going forward. Everybody was fighting there and we had to stop. All the good intentions—yet suddenly it was not practical.

Therefore, I went to Turkey to put up a park in Turkey. I tried to put up another park in Aqaba, which as a practical thing, can be done. Unfortunately, we have to wait another 3 years, for both sides, to make a park.

Mr. LEACH. Mr. Salah?

Mr. SALAH. Sir, I know that the Chairman, Mr. Issa, is formerly a businessman. I think he understands, as all of us do, the importance of incentive systems, to drive a set of behavior.

I think what we have heard today is that certainly economic prosperity is a good incentive. However, we need to use that as a tool to get people to stop the violence, and then to show them that this incentive will actually come.

I think we have heard from Senator Mitchell that there is a problem in the credibility that people have, in that such incentive would actually come about. I think we can demonstrate it today in other peace partners.

I have worked in Jordan in trying to cement the peace process by demonstrating the fruits of peace. I have to say that it has been a very lonely walk. People have talked about how important it is to have peace treaties.

In fact, it worked very well to have those treaties signed. But nobody really looked at what can be done afterwards; what do you do the day after, Monday morning. You have signed a peace treaty, so what do you do to make it happen?

With Jordan, we heard, before Mr. Berman left, his surprise that, in fact, after Oslo, the economy in the West Bank and Gaza continued deteriorating. Again, it was because there was no thought process allocated to it.

So today, I believe it is historical in that there is a recognition that something has to be done. The question is only, when do we start? I think that we recognize today that the private sector has to be empowered, and that this private sector can be a change agent, in cementing the goals of democracy, the goals of liberalization, and the market economy.

We can start in Jordan, I think, because of the fact that Jordan is a peace partner. Today, we find that the public sentiment is very much against Israel, and we need to demonstrate to people that there is, after all, a fruit of peace. People in Jordan do not feel that.

The people, the Jordanians, who have worked with Israelis are hiding under cover, because of the fact that there is really nobody looking out for them. I look to you to support and drive the set of behaviors that we need to make sure that the policy of the United States is actually carried out, and that the people who pursue it are protected.

Mr. LEACH. Yes, Mr. Wertheimer?

Mr. WERTHEIMER. Could I make one correction or additional statement?

Mr. LEACH. Yes, sir.

Mr. WERTHEIMER. I believe that Ireland is an excellent example, in the southern part of Ireland, to try to prove that they want peace in the other part of Ireland.

That is exactly what we hear today, and is an example that you do not have to wait for everybody to come to agreement, but you create conditions nearby, as good as you can.

This happened in Korea. They still fight with the North, and they do things and put up things. So I would like to see things happening parallel, wherever possible, and not put it off. I think we have a time problem, and I want to stress very strongly, wherever it is possible, do it. If it is impossible, it is impossible.

Mr. LEACH. Well, Mr. Chairman, my time is expired, but if I could have about 15 seconds. Let me just say that I think the first order or issue from America's and the world's perspective has to be some of the humanitarian traumas in the region, in terms of investment. In terms of peace, that has got to be the overwhelming goal.

In terms of American likelihood of substantial investment, I doubt if that will come until after peace. But I think your point that we ought to begin a process is something this Congress ought to be very open to.

The final thought is that I think, from an American perspective, one of the *quid pro quos* that would be, not only would we like to see peace with Israel, but we do not want to see Israel economically isolated, as it is, to some degree, politically isolated. So one of the assumptions would certainly have to be economic integration in the region.

But the payoffs of peace are so enormous that I think your point is that it would be good to get some of the pieces started before. I think this is very hopeful. But I cannot believe it would be a huge commitment until the peace issues are resolved.

Finally, let me just conclude by saying, I think it is very interesting, in the history of the 20th Century, which has been commented upon from many different angles earlier today, that it was in 1944, in the middle of World War II, that the Brenton Woods Conference was held to deal with post-war issues. So there was a great deal of thinking that went into the post-war world during the war, and also a great deal of thinking about the causes of the war itself, which have a lot to do with how you structure a post-war circumstance.

So as we look at causes and we look at ways of resolving issues, not slightly in the World War II thinking, the economic implications were considered quite large. They actually may be smaller in

the Middle East today, relatively speaking, to the World War II issue; but they are, by no means, insignificant.

Anyway, I thank you all for your contributions to your countries and the region, and your good judgment that you brought before the Committee; thank you.

Mr. ISSA. Thank you, and due to the lateness of the hour, I will try to combine Mr. Berman's kind question he left behind, along with one other, and perhaps close on a specific note, that somewhat conveys several of your suggestions. Mr. Berman had asked,

"Why do any of you think Jordan became a successful model? Why is Jordan a likely place for some of your plants and activities; and why would Jordan's inclusion into this economic reform, since they are somewhat better off than some of the other nations, be advantageous to the Palestinian situation, which clearly is at the core, I believe, of the Chairman's suggestion?"

So if you will consider all of that; and also, if you do not mind, please include, between Israel, Jordan, and the Palestinian Authority, any impediments that you believe exist today to that, other than the obvious violence, including tariffs and maybe governmental problems.

It is a big question, but I think it will help us summarize, at least on the Jordanian track, which seems to run a fairly common thread through quite a few of your presentations; Mr. Wertheimer?

Mr. WERTHEIMER. I studied this area very well to create a sample area. Jordan is a western-oriented, organized country, with a good record, and it is small. So it can be proved very quickly that you changed it, and I think this is the biggest benefit.

The Government, the King, and whole organization is really giving a helping hand. So I think it is the easiest and the most successful adventure to spend money and time on it, and make it successful.

Mr. ISSA. Thank you.

Ms. Khayat?

Ms. KHAYAT. I think every country in the region should be helped, et cetera, et cetera. I am Egyptian. I am not making a case for any specific country.

Mr. ISSA. And I would like to stress that I am not leaving you out. I am simply using Mr. Berman's question.

Ms. KHAYAT. No, no, no, that is not the point I am trying to make. What I am saying is, I am not lobbying here. But I think that would be taking the easy way out.

Starting with Jordan, Jordan is a manageable economy. It is very easy to turn it into a success. But to ignore today what is happening in the Palestinian territories is to leave a time bomb ticking away. This problem has to be addressed. You can start with the quieter parts, but the harder ones must be addressed as well. It is the Palestinian territories that are, today, explosive.

Jordan, the rest of the region, must be helped. But I truly recommend that we start with the Palestine issue. Otherwise, we will not get an easing of the tensions, or of the current violence.

Mr. ISSA. Yes, another private sector opinion, please?

Mr. SALAH. As the only representative of the Jordanian private sector, I would say that although you allude to Jordan as an economic success, I would say that Jordan's economic situation today is probably the worst that it has been in the last decade; as a direct result, really, of what is happening in the West Bank and Gaza.

Jordan, first of all, has demonstrated that it is a very strong and loyal ally to the United States. Jordan, today, is in danger of losing the peace treaty with Israel, in terms of the public acceptance.

People have not seen—the man on the street, really—except in very small examples, and my example is small in terms of the whole population; people have not seen the fruits of peace.

So I commend what Mr. Wertheimer said, that it can demonstrate very quickly a maximum bang for the buck, and prove that people's sentiment is turned very quickly. It can demonstrate to the whole of the Arab world that there are economic benefits to having peace. That demonstration has not come about, yet.

As far as Palestine, certainly the crisis is there. Where there is a need in Jordan, there is an urgency in Palestine.

But to be practical, I think that the infrastructure in Jordan is such that it can be extended very quickly to Palestine, as soon as the realities allow for it. I mean, nothing can really be set up today.

But one can make it possible that as soon as the situation allows, something that is established in Jordan can very quickly spread to the West Bank and Gaza, and in the future, even Lebanon, as you have mentioned. The propensity for a treaty with Israel is there.

So I think that Jordan can benefit from it a great deal, and it can be a real testament to the world of what peace with Israel can bring.

Mr. ISSA. I am glad I found a question that all wanted to answer.

Ms. HUSSEINI. Well, I am going to try to address the two issues simultaneously, because I think it is one answer, really. Why has Jordan fared better than Palestine, and what are the impediments, other than violence?

I do not profess to be an expert on the Jordanian economy; but the size of the Jordanian economy, although smaller, proved to be a better story than that of Palestine. I think if you look at the situation, Jordan had an independent economy to begin with. In other words, it had a viable economy.

The Palestinian economy, for the years since 1967, has been dependent economically on Israel. So as the peace agreements were signed, and as the Palestinian Authority was being formed, you also had to deal with a host of issues, leading to interdependence and independence.

As that was being done, we also had to deal with building institutions, building capacity, and infrastructure. We are talking infrastructure in the telecommunications area and in transportation, roads, water, electricity and so forth.

As all of these elements were being developed, we went into reverse mode, and plunged into this vicious cycle that has escalated to where we are today. So, in part, we never really took off and never experienced the true development before the set-backs started happening.

The independence of the Jordanian economy, with all the elements of statehood that Palestine did not have and is still struggling with, contributed significantly to why it is a better story in Jordan and, obviously, a very desperate scenario in the Palestinian complex.

Mr. ISSA. Mr. Biltaji, please.

Mr. BILTAJI. Well, I do not see it as favoring here or favoring there. I think we are talking about the region. Now if we were talking about a success story, as to why, there are basic elements.

There is governance. There is transparency. There is law and order. There is a reform plan on the administrative, judicial, fiscal, educational levels. It is all in one big program that His Majesty King Abdulla is undertaking.

Jordan has always been affected by all the surroundings. I mean, we have been the recipients, from the days of Abraham coming to save Lott and Sodom and Gomorrah, to Moses going through, to the refugees of the first Christians, all along, to the Circasians coming in, the Armenians coming in; the Palestinians in 1948, in 1967, in 1973, the Gulf War, the second Gulf War, and all these things; Jordan has always been a recipient of the negative impact of all the events around. It has survived simply because it has basic governance and it has a stability and a sincere role in being a regional player, and not a lonely player.

So that is why Jordan has taken these initiatives, one of which is the Aqaba Special Economic Zone in the south; a regional community, Eilat, Taba, Aqaba, and Hagle of Saudia Arabia. There now, it is contagious. They are now building hotels in Saudia Arabia, on the northern shores of the Aqaba Gulf portion. So that is why.

I do not like to see it as a competition of who is getting what? It is being an integral part of a region and a strong player; thank you.

Mr. ISSA. Thank you, and on an appropriate note, I believe, I had the opportunity to meet in Jordan with His Majesty recently. I would echo that while Jordan, like many countries in the region, has sort of been trampled on throughout history, or trampled through, you know; those stories of the Bible, they come from people passing through, and not always in a good way.

But Jordan certainly has had a long history, especially under the Royal Family, of being a survivor, of making the changes appropriate to the time. I am personally thankful that His Majesty today is making yet another set of changes that are appropriate, to reach out to the potential for peace in the foreseeable future.

I would like to thank all of you for being here today. I suspect that some of you, if you are willing, will be back again, as we progress on this project.

Our Chairman, Mr. Hyde, is deeply committed to putting together a plan. As we saw today, some of the plan will be easy, comparatively; some will be hard.

But I believe Mr. Hyde's commitment is to do the easy, because it needs to be done and we can prove things; but also to do the hard, because, as Jack Kennedy said many years ago, that is what we choose to do, in some ways, because it is hard, because it is worthwhile, and because the benefits to the hopeless come from the areas that are hard.

In the spirit of Chairman Hyde, who unfortunately had another commitment, I would like to again thank you all for being here; I wish you all peace and prosperity.

We are adjourned.

[Whereupon, at 4:45 p.m., the Committee was adjourned.]

A P P E N D I X

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MATERIAL SUBMITTED FOR THE HEARING RECORD

***UNDP Releases the First Arab Human Development Report***

**Executive Summary**

The Arab Human Development Report 2002 places people squarely at the centre, as both subject and object of development in all its dimensions: economic, social, civil, political, and cultural. It provides a neutral forum to measure progress and deficits, propose strategies to policymakers, and draw attention to country problems that can benefit from regional solutions. It is guided by the conviction that solid analysis can contribute to the many efforts underway to mobilize the region's rich human potential. The Report's key messages are simple and compelling:

There has been considerable progress in laying the foundations for health, habitat, and education. Two notable achievements are the enormous quantitative expansion in educating the young and a conspicuous improvement in fighting death. For example, life expectancy has increased by 15 years over the last three decades, and infant mortality rates have dropped by two thirds. Moreover, the region's growth has been "pro-poor": there is much less dire poverty (defined as an income of less than a dollar a day) than in any other developing region.

But there have been warning signals as well. Over the past twenty years, growth in per capita income was the lowest in the world except in sub-Saharan Africa. At an annual growth rate of 0.5% annually, if such trends continue in the future, it will take the average Arab citizen 140 years to double his or her income, while other regions are set to achieve that level in a matter of less than 10 years.

Labour productivity has been low and is declining. In fact:

- Total factor productivity declined at an annual average of 0.2% during 1960 – 1990, while it rapidly accelerated in other parts of the world.
- Compared to the Asian Tigers, per capita output was higher than the average of this group in 1960. Now it is half that in Korea.
- The productivity of Arab industrial labour in 1960 was 32% that of the North American level. By 1990, it had fallen to 19%.

The decline in workers' productivity has been accompanied by deterioration in real wages, which has accentuated poverty. It is evident that in both quantitative and qualitative terms, Arab countries have not developed as quickly or as fully as other comparable regions. From a human development perspective, the state of human development in the Arab world is a cause for concern.

Achievements by the Arab region on the Human Development Index (HDI) in the past decade were lower than the world average. Relative to other regions, the Arab world does better on income indicators than on development indicators. Thus it can be said that the Arab region is richer than it is developed. Although income poverty is low compared to other parts of the world, the Arab region is hobbled by a different kind of poverty - poverty of capabilities and poverty of opportunities. These have their roots in

three deficits: freedom, women's empowerment, and knowledge. Growth alone will neither bridge these gaps nor set the region on the road to sustainable development.

The way forward involves tackling human capabilities and knowledge. It also involves promoting systems of good governance, those that promote, support and sustain human well-being, based on expanding human capabilities, choices, opportunities and freedoms (economic and social as well as political), especially for the currently poorest and most marginalized members of society. The empowerment of women must be fully addressed throughout.

### ***The Foundations***

The people: The combined population of the 22 Arab countries covered by this Report was 280 million in 2000, 5% of the world. Arabs are younger than the global average: 38% are aged 0 -14. Migration within, from and to the Arab region is an important demographic feature, as is urbanization: half the population lives in cities compared to a quarter in 1950. Growth rates are still high: there will be between 410 and 459 million Arabs in 2020, with a slightly older age structure than that of today. The new demographic profile will present both challenges and opportunities for Arab countries. Population size, growth and age distribution can be either a demographic gift or a curse, depending on whether countries can use the human potential represented by their populations well enough to satisfy people's aspirations for a fulfilling life.

Health: People in most Arab countries live longer than the world average life expectancy of 67. However, disease and disability reduce life expectancy by between five and 11 years. Arab women have lower life expectancy than the world average, partly due to high maternal mortality ratios. Disability is higher for females than males, which points to women's health as a priority for policymakers. Some progress has been made in reducing mortality rates for children under five. The Arab region was the first in the developing world where most countries reduced mortality rates of under-five children to the target of 70 per thousand by 1990, well ahead of the global goal. But there still are large disparities among and within Arab countries in under-five mortality rates, with rural areas comparing unfavourably to urban ones. A major health challenge consists of high rates of halted growth, reaching 50% of under-five children in some poor and war-torn countries. Road accidents and tobacco are significant causes of death: 182,000 Arabs died from tobacco-related conditions in 1998. HIV/AIDS is lower than in other regions but is still a cause for concern. Most Arab countries spend around 4% of GDP on health, less than the middle-income country average of 5.7%. Vulnerable groups could be at risk in current health sector reforms.

Health systems in Arab countries generally focus on physical rather than mental or social health and hence they tend to neglect measurements for lack of comfort, lack of contentment and perceived health disorders. In many Arab countries, the elderly can be at a disadvantage as social security benefits for old people are very limited and insufficient.

Health systems also focus mainly on curative health in Arab states, especially at the secondary and tertiary levels. This leads to increased costs, especially with the resort to advanced technology; and leaves a significant proportion of the population without

adequate services. The challenge to health systems in many Arab countries includes not only raising overall standards but also ensuring greater fairness and fewer disparities.

Habitat: Fifteen Arab countries are below the water “poverty line” - less than 1,000 cubic metres per person per year. Land-based pollution is creating coastal zone degradation that is costing countries \$1 to \$2 billion a year in lost tourism. Cultivated land per capita in Arab countries dropped from an average 0.4 hectares in 1970 to 0.24 hectares in 1998. Conflicts and wars have aggravated pressures on the environment. In addition, there are environmental problems of global dimensions, with the erosion of the ozone layer at the forefront. There is an urgent need for environmental protection strategies to halt environmental degradation and promote cleaner production.

Education: Arab countries have made tangible progress in improving literacy: adult illiteracy dropped from 60% in 1980 to around 43% in the mid-1990s; female literacy rates tripled since 1970. Yet 65 million adults are illiterate, almost two-thirds of them women – this is not expected to disappear for at least a quarter century

As a group, Arab countries spend a higher percentage of GDP on education than any other developing region. By 1995, over 90% of males and 75% of females were enrolled in primary schools, and nearly 60% of males and nearly 50% of females were enrolled in secondary education. However, about 10 million children between 6 and 15 years of age are out of school. Enrolment rates in higher education remains limited to 13%. Though higher than the average for developing countries (9%), this rate is lower by far than those prevailing in industrialized countries (60%). Moreover, the share of girls is noticeably limited, at the third (higher) level. Despite the rise in the number of children enrolled in pre-primary education in Arab countries, enrolment ratios are below their counterparts for developing countries, especially for females. More vulnerable social strata such as women and the poor especially in rural areas, suffer more deprivation of education, a deprivation tending to be accentuated at higher education levels.

Downward pressures on government spending in the context of structural adjustment, together with inflation, the expansion of poverty and the introduction of educational fees as a cost-recovery measure, have had negative effects on the accumulation of human capital, with detrimental effects on the poor and women. The result has been a trend whereby quality education is increasingly available only for the well-to-do. Hence the loss of education’s hitherto significant role as a tool of social mobility in Arab countries.

There is evidence that the quality of education has deteriorated, implying a decline in knowledge acquisition and analytical and creative skills. The mismatch between the labour market and level of development on the one hand, and the system of education on the other, results in weak labour productivity, imbalances in the wage structure, the preponderance of unemployment and the decline of real wages for the vast majority. All this implies weak economic and social returns on education. If the present rate of progress is maintained, decades would elapse before illiteracy is eradicated or enrolment in education reaches the level attained by developed countries in the mid-1990s.

The economy, creating full employment and reducing poverty: GDP in all Arab countries combined stood at \$531.2 billion in 1999 (less than Spain at \$595.5 billion). Successful stabilisation in the 1990s led to low inflation and budget deficits, and governments have provided much growth-supporting physical infrastructure. Yet growth rates remain stagnant and overly vulnerable to oil price fluctuations. By 1998, the real income of the Arab citizen adjusted for purchasing power parity had on average fallen to 13.9% of that of the OECD citizen.

As noted earlier, Arab countries have the lowest level of dire poverty in the world (measured at less than \$1 a day), together with low levels of inequality. Nonetheless, one out of every five Arabs lives on less than \$2 per day. Poverty of capability is more pronounced as a result of the high rates of illiteracy, and inadequate access to quality education and learning.

Open unemployment in the Arab region was estimated to be no less than 12 million in 1995, around 15% of the labour force. If present rates continue, the number is expected to rise to 25 million in 2010.

There are pronounced institutional impediments to employment generation in Arab countries. Labour markets are traditional, severely segmented and dysfunctional, labour-market intermediation, through employment exchanges, is ineffective. Structural adjustment packages have also played a role by paying insufficient attention to reforms that build competitive, efficient labour markets, an essential requirement for growth.

The Report Team polled a cross-section of Arab youth. Job opportunities and education were amongst the main concerns of the young. In a worrying trend, 51% of older adolescents interviewed and 45% of younger ones expressed a desire to emigrate, clearly indicating dissatisfaction with current conditions and future prospects in their home countries.

The Team underscores the fact that cross-border and internal conflicts are serious obstacles to security and progress. The most pervasive is Israel's illegal occupation of Arab lands, which denies the most basic Palestinian human rights. Beyond this issue and more broadly, the human and material damages of conflicts, sanctions and embargoes and their impact on the progress of peoples and nations are incalculable.

### ***The Deficits***

An analysis of the global Human Development Index reveals that the range of disparity among Arab countries is almost as large as that for the entire world. Kuwait scores only slightly lower than Canada, the world leader, while Djibouti is close to Sierra Leone, the country with the world's lowest HDI value.

Given the importance of broader challenges to human development – such as those related to freedom, gender equality and knowledge acquisition – the Report Team asks: is it perhaps time to look beyond the limited measurement of human development as reflected in the HDI? In a personal contribution, the Report's lead author explores the parameters, methodology and impact of an alternative index that could be the starting

point for further research. The use of this alternative reorders the ranking not just of Arab countries, but of all countries.

Despite differences across the region, three critical deficits face all Arab countries: freedom; women's empowerment; human capabilities and knowledge relative to income.

Freedom: Using the freedom index to characterize the extent of freedom in Arab countries compared to the rest of the world, shows that out of the seven regions of the world Arab countries had the lowest freedom score in the late 1990s. This low level of freedom in the region is confirmed by another set of indicators of "voice and accountability". This set includes a number of indicators measuring various aspects of the political process, civil liberties, political rights and independence of the media. The Arab region has the lowest value of all regions of the world for voice and accountability.

Political participation in the Arab region is still limited compared to other regions in spite of noticeable improvements in some Arab countries in the last quarter century.

Civil society actors continue to encounter several external constraints in playing their role effectively. Bureaucratic constraints in the form of control of civic associations by public authorities present serious problems. The attitudes of Arab public authorities range from opposition to manipulation to "freedom under surveillance". The media is at best partly free.

Women's Empowerment: Utilisation of Arab women's capabilities through political and economic participation remains the lowest in the world in quantitative terms. Women occupy only 3.5 per cent of all seats in parliaments of Arab countries compared to 11% in sub-Saharan Africa and 12.9% in Latin America and Caribbean countries. In many countries of the region, women suffer from unequal citizenship and legal entitlements. In some countries with elected national assemblies, women are still denied the right to vote or hold office. And one in every two Arab women can neither read nor write. Society as a whole suffers when half of its productive potential is stifled. These deficits must be addressed in every field: economic, political, and social.

Knowledge: Over and above the capability gap caused by large-scale illiteracy and deficiencies in the education system, serious knowledge deficits include weak systems of scientific research and development, and low access to ICT. Scientific expenditure in Arab countries was less than 0.5% of Arab GDP for 1996, compared to 1.26% for Cuba and 2.9% for Japan in 1995. Investment in research and development (R&D) is less than one seventh of the world average. The Arab region also has the lowest level of ICT access of any world region: only 0.6% of the population uses the Internet, and personal computer penetration is 1.2%.

The digital gap between Arab countries and the advanced world has widened. This can be attributed to the nature of the Arab ICT industry, which is highly susceptible to monopoly and merger, the high costs of building infrastructure, the large Arab brain drain, and the growing imbalance in the distribution of wavebands between advanced and developing countries with regard to telecommunications. Cyberspace is becoming a crowded place and powerful players are taking up much of the room.

There are also information disparities between Arab states, even when levels of human development are similar. In addition, there are factors widening the digital gap within each Arab country, with language being the decisive factor. Current Arab policies to address the divide focus on infrastructure, especially in the field of communications. Although helpful, such attempts will not yield the desired benefits unless equal attention is paid to the element of content. Most of the material on the Web is in English, a language spoken by few in the region. The dearth of Arabic material on the Net will continue to deprive Arabs of the benefits of the information age even if access itself improves.

### *The Way Forward*

The resources for development exist in the Arab region. The question is: where should they be placed to maximum effect? According to the 1996 Human Development Report, every country that sustained both human development and economic growth accelerated advances in human development first, or pursued both objectives simultaneously.

In the Arab region, three areas stand out as investment priorities: Building Arab capabilities and knowledge; using human capabilities through re-invigorating growth and productivity; and promoting good governance.

Building Arab capabilities and knowledge: Several strategies are proposed, beginning with the foundations. The Report calls on governments to ensure 100% enrolment in basic education, increase mandatory schooling to 10 years, support self-learning and life-long education, and forge tighter links between school life and the realities of life outside the schoolroom. It also points to the opportunity to further Arab cooperation in education, particularly in higher education, curriculum development, textbook production and teacher training – all areas where a common language presents advantages.

A key driver of change would be a transformation in attitudes and societal incentives to support greater creativity and innovation. The rules of the social game need to be modified to provide incentives for embracing change and to afford real opportunities for social recognition, renewal and advancement to those who work in areas of knowledge.

Investing in knowledge begins by setting a clear agenda for investment in science and technology and R&D. The share of R&D should be increased from the current less than 0.5% of GDP to 2% by the end of the decade. The region can capitalize on economies of scale while addressing pan-Arab concerns, for example, in areas relating to water scarcity, oil, health, codes and standards, and other common needs. Arab governments and institutions should tap the expertise of the one million highly qualified Arabs working in industrialized countries.

The region can build on recent country experiences in ICT - the Dubai Internet City, and the Smart Village in Egypt – in a drive to spread information and communication technology. In addition, the telecommunications sector must be reformed to guarantee

deregulation and open up competition to encourage local and foreign investors. Another priority area is investing in specialized computer personnel and Arabic-language software for general education, adult training, and life-long learning – linking this to the actual needs of the labour market. Most importantly, special efforts are needed to reach women through ICT and to invest in building up their expertise in this technology.

The Report argues that the most important component of the information industry, the element of content, has so far not been taken seriously by policy makers in the Arab world. Hence, it calls for concerted efforts to develop content in Arabic. It suggests that digitising aspects of cultural heritage such as text, film, music, radio and television recordings should become a priority. It argues that the way forward lies in giving Arab artists, professionals, scholars, students, entrepreneurs and other social groups incentives to publish and popularise their work on the Internet, rather than in trying to decree certain types of content. Freedom to choose what to publish and to associate with other users will drive the Arabization of information content faster and more surely than any type of compulsion. The media has already taken the lead in this respect by placing Arabic newspapers on the Web.

Using human capabilities by reinvigorating the economy: Achieving sustained and equitable economic growth is intimately connected with both the process and the goals of human development. Renewed growth is a necessary, although not a sufficient, condition to meet the challenge of employment, fully use human capabilities and overcome poverty. Reinvigorating Arab economies requires a multi-sectoral approach, and one that relies heavily on strengthening human development.

The report emphasizes the need to mobilize the private sector within an enabling policy and regulatory environment. In addition, the private sector should be engaged, together with government and academia, in R&D, and focus on human-intensive rather than capital-intensive R&D, particularly “knowledge sciences” such as information technology, mathematics, theoretical and device physics, and economics. Governments should disengage from productive activities while strengthening their regulatory role to ensure openness and competitiveness. The objective should be to encourage global and not just regional competitiveness. The bottom line is that domestic markets are too small to provide the basis for sustainable growth based on manufacturing and services. For this reason, the most viable response to globalization is openness and constructive engagement in which Arab countries both contribute to, and benefit from globalization. Hence the goal of inter-Arab integration has become critical, to survive and compete, including through creation of a customs union or a common market. Arab co-operation can bring added value if the region focuses on a small number of specialized centres of excellence in fields where distinctive capabilities exist. These include water desalination in the Gulf States, computer programming in Egypt and Jordan, the phosphate industry in Morocco and Tunisia, or petrochemicals in Saudi Arabia.

The legitimacy and strength of states and their institutions are inextricably linked to their capacity to mobilize and be mobilized in the fight against poverty. This implies that it is essential to mainstream human development and poverty reduction within national economic policy. Human development is vital to the region’s success in reinvigorating economic growth. The basic priority for policy in Arab countries is to

create a virtuous cycle whereby economic growth promotes human development and human development in turn promotes economic growth.

Policies that discourage employment creation should be reversed as part of a move towards full employment. Necessary actions include: monitoring the labour market and supporting measures for pro-poor human capital accumulation through education, training, and health care systems, and institutional reform.

There is also an urgent need to reverse the feminisation of unemployment by removing gender bias in labour markets, including gender-based occupational segregation and wage differentials, and by addressing gender gaps in the quality and relevance of education and training. Similarly, in efforts to strengthen local capacity to deliver micro-finance services beyond the less than 2% of poor households that can currently access financial services, priority must be given to women entrepreneurs. Overall, social safety nets must be expanded and transfer programmes increased from 0.2% to about 1% of GDP.

At the same time, steps need to be taken to ensure that growth does not harm the environment, and to work for environmental protection and regeneration, as called for by Arab environment ministers in the February 2001 Abu Dhabi Declaration.

The report acknowledges the destructive impact of conflicts. They are not only human disasters and sources of volatility and political instability; they are also a major constraint on high and sustained growth. Resolving these conflicts would obviously require a just and comprehensive resolution of the Arab-Israeli conflict, which is at the core of the region's political crisis. In addition, addressing the damage wrought by civil wars requires a fundamental rethinking of how to respond to, and reconcile, cultural and religious groups in the Arab world.

Enhancing social cohesion in the Arab world will not only yield large dividends for societies and economies; it will also help them to be resilient in the face of the increased economic shocks associated with globalization. Strengthening cohesion requires improving political rights and political, social and economic participation. It also calls for policies of inclusion and the expression of solidarity with the poorest segments of society.

Promoting good governance: Higher levels of human development cannot be achieved in Arab countries without improving key aspects of governance systems. This would require reforming the essence of governance: i.e. state institution; and activating the voice of the people. The most important of state institutions is that of representation and legislation which provides the basic link between the governance regime and the people. Liberating human capabilities in Arab countries requires comprehensive political representation in effective legislatures based on free, honest, efficient and regular elections. Reforming public administration is also a central and urgent task for Arab countries. Governments need to perform their functions as providers of public services and enforcers of contracts, in an effective, efficient and transparent manner. Public sector institutions need to be reformed to encourage private-sector investment and growth, to curb monopolies and to end graft and cronyism.

Legal reform should be at the core of institutional reform in Arab countries because the rule of law embodied in legal and judicial institutions, is the foundation on which all other societal and governance institutions are built, including fair and honest political representation and effective and responsive public administration. The reform needs to focus on ensuring that the law and associated administrative procedures guarantee citizen's rights and are compatible with fundamental human rights, particularly the rights to freedom of expression and freedom of association for all, under the aegis of a truly independent judiciary that impartially enforces the rule of law. The First Arab Conference on Justice pointed to the way forward in its 1999 Beirut Declaration for Justice.

Liberating human capabilities requires activating the voice of the people. This requires moving productively forward in three critical areas: strengthening institutions of local governance: liberating civil-society organizations: and fostering free and responsible media. Promoting local governance involves far more than the mere decentralization of central government control mechanisms. It should provide opportunities for more effective participation by local communities, particularly the poor, in combating poverty broadly defined, notably through efficient, pro-poor provision of basic services such as education and health care. In order to empower Arab civil society two reforms are essential. First, legal and administrative obstacles hampering the establishment and effective functioning of civil society institutions need to be removed. Second, civil associations themselves need to be transformed into widespread popular movements, undertaking sustainable collective action.

There are examples on which to draw in reforming the political institutions of the state, such as efforts to strengthen representative democracies in countries like Morocco and Bahrain. The most powerful example on which to draw in activating the voice of the people comes from the women's associations in the Arab world, which have effectively raised and lobbied against formerly taboo subjects.

Full respect for human rights and freedoms are the cornerstones of good governance that can unleash creativity and serve empowerment and participation, leading to human development.

Finally, the Report observes that the Arab world is at a crossroads. The fundamental choice is whether its trajectory will remain marked by inertia, as reflected in much of the present institutional context, and by ineffective policies that have produced the substantial development challenges facing the region; or whether prospects for an Arab renaissance, anchored in human development, will be actively pursued.

PREPARED STATEMENT OF THE HONORABLE BENJAMIN A. GILMAN, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I want to commend you for holding today's hearing. It is vitally important that we explore new and innovative ways to promote peace and stability in the Middle East. I am also pleased to welcome our distinguished panels of witnesses, including Senator George Mitchell, Ms. Rima Khalaf Hunaidi, Mr. Hernando DeSoto and our private sector witnesses.

The Marshall Plan was a unprecedented effort by the United States aimed at reducing the homelessness and unemployment of the people of Western Europe after World War II. However, Marshall Plan funds were not mainly directed toward building individual houses, schools, or factories, but at strengthening the underlying economic superstructure that Europe possessed. The Marshall Plan worked because it was aimed at aiding a well-educated, industrialized people temporarily down but not out. It operated in a society that had in place all the skills and resources to repair itself, not to mention a political and economic history that allowed for its successful implementation.

As a result, the Marshall Plan will forever be cited in American politics as the sort of immense infusion of capital that should be applied to other enormous problems. Yet, it is hardly a phenomenon transferable without much difficulty to other regions of the world, in particular the Middle East, and we must be very careful not to presume that it can be automatically replicated elsewhere. The Jordan Valley is not the Ruhr, and Ramallah is not Berlin.

While I believe that a Marshall Plan for the Middle East is a good idea, it must be predicated on a move toward democracy through social and economic reforms. Just as there needs to be a generous Marshall plan for the Middle East that focuses on millions of jobs and economic viability beyond petrodollars, so too do we need a Marshall plan of religious freedom and political pluralism.

Those in the Middle East who have toiled for freedom, democracy, religious tolerance, human rights, women's rights, and the pursuit of peace and social justice must be given the support that they deserve. They should not have to live behind the shadow of repressive regimes and even more repressive terrorist networks. We must see to it that they are given the voice that they deserve, and the freedoms that they have been denied until this point. We must provide these societies with the tools to repair themselves socially, while simultaneously acting to rehabilitate them economically.

In my opinion, the Middle East does need a program of support and incentives for private investment that will broaden its current economies, and gradually create truly competitive market-oriented economies. Economic efforts can also be a valuable aspect of peace facilitation within the Arab-Israeli conflict. They are useful for promoting prosperity through forging people-to-people contact regardless of politics, and creating constituencies with a vested interest in peace.

However, the impact of successful economic development and integration has its limitations. While economic efforts can be useful in supporting and cementing progress toward peace, they will rarely constitute enough of a force to pave a path from war to peace. It is also imperative that we ensure that the State of Israel is fully included in any formula for regional economic integration. Israel not only possesses the most dynamic and diverse economy in the region, but possesses the necessary social and political institutions to ensure continued success.

Economic cooperation between Israel and neighboring Arab states must be recognized as necessary and indispensable; the failure to do so will only perpetuate mutual mistrust and hatred.

We must also be very careful in our pursuit of economic reforms. Some economic initiatives can actually be destructive, as they create unfulfilled expectations that then embitter those they were destined to help. Many people have the mistaken impression that an economic initiative can make a quick difference, when in fact most projects take years to become fully effective. Therefore, it is vitally important to avoid making unrealistic forecasts.

While we have many challenges ahead of us, it is important to remember that the success of any "Middle East Marshall Plan" can only be secured through the transparency, good governance and investor confidence that is accompanied with the adoption of democratic and pluralistic ideals. I therefore look forward to hearing from all our witnesses today, and especially from the private sector panel that we will convene in the afternoon.

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PREPARED STATEMENT OF THE HONORABLE EARL BLUMENAUER, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF OREGON

The Marshall Plan for the Middle East as proposed by Chairman Hyde would be a means for permanently easing tensions, giving people a stake in a hopeful future, and maintaining a constructive role for the United States to play in this important region. I support this proposal.

Throughout my tenure in Congress I have focused on the need for the United States to support the redevelopment of cities overseas and environmental protection. Likewise, I am deeply concerned that our foreign aid is not closer tied to issues of livability and water security in the Middle East. This concern is rooted in the complicated equation that the United States faces in its war against terrorism—the confluence of terrorist rogue states, people who share ethnic and religious grievances, and people who are fighting against repressive governments that do not satisfy even the most basic needs for their citizens.

The current situation is dire: around a quarter of the 4.9 billion people in developing countries are without access to improved sources of water, while half of them are without access to improved sanitation services. Many become the victims of waterborne diseases and diarrhea. While armed terrorists may kill thousands a year, lack of safe water and sanitation kills millions. According to the World Health Organization, each year approximately 4 billion illnesses cause 2.2 million deaths. This is equivalent to one child dying every 15 seconds, or 20 of the jumbo jets used in the 9/11 hijackings crashing every day. Everyday the tragic loss to families numbs them; the economic upheaval is a permanent barrier, creating pain and chaos that makes it easier to create fanatics and martyrs to erode the foundation of what we regard as a civilized society.

The United States and other developed countries have a huge opportunity and responsibility to help manage the urban dynamic that is drawing people out of rural areas into vast mega-cities where many residents lack basic services. One of the most critical things that the United States can do is to make an indisputable difference in quality of life of these areas through the provision of clean water and sanitation.

I support a “Marshall Plan” for the Middle East with confidence that such a proposal will not only stimulate economic development and significantly improve sanitation and water security in the region, it will leave the world safer and healthier for all our families.

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PREPARED STATEMENT OF ELISHA YANAY, CORPORATE VICE PRESIDENT, CHAIRMAN  
OF THE BOARD AND GENERAL MANAGER, MOTOROLA ISRAEL LTD.

Mr. Chairman, distinguished Members:

I am honored and privileged to share with you today my experience and views on the crucial need for Middle East cooperation and thank you for giving me that opportunity. I am fully convinced that, especially at this time, it is the duty of experienced businessmen from all sides, to join together to establish the foundation for regional cooperation.

Over the years we have achieved peace with Egypt and with Jordan, and we all hope that we will soon reach a peaceful solution with all our neighbors.

The Israeli market is a global one, which is very dependent on foreign trade. As such, it has been significantly affected by the world recession. To this one can add the regional conflict in our area, which has impacted mainly tourism and construction severely. Nevertheless, the Israeli economy has been, and still is, one of the most stable, strong and liberal markets in the world. Our economy grew over the past 10 years by 4.7% annually, and, as a result, we achieved a respective outcome of GDP of about \$17,000 per capita, which is less than the US (\$37K) but hopefully we will catch up with you or at least will settle for being the runner-up.

It is important to emphasize that had there been no Palestinian terror, Israel would have reached an agreement with the Palestinians a long time ago.

In the years 1999–2000, before the deterioration in the relations, Motorola and the Palestinians agreed on a joint activity of software development in the Khaduri area, situated between Israel and the Palestinians, where an industrial zone was about to be opened. The recent hostilities delayed this initiative. Obviously, the Palestinian issue is the most complex right now. They have enormous needs, but as long as the violence continues, progress with them is impossible.

Neighbors, like relatives, are not chosen by us they are a fact! I have no doubt that *when the dust settles* we will live in peace. The main issue is the economy, education and security for all. With regard to economy and education, I believe that the

United States and Israel, together with our neighbors, should join hands to assist Jordan today and the Palestinians the day after.

I would like to share a success story in Jordan with you. As a result of the peace agreement reached with Jordan, the Israeli business sector took upon itself to invest in economic projects together with the Jordanians. One of the projects in which Motorola is involved, is in Irbid, a Qualified Industrial Zone (QIZ), benefiting from tariff free access to the US, like Israel. There are thousands of people in the area employed by Israeli industrialists in textiles, electronics and other facilities. In addition there is a small fund (of \$1 million) named TRIDE, Trilateral Industrial Development Fund, the parties are Jordan, US and Israel.

Today, based on past experience, we propose to establish an American-Israel-Jordanian fund. This fund should be significant; about \$100 million. Its purpose will be to give incentives to entrepreneurs to promote capital investments, R&D and employment to initiate practical projects in the fields of water, agriculture, industry, medicine, education and so on. This fund will offer a choice or a mix of loans, grants, tax-free benefits, duty benefits, R&D programs etc. The committee has received the complete file detailing some of the projects that we propose.

Everything said about Jordan is just as relevant for the Palestinians, and we intend to push for similar cooperation with them as well, as soon as terrorism will be behind us. The fund will serve as an excellent tool in restoring personal relations between businessmen and the start of renewed confidence between the parties. I believe that the European Community and Japan should be part of this initiative.

In addition, and as mentioned in our file, education programs will be part of the plan. At this point I would like to share with you another success story of such a model in Israel. A program called "Education 2000," which I had the privilege to lead, was established in 1996. To date it has achieved tremendous results: we have doubled the sales scope of hi-tech Industry in Israel—from \$6.5 billion in 1996 to \$15.5 billion in 2000 and have enlarged the number of students participating in technological studies in higher education institutes, from 1,000 a year in 1996 to 8500 this year. This program is comprehensive and can be implemented in Jordan and with the Palestinians as well. I will be glad to elaborate it further more.

I would like to thank you again for inviting me to this very important hearing and for your attention.

