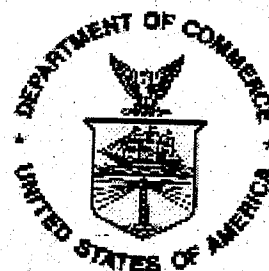


The Hon. Robert H. Pelletreau, Gen. J.H. Binford Peay III, and Mr. Jan Kalicki

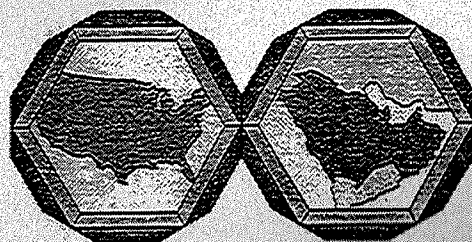
Diplomacy, Defense



and Development:

*Prepared Remarks of Keynote Speakers at the
Fifth Annual U.S. Mideast Policymakers' Conference
Lexington, VA September 15-16, 1996*

*Occasional Paper Series Number 9
U.S.-GCC Corporation Cooperation Committee*



COMMITTEE PROFILE

One of the most important, and yet least understood, international commercial relationships the United States has is with the six countries of the Gulf Cooperation Council – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Although America has experienced overseas trade deficits overall in recent years, U.S. trade with the GCC countries has frequently yielded a surplus.

The U.S.-GCC Corporate Cooperation Committee is composed of major American multinational corporations. The Committee's objective is to raise American awareness of the benefits to the United States from increased relations with the GCC. The Committee seeks to improve understanding and appreciation of the Gulf Cooperation Council in the United States at the leadership level. It sponsors public affairs activities in the U.S. that inform American leaders and the public at the local, state, and national levels about the shared interests and common concerns among the U.S. and the six GCC countries.

The Committee pursues its goals of strengthening the private sector relationship between America and the GCC's member countries in meetings with high-ranking members of the Office of the U.S. Special Trade Representative and the Departments of Commerce, State, and Treasury. It also hosts gatherings where GCC country officials and business leaders can meet their U.S. counterparts, publishes informative booklets and issue papers, and sponsors a variety of other educational activities.

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T A B L E O F C O N T E N T S

Diplomacy, Defense, and Development:

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September 15-16, 1997

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FOREWORD

The Annual U.S. Mideast Policymakers Conference convenes each September in Lexington, Virginia. The Conference brings together leading U.S. and Middle East policymakers and corporate leaders to discuss the state of play vis-à-vis U.S. interests in the region and how U.S. policymaking can more effectively promote those interests. On the occasion of the Fifth Annual U.S. Mideast Policymakers Conference, Assistant Secretary of State for Near East Affairs Robert H. Pelletreau, U.S. Central Command Commander-in-Chief General J.H. Binford Peay, III, and Counselor to the Department of Commerce Mr. Jan Kalicki addressed issues of diplomacy, defense, and development, respectively.

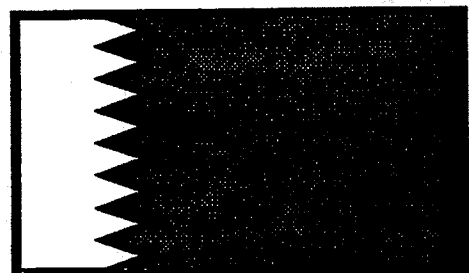
Secretary Pelletreau outlined the overall challenges and directions of U.S. foreign policy since the end of the Cold War, with particular reference to the Middle East, and recent developments in the Arab-Israeli peace process and Arabian Gulf security. His remarks underscored the following nine U.S. interests in the region: achieving a just, comprehensive, secure, and durable Arab-Israeli peace; maintaining the security of Israel; preventing regional conflicts and supporting friendly nations; ensuring the free flow of oil from the Gulf; enhancing business opportunities for U.S. companies; suppressing terrorism and the spread of weapons of mass destruction; containing aggressive behavior by Iran, Iraq, and Libya; advancing respect for human rights and the rule of law; and preserving the deep cultural ties to the cradle of Western civilization and the birthplace of Christianity, Islam, and Judaism. As so many of these interests are linked, continued U.S. engagement in the region is imperative in order to promote and protect them and to advance America's foreign policy objectives.

General Peay addressed a similar range of U.S. interests within the area of responsibility of U.S. Central Command, albeit from a perspective of enhancing regional deterrence and defense. He delineated the reasons for U.S. involvement; outlined regional threats to U.S. interests; explained the scope of the U.S. military presence; enumerated the Command's efforts to assist America's regional friends in strengthening their defense capabilities; and discussed questions of burden-sharing. In each instance, General Peay advances recommendations for solving, ameliorating, and managing better the defense challenges that confront the U.S. and its regional allies.

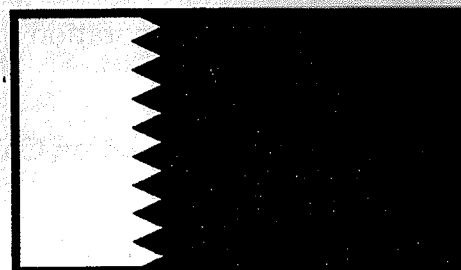
Mr. Kalicki considered the economic aspects of the Middle East peace process. He reviews several of the economic challenges confronting the region, such as population growth, an increasing labor force, declining real per capita incomes, and employment prospects, against the backdrop of an unstable political history among several parties in the peace process. In so doing, Mr. Kalicki demonstrates the interconnectedness of regional politics and economics. He views intra-regional trade and investment as essential foundations for a successful settlement, i.e., jobs and prosperity are more likely to be secured if they are rooted in regional peace and stability. Mr. Kalicki maintains that greater intra-regional business will strengthen all of the Middle Eastern countries and create a mutually reinforcing climate conducive to stability, security, and prosperity.

This is the ninth in the U.S.-GCC Corporate Cooperation Committee's series of Occasional Papers. The Committee presents this monograph in the spirit of all its other publications, programs, and activities, as a contribution to the national dialogue on American interests and involvement in the GCC region.

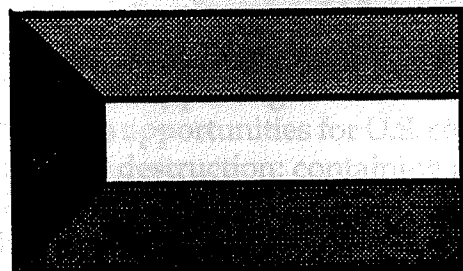
Dr. Ralph DiSibio
President
Parsons Development Corporation
and
Chair
U.S.-GCC Corporate Cooperation Committee
Washington, D.C.



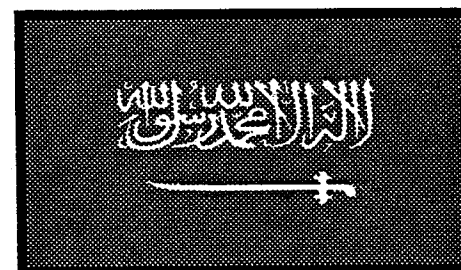
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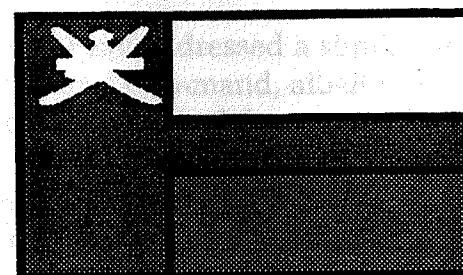
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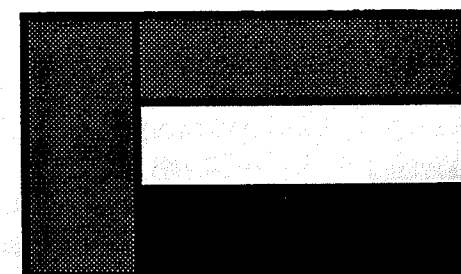
Kuwait



Saudi Arabia



Oman



U.A.E.

"Gulf Security and the Middle East Peace Process"

**A Keynote Address by
Assistant Secretary of State Robert H. Pelletreau
Fifth Annual U.S. Mideast Policymakers' Conference
George C. Marshall Foundation
Lexington, VA
Sunday, September 15, 1996**

Thank you for your welcome. It is an honor and a pleasure to speak before such a distinguished group. I am also happy that you will have an opportunity to hear from the Regional Commander, CINCCENT General Binnie Peay tomorrow. He has much to tell us. And it is appropriate that we should speak together at the same forum as I'll explain a little later.

I would like to discuss several things with you today. Let me first look briefly at the overall challenges and directions of U.S. foreign policy since the end of the Cold War. Our initiatives in the Middle East are a part of this whole, and a principal task of the Near East Bureau is to make sure that what we are doing in the region supports what the President and the Secretary are doing on the larger world stage. Second, I want to bring you up to date on where we are in the Arab-Israeli peace process, since it is so important for the U.S. and the entire region. Finally, I want to pay special attention to the vital issue of Persian Gulf security.

U.S. Interests

We live in a time of rapid and fundamental change. The change is not just technological or economic; it is deeply political. The end of the Cold War challenges analysts, policymakers, and the American public to find new footing and direction in a fluid new international situation. Halfway between the end of the Cold War and the start of a new century, we are wrestling with basic questions: how to engage internationally to advance our national goals, when to use force to protect our national interests, how to keep international institutions like the United Nations and the World Bank vigorous in the service of our national and international interests.

It was fairly easy to give answers to all these "hows" a few years ago. It was not even too hard to answer the "why" that increasingly haunts our foreign policy dialogue with our own people as well as foreign nations. For almost fifty years, the Soviet juggernaut challenged us to wage a struggle against Communism in every region of the world. The Soviet menace stimulated us to take the long view: to make new friends, build new alliances, find new ways. It was never easy to contain a massive empire with nuclear weapons and global appetites. Flare-ups were regular and very dangerous. But our goals were clear to everyone.

Today, the challenges we face are diffuse and are often confusing. They do not jeopardize the survival of the United States in the old immediate way. No other nation even jeopardizes our prosperity today except through improvements in its own international economic competitiveness. Large issues of course remain: How do we build a cooperative relationship with Russia; how do we combat international crime; how do we control the proliferation of weapons of mass destruction; how do we control the ethnic conflicts raging on several continents; how do we control overpopulation, desertification, and global warming? Unfortunately, however, these problems do not capture the popular mind as actively as the old Soviet challenge. It requires bold and visionary leadership and the hard slog-ging that Secretary Christopher has done to force these subjects onto the active political agenda.

In the Middle East, for better or for worse, U.S. interests remain directly and broadly engaged much as they did before the end of the Cold War. In world terms, it is a place of basic interests and clear dangers. The tragic and despicable terrorist bombing of our forces

"Progress in the peace process strengthens governments in Egypt, Jordan, and Saudi Arabia and others which are friendly to the U.S.; it helps isolate Iran and Iraq, whose leaders are hostile; and it helps secure our access to Persian Gulf oil."

in Khobar, Saudi Arabia, which cost nineteen American lives, and Saddam Hussein's use of military force against his Kurdish citizens in northern Iraq earlier this month are grim reminders of the life-and-death stakes in the region. Hostile states, such as Iraq and Iran, pose standing threats to our vital oil supplies from the Persian Gulf. Aggression and

instability in the region threaten not only our security, but also the security of close friends and partners, such as Israel, Egypt, and the GCC states in the Gulf. They can threaten our NATO partners in Europe. They can bring new outbreaks of terrorism to our shores. And they can fuel a race to acquire weapons of mass destruction.

Let me be more specific about our interests in the Middle East. I would outline them like this: (1) achieving a just, comprehensive, secure, and durable Arab-Israeli peace; (2) helping maintain the security and well-being of Israel; (3) preventing regional conflicts and supporting friendly nations; (4) ensuring the free flow of oil from the Gulf; (5) enhancing business opportunities for our companies and jobs for our citizens; (6) suppressing terrorism and the spread of weapons of mass destruction; (7) containing the aggressive and threatening impulses of the regimes in Iran, Iraq and Libya; (8) advancing respect for human rights, the rule of law and open, participatory societies; and (9) preserving the deep cultural ties we have to the cradle of Western civilization and the birthplace of Judaism, Christianity, and Islam.

Many of these interests are interwoven. The peace process, for example, profoundly influences the stability of the entire region. The work of every U.S. Ambassador in the region is made easier if there is an active peace process with strong U.S. involvement. Progress in the peace process strengthens governments in Egypt, Jordan, and Saudi Arabia and others which are friendly to the U.S.; it helps isolate Iran and Iraq, whose leaders are hostile; and it helps secure our access to Persian Gulf oil. The absence of progress in the

peace process, on the other hand, increases tensions and spurs rearmament and violence, endangering our access to oil and undercutting Israeli security. These are only a few examples of the interconnectedness of developments in the Middle East. In general, a successful peace process enhances regional stability, removes a rallying point for fanaticism, and enhances prospects for political and economic development. That is why the U.S. needs to maintain a broad engagement throughout a region where linkage and spillover effect between issues is so clear and immediate.

This connectedness offers important advantages as well as challenges for our policy in the region. When we meet major obstacles in one area of our agenda, we can often continue to progress in others, which in turn can reinforce policies or help remove the obstacles in the original area. This several-front strategy is particularly important for our approach to the Arab-Israeli peace process, but it applies to all that we do in the Middle East to one extent or another.

Another feature of the Middle East is the prominence of security issues — a prominence which has not declined with the end of the Cold War to the same extent that it has in other regions of the world. But many of these security issues are not as straightforward as the classical political military issues we dealt with during the Cold War. Most of the security issues in today's Middle East have major domestic political and economic dimensions as well. They are wrapped up with ethnic conflicts, border disputes, economic dislocations, ecological disruptions, and human-rights abuses — to say nothing of terrorism and aggressive fanaticism. Few if any areas of the world combine such strategic importance to the U.S. with such chronic instability. Unlike other areas, the Middle East's appetite for arms acquisition is undiminished.

It follows that close political-military coordination is uniquely important for U.S. policy in the Middle East. This has become even more true since the Gulf War, which showed the necessity of having reasonably large numbers of U.S. forces and equipment forward deployed in countries of the region. In an area which has historically opposed such deployments, or viewed them with considerable skepticism, our embassies and country teams have a key and ongoing role to play. We in the Department of State know and value the essential contribution to U.S. interests made by our colleagues in uniform, and we regard the successful accomplishment of their mission as a priority for our Ambassadors throughout the region. That is why I am so glad that you will have an opportunity to hear from General Peay as well as from me. He is a full partner in our diplomatic strategy as well as the architect of our military strategy. The U.S. can play the active role in the Middle East that we do because we combine political engagement and military power in a unique mix which is greater than the sum of its parts. Thus strengthened, we can act effectively not only to prevent, limit, and win against aggressors, but also to promote the peaceful resolution of disputes and the growth of regional cooperation.

The Long Quest for Arab-Israeli Peace

Peace between Israel and the Arab world has been a goal of our foreign policy since the Truman administration. But there was little promise of real peace until the beginning of this decade. Passions in the region were still too raw. The Soviet Union fanned extrem-

ism and conflict. Peace between Israel and Egypt, negotiated by President Carter in 1979, was the lonely exception.

The Gulf War was also an important watershed. Working closely with coalition partners, the U.S. decisively turned back Saddam Hussein's bid to become the dominant power in the Gulf. Our overwhelming display of power, principle, and leadership enhanced our influence throughout the Middle East. It also tilted the regional balance of power toward moderate forces committed to peace and stability. We moved decisively to seize the historic opportunity for peace in 1990 and 1991 because, in the Middle East, such opportunities do not last very long.

We launched the current phase of the peace process in October 1991 with the Madrid Middle East peace conference, cosponsored by the United States and the Soviet Union and with the help of the states of the Gulf Cooperation Council. As our Ambassador to Egypt, I was a member of our delegation. It was a moving experience to see, for the first time in my professional career, Israel, the Palestinians, Jordan, Syria, Lebanon, Egypt, the European Union, Russia, and the United States together around one table, each saying in his own way, "Let's try to reach a peaceful settlement." The Madrid conference launched a series of bilateral and multilateral talks that proved useful in shattering taboos on political dialogue and helping each side to focus on the practical concerns of the other side. This architecture of mutually reinforcing bilateral and multilateral levels of negotiation has proven both resilient and productive, enabling us to overcome serious obstacles and make some remarkable progress.

Breakthrough in 1993

The first real breakthrough after the Madrid conference was the dramatic moment on the White House lawn in September 1993 when Chairman Arafat and Prime Minister Rabin reached out and shook hands at the signing of the Israel-PLO Declaration of Principles. With mutual recognition and a mechanism for resolving differences through negotiation, the Declaration marked a turning point in the history of the Israeli and Palestinian communities.

In the nearly three years since the signing of the Declaration, Israel and the Palestinians have engaged in almost continuous negotiations. These talks have resulted in three landmark agreements, including the comprehensive Interim Agreement signed in Washington last September. As a result of these agreements, Palestinians now govern themselves throughout Gaza and most cities of the West Bank. Israeli soldiers no longer face the burden of patrolling those streets. Where once there was an intifada, Israeli and Palestinian security forces now cooperate to root out the terrorist infrastructure of Hamas and the Palestinian Islamic Jihad. Israel's relations have broadened beyond the circle of neighboring states to include a wide range of Arab nations and regional institutions, including the Middle East-Mediterranean Travel and Tourism Association, the region-wide economic summit process begun in Casablanca two years ago, and institutionalized talks on regional economic and resources issues such as water.

The U.S. has been working hard with the new Netanyahu government to keep up the momentum of Israeli-Arab cooperation across a broad range of issues. We are extremely pleased by the meeting between Prime Minister Netanyahu and Chairman Arafat

earlier this month, as well as the Prime Minister's meeting with the President just last week. Both meetings helped underscore the new Israeli government's commitment to honor the agreements reached by its predecessors and to build on them toward a comprehensive peace in the region.

The new Israeli government has recognized that important changes have taken place in the Middle East since the Likud was last in power — new agreements, the beginnings of new relationships with the Arab states, and a new prosperity for Israel which results at least in part from these political developments. Prime Minister Netanyahu has shown in his visits to Cairo and Amman, his contacts with other Arab leaders, including chairman Arafat, and his first steps to ease the closure on the West Bank and Gaza that he understands this reality and does not want to see the dismantling of what has been accomplished. He also understands that sustaining the momentum requires a process which offers Arab partners incentives for progress.

We have stressed to the new government the key importance of continuing to intensify channels of communication with the Palestinians, and we have cautioned about the harmful effect that major new settlement activity could have on the negotiating process. We have also impressed on Palestinian leaders the need for maximum effort and vigilance to root out and prevent acts of terrorism and respond to Israel's deep-seated security concerns which played such a large role in the recent elections.

This would accelerate the current gradual relaxation of the tight closure imposed on Gaza and the West Bank and put renewed focus on promoting Palestinian economic development, which the United States strongly supports.

Gulf Security

Let me turn to our policy toward the Gulf region. As the recent bombing of our troops in Saudi Arabia and Saddam Hussein's attack upon the Kurds in northern Iraq makes painfully clear, this is an area of major concern for the U.S. and has been so for half a century. Our major goal has been and remains the protection of our friends and vital interests against the twin dangers of hegemony and regional conflict. Now as before, the threat to friends and interests arises primarily from Iran and Iraq, each of which have ambitions to dominate the Gulf and its petrochemical riches. Powerful in regional terms, each openly declares its enmity toward the United States, blatantly disregards international norms of behavior, and poses a direct threat to its neighbors.

The Administration has led several tough-minded international efforts to contain the threats posed by Iraq and Iran and to compel changes in their conduct, including the recent firing of cruise missiles at Iraqi air defenses and the extension of the Iraqi no-fly zone. While we can claim considerable success in limiting and countering the military capabilities of these outlaw regimes, their ambitions to acquire weapons of mass destruc-

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tion and to dominate the Gulf continue, as does their support for terrorism as an instrument of policy.

The U.S. works closely with the six states of the Gulf Cooperation Council to contain the military threat from Iran and Iraq. Working with CENTCOM, we have made steady progress in improving security cooperation with these states since Desert Storm. Our approach has three dimensions. First, we help each Gulf state strengthen its own defense forces through our defense sales and training programs. Second, we encourage regional defense cooperation among the Gulf states through the GCC's collective security arrangements. GCC exercises in Kuwait and in the seas off Oman mark an important step forward, although we have quite a long way to go in this area. Resolution of the Saudi-Qatari border dispute earlier this year should improve the atmosphere for cooperation.

A lot of hard diplomatic and military work has gone into the third dimension of our policy: bilateral U.S. security cooperation with individual states. We have made dramatic strides since 1991: increasing U.S. forward presence in the region in a careful, non-permanent way; prepositioning equipment in Kuwait and Qatar; and carrying out an expanded program of land, sea, and air training exercises with the GCC states. This cooperation has been critical to defusing crises and in maintaining stability. We are steadily increasing our regional consultation and intelligence exchanges, and working to resolve the inevitable problems and frictions that arise in a cooperative spirit.

"The U.S. has taken a clear lead in safeguarding the Gulf, but there is an important multinational dimension of that effort. The U.S. and France patrol the no-fly zones with us. Turkey plays an important role in the north. Saudi Arabia and the Gulf states host our forces and magnify their effectiveness with capabilities of their own."

The U.S. cannot and does not aim to impose a "pax Americana" on the Gulf. Our own anti-imperialist tradition prevents it, as does the strong anticolonial sentiment of the area's citizens. We may be the dominant outside power, but we must operate within a unique — and complicated — political and cultural framework. While our friendship and strength are welcome, area governments resist permanent bases, iron-clad treaty arrangements, and grand blueprints for NATO-like structures. The frustrating loss in efficiency and capability of this still-too-ad-hoc security structure means that we and Gulf governments must continue the process of consultation and adjustment in order to improve our deterrent against evolving threats.

I want to turn now to Iraq and Iran and the policies we pursue to minimize the threat they pose to the peace and stability of the world community.

Iraq

Five years after the Gulf War, Saddam Hussein remains a threat to the international community. His attack on his Kurdish citizens in the northern Iraqi city of Irbil just two weeks ago is an important reminder of his ruthless disregard for civilized norms. This

attack recalls past instances of Saddam's brutal slaughter of Kurds, including the use of chemical weapons at Halabja in 1988 and the driving of tens of thousands of Kurds from their homes in the immediate aftermath of the Gulf War. It also recalls his attacks on the so-called marsh Arabs in the south of the country during the same period. Providing some protection for these groups in the north and south of the country were the reason that coalition allies imposed the no-fly zones in the north and south of Iraq at that time.

Saddam Hussein's attacks on his own people are reprehensible from a humanitarian point of view, but why have the U.S. and its allies taken such vigorous measures against him? There are worse humanitarian tragedies and offenders in the world that do not elicit such a response from us. The answer is that a leader who assaults his own people in this way is capable of equally ruthless attacks on other countries, as he has already done to Kuwait. It is important to rein him in when he probes the limits of our tolerance, whether inside Iraq or across its borders. If we let him get away with atrocities at home, he will inevitably be emboldened to carry them to his neighbors once again. It is worth noting that our military reaction to Saddam's latest aggression against the Kurds was directed not against his forces in the north, but against his military capabilities in the center and south of the country, which threaten his neighbors most directly. No Iraqi general could say that Iraq emerged from this incident stronger. Its military capabilities were significantly constricted.

Saddam Hussein's invasion of Kuwait in 1990 was a noxious act of twentieth-century piracy, an unprovoked occupation of a small, peaceful neighbor and fellow member of the Arab League and United Nations. Had the U.S. not organized and led the international coalition to roll back this aggression, Saddam would have gotten away with his gamble to become a regional superpower, with dark and far-reaching consequences for us all.

Many thousands of American soldiers stood up to halt and reverse this invasion. Twice since then we have been obliged to conduct rapid deployment exercises to strengthen our deterrent in the region. When Iraq moved military forces to the border with Kuwait in October 1994 in an effort to intimidate the UN Security Council, the U.S. moved swiftly and decisively to mount Operation Vigilant Warrior and force him back. In August 1995, there were again ominous signs of an Iraqi military threat following the defection of Saddam's brother-in-law, Hussein Kamel. Once again, following coordinated visits to regional capitals by General Peay and my delegation, we increased our military capabilities and pushed back the threat.

The U.S. has taken a clear lead in safeguarding the Gulf, but there is an important multinational dimension of that effort. The UK and France patrol the no-fly zones with us. Turkey plays an important role in the north. Saudi Arabia and the Gulf states host our forces and magnify their effectiveness with capabilities of their own. The Multinational Interception Force is critical to enforcing UN sanctions on Iraq. In the past few months, regional states have accepted a number of vessels interdicted by CENTCOM naval forces into their ports and helped dispose of the sanctions-violating cargoes.

Our policy on Iraq remains clear and firm: Iraq must fulfill all obligations established by UN Security Council resolutions passed after its invasion of Kuwait. No relax-

ation of the sanctions will be possible until Iraq complies fully. There is solid international support for this position. Earlier this month the Security Council unanimously agreed once again to renew the sanctions without modification. All the most recent reports submitted by UNSCOM Chairman Ekeus stress that Iraq continues to hide evidence of past weapons programs and continues to develop long-range missiles and other frightening weapons clandestinely. Iraq has not yet returned stolen Kuwaiti property or complied with one of the most universally accepted rules of warfare: a good-faith effort to account for prisoners and MIAs when the fighting is over.

The U.S. is deeply disturbed by Saddam's callous disregard for the welfare of his people. This disregard goes far beyond the Kurds in the north and the Shiites in the south I discussed earlier. It includes the entire Iraqi population. The U.S. and Oman crafted UN Resolution 986 over a year ago to permit the limited and controlled sale of Iraqi oil for the purchase of food, medicine, and humanitarian goods. We did this because we know that the Iraqi people are suffering real privation from the sanctions, although Saddam and his cronies continue to spend millions on marble palaces and luxury goods of all kinds for themselves.

Saddam took well over a year to engage seriously with the UN on a plan to implement the resolution. The U.S. worked hard with UN partners to design a plan that would provide real humanitarian relief but also prevent the Baghdad regime from diverting the goods and funds for further rearmament and other malignant purposes. Just as agreement all around was within reach, Saddam attacked the Kurds in the north, completely undercutting the viability of the implementation plan, which required UN monitors in the north. The UN Secretary General has wisely suspended any implementation of the plan since the unsettled situation in the north would pose dangers for UN monitors there. We do not know when the plan might be able to go forward. The point is that Saddam had every reason to know that his attack in the north would destroy this chance for humanitarian relief for his suffering population, and he chose to attack anyway. The lesson we must draw from this incident is, sadly, that Saddam has once again shown his willingness to use military force in a blatant act of aggression. He has learned no lessons from past defeats.

Iran

Iran represents a different — and in some ways more complex — challenge for U.S. policy. There are no UN sanctions on Iran. There are significant differences between the United States and its allies over how to deal with the regime in Tehran. We have deep objections to a number of Iran's policies, notably its support for terrorism, subversion of other governments, pursuit of weapons of mass destruction, and a human rights record which is deservedly condemned by the international community. None of these policies is required by Islamic teachings or even condoned by most of the Muslims of the world.

President Clinton's decision last year to impose a trade and investment embargo against Iran affirmed our revulsion at Iran's conduct and our willingness to lead a stronger international effort to confront the Iranian challenge. We have called on all major

industrial states to join us in denying Iran sophisticated armaments, nuclear technology, and preferential economic treatment. We have had substantial success in limiting armaments and nuclear technology transfers to Iran. Our diplomacy has consolidated a consensus among Russia and 29 other governments participating in the Wassenaar arrangement to deny Iran and other pariah states arms and sensitive dual-use items that can have military purposes. Our high-level dialogue with Russia and China has limited their nuclear cooperation with Iran, especially the sort of assistance that would be most helpful in developing nuclear weapons. We hope through persistence and improved intelligence to convince them to end all forms of nuclear cooperation with Iran.

Our success on the economic front is more limited. No European government has yet joined us in a full embargo of Iran, but here, too, we have made progress. No government or international financial institution is providing Iran with any official aid; our allies have substantially reduced the pace and scope of new loans and investment guarantees; and most major oil companies have concluded that investing in Iran is not worth the cost of U.S. pressure and potential retaliation.

On balance, however, the response from our allies has been disappointingly lukewarm, despite our patient urging. Some of our closest allies are tolerant of Iran's outlaw behavior in the hope of commercial gain. They argue that their policy of "critical dialogue" can have a more salutary effect on Iranian policies than the more hard-nosed U.S. approach. Unfortunately, "critical dialogue" has had no appreciable positive effect on the policies emanating from Tehran. Iranian negotiators have snickered at Europe's mild remonstrances.

We believe the time has come to ratchet up the international pressure on Tehran, and we are willing to make our allies uncomfortable if that is what it takes. We have therefore worked with the Congress in recent months to develop the Iran/Libya sanctions legislation, which the President signed into law on August 5. This legislation enables the President to impose a mix of sanctions on foreign companies in the U.S. that make new investments of more than \$40 million in the Iranian petrochemical sector. Our goal is not to damage foreign companies in the U.S. It is to deter them from investing in Iran in the first place by making them choose between the Iranian and the U.S. markets. Nor are we insisting that our allies give up their policy of "critical dialogue," as some erroneously state. Our goal is to make sure that "critical dialogue" is indeed critical and includes penalties for unacceptable behavior. Dialogue without associated economic pressure and real costs to Tehran will continue to be ineffective.

At the same time, the U.S. remains willing to enter an authorized and above-board dialogue with Iran's leadership. We will welcome better relations with Iran once it abandons its destructive and aggressive policies and resumes its place as a responsible member

"Our goal is to make sure that 'critical dialogue' is indeed critical and includes penalties for unacceptable behavior. Dialogue without associated economic pressure and real costs to Tehran will continue to be ineffective."

of the international community. We expect this to be a slow process, but we believe the Iranian leadership will eventually face up to the reality of mankind's aspirations for peace, freedom, and security, and accept the recognized norms of international behavior.

A Regional Concern: Internal Reform

Most of the foreign policy issues I've outlined have their roots in the domestic conditions in the states of the region. Although circumstances vary from country to country, populations are troubled by a lack of political and economic opportunity along with tangible instances of corruption and injustice. This situation fuels extremism, secular and Islamist. Both work against U.S. interests as well as the broader interests of Middle Eastern states and peoples.

This is the world in which our embassies, planes, ships, and tanks do their work to keep the peace. We must weigh measures to preserve security and order against their potential to enflame domestic extremism. When we operate on the territories of friendly governments, we must do so with sensitivity to their culture and their norms. The same is true when we ask for favors or burdensharing. Our requests must fall within the circle of common interests and be pursued through consultation, not diktat.

At the same time, we should not and we do not hide the political and economic values that have enabled the United States to make its mark so indelibly on the world. Our example is driving free-market economic reform, which is progressing in countries, such as Morocco, Tunisia, and Israel. It is energizing important market-oriented initiatives underway in Egypt and Jordan. It is encouraging movement toward more participatory government and respect for human rights and the rule of law. We do not hesitate to urge practical measures to foster political freedom and openness. We do this not because we seek to impose Western models on the Middle East, but because we know from experience that governments must be responsive to the aspirations of their people to keep their allegiance and to ensure domestic peace.

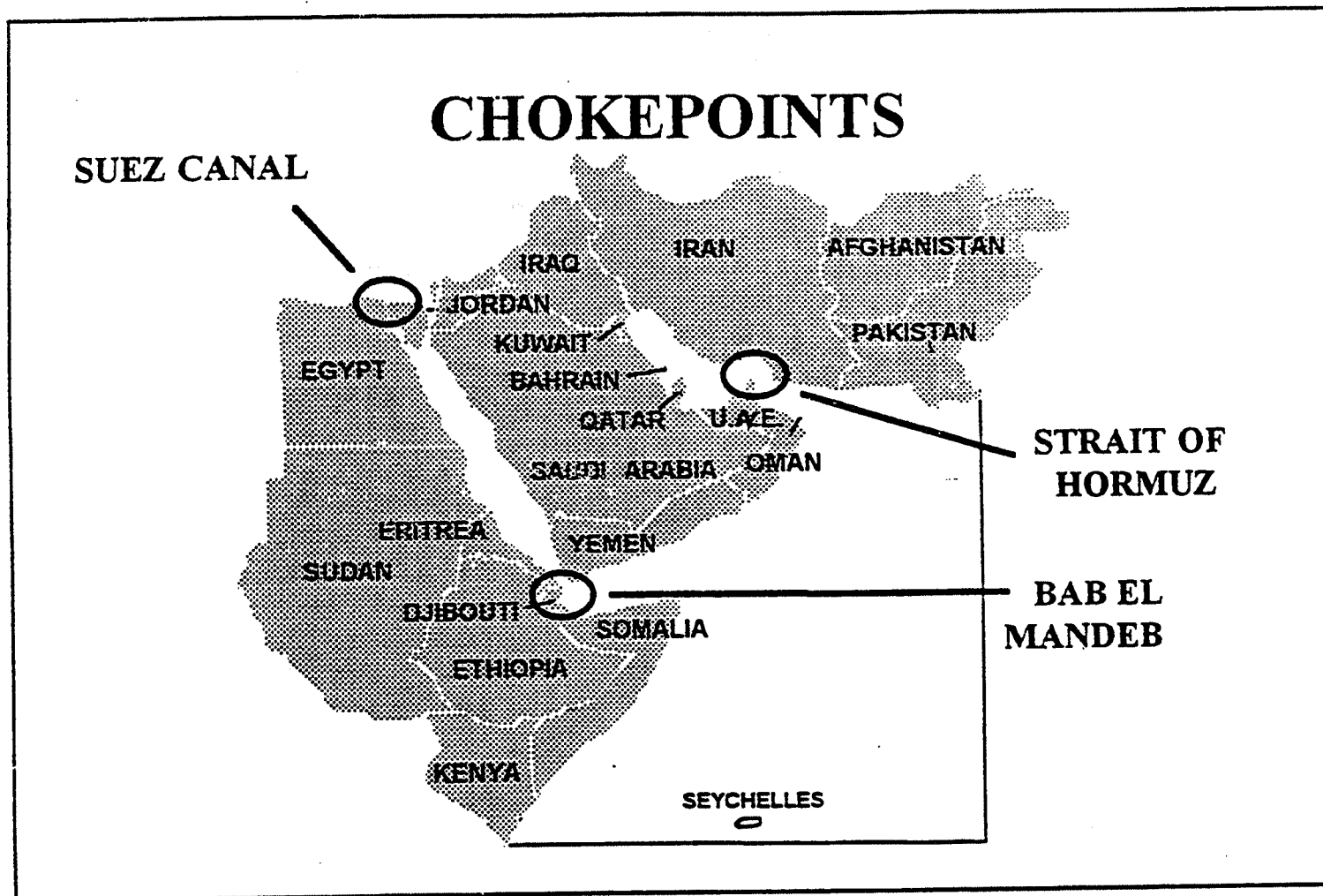
"When we operate on the territories of friendly governments, we must do so with sensitivity to their culture and their norms. The same is true when we ask for favors or burdensharing. Our requests must fall within the circle of common interests and be pursued through consultation, not diktat."

Conclusion

The U.S. agenda has thus moved beyond the prevention of conflict in the Middle East in the last few years. We now aspire to promote peace and, even more ambitiously, cooperation between the nations of the region. Given the history of the region, this is a tall order, but we believe it is a realistic goal in the medium term. The warm and cooperative relations we helped foster between Israel and Jordan are a source of inspiration for other nations in the region and a paradigm of what we seek.

At the same time, security remains the foundation of all progress. We must stand vigilant and prepared against any and all contingencies. As the Khobar bombing and other recent events remind us, security has many dimensions, including security from terrorist attack. This administration is determined to deter and combat terrorism as vigorously as it is determined to deter conventional military attacks on our friends in the region and on our oil supply line. Iran and Iraq are our principal concerns in the entire region, and their defiance of international norms must continue to be met with more than ringing rhetoric. This is why President Clinton took forceful military action against Saddam Hussein's attack on his own Kurdish citizens earlier this month. Iraqi and Iranian behavior is a reminder that extremism and fanaticism still agitate the wider Middle East, especially now that we are making progress toward resolving the Arab-Israeli struggle.

The warriors and the diplomats of the United States stand together in this great endeavor. Together we are a powerful force for peace and stability. Together, we can ensure that America will continue to wear the mantle of leadership — not just in combating enemies, but in building a world that promotes our interests and reflects our ideals.



Map courtesy of U.S. Central Command

"On Conflict and Hope: A CINC's Assessment of the State of Play in U.S. Central Command's Area of Responsibility"

**Remarks by General J.H. Binford Peay, III
Commander-in-Chief, U.S. Central Command
Fifth Annual U.S. Mideast Policymakers Conference
George C. Marshall Foundation
Lexington, VA
Monday, September 16, 1996**

Thank you, John, for that warm introduction. It's a pleasure to be with all of you this afternoon for the Fifth Annual U.S. Mideast Policymakers Conference. I find this particularly delightful for it allows me the opportunity to visit my Alma Mater and see the great Corps of Cadets.

This year's conference, "The Political and Economic Prospects for Security and Peace," takes on the formidable task of exploring policy and resource considerations for attaining regional security and peace — intricate matters that defy simple solutions and confound the best and brightest of the world's leaders.

Recent convulsions of terror and violence in the Middle East and associated undertakings designed to deal with endemic regional challenges have raised the American public's concern as to what is happening far from our country's shores. Bloodshed unleashed by bitter, at times mysterious, foes and the perceived outpouring of national treasure to safeguard America's regional interests produce doubts and fears.

In this bewildering setting, many raise questions:

Why is America involved in the nations that comprise Central Command's area of responsibility?

What are the regional threats to U.S. interests and security?

How much U.S. military presence is needed?

How do we assist regional partners in providing for their own security?

Are regional partners and other allies paying their fair share for U.S. security operations in the region?

As our countrymen grapple with these thorny questions, they must shoulder burdens that thrust our nation into a crossroads where visionary leadership, innovation, and imagination can make the difference between success and failure — burdens that require Americans to staunchly resist opponents of peace, aspiring hegemonists willing to engulf the Middle East and our own nation in violence, death, and destruction to achieve selfish territorial and political ambitions and burdens which, I believe, are effectively addressed through United States Central Command's 5-Pillar Theater Strategy.

Why is America Involved in the Middle East?

Let's begin by tackling the question of why our nation is involved in the Central Region. The answer, of course, is because we have manifold interests in the region. These have changed little over the years. By far, the most pressing of these is maintaining the flow of reasonably priced oil. Some 65 percent of the world's proven oil reserves are located in the region, from which the U.S. imports nearly 20% of its needs; western Europe, 43%; and Japan, 68% — with experts predicting these import percentages to increase by 10% over the next decade. Under the circumstances, disruption of this oil trade or dramatic increases in oil prices would cripple the world economy. Other vital interests include: ensuring freedom of navigation and access to commercial markets, protecting American citizens and property abroad, and promoting the security of regional friends in the context of a comprehensive Middle East peace.

Other important, enduring interests include countering proliferation of weapons of mass destruction, defeating terrorism, stemming the flow of narcotics, encouraging democratization, advancing economic development, and promoting respect for human rights.

Clearly, these multifaceted interests extend beyond access to oil; they underscore our nation's long-standing effort to broker a comprehensive Middle East peace between Israel and its neighbors and reflect our commitment to fundamental values. And we safeguard these interests through continuous presence and reassurance of regional friends.

These are the reasons for America's involvement in the Central Region.

What are the Regional Threats to U.S. Interests and Security?

This brings us to the second question, "What are the regional threats to U.S. interests and security?" We must recognize that safeguarding our diverse interests in the 20 nations of Central Command's area of responsibility is an uphill battle. It is a vast area that extends from Egypt, Sudan, and East Africa through the Gulf states to Afghanistan and Pakistan, and includes the waters and maritime choke points of the Red Sea, Arabian Gulf, and western portion of the Indian Ocean. Persistent unrest in the form of more than a dozen internal and external conflicts plagues the region daily — conflicts rooted in long standing religious and tribal strife among the region's 430 million people, who are divided into 17 different ethnic groups and 420 tribal groupings; conflicts flowing from border disputes, competition for resources, economic distress, and exploding populations; conflicts posing vexing challenges for U.S. policymakers. For simplicity, I like to group these regional threats into five broad categories: Iraq, Iran, proliferation of ballistic missiles and weapons of mass destruction, terrorism, and general regional instability.

Iraq

With its reorganized and streamlined forces and refurbished military hardware, Iraq remains the most dangerous "near-term" threat to regional peace and stability. A recalcitrant Baghdad defies post-Gulf War United Nations Security Council resolutions: refusing to cooperate fully with UN inspections of its military activities, failing to account

for Kuwaiti POWs, and unwilling to return Kuwaiti military hardware and property. Through brutal repression, Saddam maintains a stranglehold on the Iraqi people, with him and his crime family murdering real and imagined opponents to secure the reigns of power. Under the circumstances, there is little room for individuals or groups to unseat the dictator of Baghdad.

Iraq's belligerent moves against Kuwait in October 1994 and August 1995 and its advance against the Kurds in northern Iraq just a few weeks ago underscore that it remains a serious threat to its neighbors. While his army is half its Gulf War size, Saddam continues to field the largest regional army - consisting of more than 420,000 men organized into 23 divisions, armed with more than 2600 tanks, 2900 APCs (Armored Personal Carriers), and 2000 artillery pieces — an army that can mobilize and deploy quickly and that remains capable of threatening Kuwait and Saudi Arabia.

A master of deception and brutality, Saddam has cynically manipulated United Nations Security Council Resolution 986, which permits Iraq to sell \$1 billion worth of oil

FIVE THREATS TO REGIONAL SECURITY

- 1.) Iraq
- 2.) Iran
- 3.) Proliferation of Ballistic missiles and Weapons of Mass Destruction
- 4.) Terrorism
- 5.) General Regional Instability

every 90 days to purchase food and medicine. For years, he refused to abide by the strict procedures and now stridently portrays 986 as evidence of crumbling international resolve. While his recent strike against the Kurds has delayed implementation of 986, we should expect Iraq to eventually resume limited oil sales. When this occurs, we must be vigilant against Saddam's diverting resources to further strengthen his military. Similarly, we must limit erosion of economic sanctions until he complies with all UN resolutions, for allowing Saddam unfettered access to new funds

will support his quest to amass an even stronger force, one equipped with more advanced conventional arms and weapons of mass destruction.

Iran

The long-term threat to regional peace and stability is Iran. In the sixteenth year of its Revolution, Iran competes with Iraq for dominance of the Gulf and is committed to leading the Islamic world. Though suffering from an intense internal power struggle, economic malaise, declining oil revenues, overpopulation, high unemployment, and high debt, Iran continues to enhance its military. On paper, Iran's army is impressive, consisting of 200,000 regulars, 125,000 Revolutionary Guards, several hundred thousand irregular militiamen, and nearly a thousand tanks and hundreds of armored personnel carriers and artillery. Still reeling from its long, costly war with Iraq and prolonged infighting among revolutionary leaders, however, the army and the air force, which consists of only around 200 aircraft, are in poor shape, postured to defend Iran's borders and occupying disputed Arabian Gulf islands rather than to undertake foreign adventures. Of greater concern are

the improvements in Iran's navy. With two Kilo-class submarines and 20 modern patrol boats, several of which are armed with C802 anti-ship cruise missiles, Iran can threaten Persian Gulf shipping lanes. What's more, though Iran's military suffers from significant shortcomings, we must view its position relative to weaker and less populous neighbors. With nearly 70 million people, large numbers of highly-educated engineers and technicians, and vast oil reserves, Iran retains the means, over the long-term, to endanger other Gulf states and U.S. interests.

Tehran compensates for its limited military capabilities by supporting terrorist groups and individuals worldwide — terrorists that promote Iran's revolution and brand of extremist Islam and extremists capable and willing to launch indiscriminate attacks against the U.S. and its friends in the region.

WMD (Weapons of Mass Destruction)

Magnifying these Iraqi and Iranian developments is the continuing proliferation of ballistic missiles, chemical and biological weapons, and nuclear technology. The situation has deteriorated during the past twelve months, with Iraq, Iran, and others in the Middle East pursuing missile and nuclear technology aggressively and advancing their WMD research and development programs. To the dismay of the United States and other countries who are struggling to stem the flow of this destructive weaponry, nations such as China, North Korea, and Russia have supported these efforts. The worrisome trend is aggravated by the ever-expanding inventory of off-the-shelf technology that reduces time lines for developing and fielding unconventional weapons. Intrusive UN inspections of Iraq's efforts indicate Saddam is concealing key elements of his WMD program, in particular inventories of chemical and biological munitions. Additionally, we suspect his ballistic missile and nuclear programs can be restarted quickly with the lifting of sanctions. Iran is pursuing similar programs and has erected underground bunkers to protect command and control and missile-related infrastructure. Armed with these lethal weapons, Iraq, Iran, and other rogue states in the region could soon possess the means to strike unprotected civilians, paralyze governments worldwide with fear and indecision, erode coalition resolve, and directly threaten U.S. interests with advanced, powerful weaponry.

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Terrorism

Exacerbating these perils is the evolving terrorist menace — one that reflects various religious, political, ethnic, tribal causes, one that has afflicted the Middle East for decades and is now plaguing the Gulf states. Various state, non-government, and private

sponsors provide funding, administrative assistance, training, and sanctuary to groups like Hamas, Hizballah, and Al-Jihad. Of increased concern are the emerging "transnational" groups, made up of Islamic extremists, many of whom fought in Afghanistan and now drift among regional states to destabilize traditional regional governments and attack U.S. and other western targets, all in the hope of establishing fundamentalist regimes. Detecting, monitoring, and countering these groups is difficult because they consist of small, cellular structures and generally operate with little centralized direction. Similarly, defending against terrorist attacks is a daunting task, for the terrorist is a criminal, not a soldier. He strikes indiscriminantly at the target of his choosing, with any means, at any time. All targets are legitimate in his eyes. Success against such an adversary imposes a horrific burden on law abiding citizens, political leaders, and military forces of the U.S. and its regional friends.

Regional Stability

Together, these four threats lead to endemic unrest, persistent conflict, and instability. In this environment, the U.S. struggles mightily to support its friends as they grapple with deeply rooted political and social ills. In addition to those already described, other regional states face grave challenges.

Egypt — a major regional military power, a linchpin in the Africa-Arab nexus, a cornerstone of the American-led effort to achieve a comprehensive Middle East peace, and a trusted friend of the United States — continues to battle political and religious extremists seeking to unseat the pro-western, progressive regime. Extremists are supported by Sudan, a nation that sponsors unrest throughout Africa, to include Ethiopia, Eritrea, and Kenya. Owing to its dominance of the head-waters of the Nile River, Sudan's civil war and conflict with neighboring states is cause for alarm. In the Horn of Africa, Eritrea and Yemen are trapped in a tense contest over control of the Hanish Islands in the Red Sea while Somalia continues to hemorrhage from clannish inspired bloodshed. In South Asia, Pakistan and India are locked in a clash of wills over Kashmir, with both committed to pursuing long-range missiles and weapons of mass destruction. Finally, there is the long-term challenge of assisting regional friends in undertaking peaceful and stable political change as aging leaders turn over control to the next generation — a development having long-range implications for our country and the world.

Iran, Iraq, proliferation of WMD, terrorism, and regional stability: these are the five major regional threats with which our nation must contend. These are the five major threats that I focus on 24-hours a day, 7-days a week.

Theater Strategy

So what are we to do about these threats? How do we secure the mutual interests of our country and regional friends? How much U.S. military presence is needed? How do we assist regional partners in providing for their own security?

These questions are addressed in USCENTCOM's theater strategy. It is a strategy that I outlined last year and one that remains valid today. It is a strategy that meets the

demands of operating over lines of communication which extend more than 7,000 air-miles and over 12,000 sea-miles between the continental United States and the Gulf. It is a strategy that accounts for limited formal agreements; is sensitive to regional culture; provides the means of defeating adversaries ranging from terrorists to modern militaries; and contends with some of the world's harshest climates and most rugged terrain.

It is a theater strategy that supports unilateral action when required but recognizes that America's long-term regional goals are achieved best by working cooperatively with regional friends in partnerships and coalitions. Cooperative relationships, in turn, provide the access that offers us the operational capabilities for deploying and employing U.S. military force in the region.

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strategy that promotes military partnerships and coalitions by advancing a long-term, flexible three-tiered approach to deterring aggression: Tier I, 'national self-defense'; Tier II, 'regional collective defense'; and Tier III, U.S. and extra-regional support to regional states. These characteristics of the theater strategy are encapsulated in the five core elements or strategic pillars: power projection, forward presence, combined exercises, security assistance, and readiness to fight.

These characteristics of the theater strategy are encapsulated in the five core elements or strategic pillars: power projection, forward presence, combined exercises, security assistance, and readiness to fight — all of which safeguard America's interests in peace and war.

Our Five-Pillar Strategy recognizes that we cannot generate the combat power needed to contend with the myriad of regional threats with over-the-horizon forces alone. We must harness the complementary capabilities of all of our armed services to deter conflict and win decisively if deterrence fails. We need forces ashore to cement the coalition during crisis. At the same time, we are sensitive to over-saturating regional partners with excessive military forces and respecting regional values. We take steps to avoid growing a generation that embraces anti-Americanism and political extremism. We place the minimum number of personnel ashore and position them in a manner that accomplishes the mission while mitigating their vulnerability to terrorist attack. Our Five-Pillar Theater

Strategy has been tested in a succession of military operations this past year:

MARITIME INTERCEPT OPERATIONS in the Gulf;
OPERATION SOUTHERN WATCH over the skies of southern Iraq;
OPERATION VIGILANT SENTINEL in Kuwait; and, most recently,
OPERATION DESERT STRIKE in southern Iraq;

and in each case, it has proven effective.

In keeping with forward presence, we have a relatively small but lethal mix of air, ground, and sea forces forward in the Gulf. To reduce the time required to deploy additional forces, we preposition stockpiles of supplies and equipment ashore throughout the region, to include an Army brigade set of equipment in Kuwait and Army battalion set of equipment in Qatar. Work continues in Qatar to complete the fielding over the next two years of a complete brigade with division base set of equipment. Through our combined exercises, we reinforce forward positioned forces with units and individuals participating in robust exercises. We promote military readiness of regional partners through security assistance, which includes: foreign military sales, foreign military financing, security assistance teams, and international military education and training.

These regional activities, so critical to confronting regional threats, are buttressed by power projection, our nation's capability to shift military forces rapidly from the U.S. and elsewhere around the world into the region — a capability that we achieve by maintaining a strategic air bridge made-up of airfields and ports worldwide; prepositioning army, air force, and marine equipment afloat; deploying an Air Force Air Expeditionary Force to regional states; transporting units from all services on short notice during crisis response exercises, exploiting U.S. space-based technology for intelligence and communications; and employing CONUS-based airpower, as occurred this last month during Operation DESERT STRIKE. Finally, we ensure the Command's readiness to accomplish its missions and fight by updating and war gaming operational plans, rehearsing rapid deployment during crisis situations, and exercising battle staffs to hone the skills needed to wage high-tempo, joint, and multinational operations.

Through these five strategic pillars, we promote regional peace and stability, deter hostilities, limit the intensity of conflict should deterrence fail, and ensure we can fight and win wars, when called upon.

Conclusion

"Ok," some of you are thinking. You've laid out the regional threats and have described your theater strategy for handling them. But, who pays?

While this question must be answered by our civil leaders, let me suggest three considerations. First, we are involved in the region to protect vital American interests. Money expended in this effort ultimately serves the needs of our people. Can we afford not to pay for the defense of our vital interests?

Second, our military presence also protects interests of regional states. As a result, several of them provide millions of dollars in assistance in kind: oil, food, facilities, and other goods and services. What's more, these same states reward the U.S. for its friendship with commercial contracts involving military and non-military goods and services. How do we determine how much more regional states should pay in cash or assistance in kind?

And, third, our military presence in the region supports the interests of extra-regional allies and friends, those in Europe and Asia. Yet, these nations provide little financial support for our Middle East operations. Seeking funds from those nations is a sensitive political and diplomatic question that impacts on other U.S. interests worldwide.

As you reflect on the intricacies of these and the broader political and economic considerations for security and peace in the region, keep in mind that our nation continues to have vital interests in the Middle East and the Gulf, and there are serious threats to those interests. We do not have the luxury of withdrawing, for doing so would reward aggressors, embolden terrorists, undermine the U.S. and global economy, and endanger other national interests. USCENTCOM's Five-Pillar Strategy offers an effective blueprint for undertaking required military actions. We must be engaged in the region, focus on accomplishing our mission, and remain ready to fight and win decisively against any foe, anytime, anywhere. Thank you for having me.

U.S. TRADE WITH GCC COUNTRIES JAN.-OCT. 1996 (IN MILLIONS OF DOLLARS)		
Country	Exports (including re-exports)	Imports
Bahrain	203.8	104.6
Kuwait	1,609.5	1,405.3
Oman	172.8	394.0
Qatar	171.9	145.4
Saudi Arabia	4,958.0	7,744.2
UAE	1,698.7	438.0
Total	8,814.7	10,231.5
(Source: U.S. Department of Commerce)		

“Economic Dynamics of the Middle East Peace Process”

Remarks by Mr. Jan H. Kalicki
Counselor, U.S. Department of Commerce
Fifth Annual U.S. Mideast Policymakers Conference
George C. Marshall Foundation
Lexington, VA
Monday, September 16, 1996

Good afternoon. It is an honor to address the Fifth Annual U.S. Mideast Policymakers Conference. The George C. Marshall Foundation plays an important role in bringing private and public sector leaders together to find ways to support the Middle East peace process and economic growth and cooperation in the Middle East.

This was evident in the highly successful Fourth Annual Conference held here in Lexington last year. I want to commend Dr. John Duke Anthony and his colleagues for re-convening this conference and for their continuing commitment to the cause of peace and prosperity in the Middle East.

It gives me particular pleasure to address today the economic dynamics of the Middle East peace process.

Economic and Political Dimensions of the Middle East Peace Process

Given the dramatic events in this region over the last year or so, at least one thing can be safely said — in this part of the world, more than in most, no one can predict the future with any degree of confidence.

But there are some predictions — defining the economic challenges of this region — in which I am much more confident. Population in the Middle East and North Africa (MENA) region is growing at the rate of 2.7% per year; the labor force alone is growing at 3.3%. The World Bank predicts that jobs for 47 million new entrants to the labor force will have to be found by 2010. And, if high unemployment levels do not decline, the number of unemployed, most young, will rise from 9 million today to 15 million by 2010.

Compare the MENA nations to others in the developing world. Unfortunately, the Middle East and North Africa lag significantly behind in exports and regional and global economic integration, private investments, and labor productivity.

But the MENA region was not always like this. The recent, excellent World Bank report “Claiming the Future,” which has the challenging sub-title “Choosing Prosperity in the Middle East and North Africa,” elaborates. During the 1960-85 period, MENA nations were in fact high performers, outpacing all other developing regions save East Asia in income growth and the equality of income distribution. Since 1986, with lower oil prices

and economic policies in other nations relatively more favorable to business development, real per capita incomes have fallen by 2% per year, the largest decline in the developing world.

Responding to the Challenges

How does the United States respond to this economic challenge wrapped in one of the most tortured political histories the world has ever faced? We have developed a two-track approach with the MENA nations: political and economic. The two are closely intertwined.

Trade and investment are an essential foundation to underpin the peace process and upon which a more prosperous, stable and peaceful Middle East can be built. We firmly believe that peace and stability are intrinsically tied to jobs and prosperity. Military strength alone cannot secure peace for the long term without an improved standard of living, just as economic growth alone cannot guarantee peace without security.

This mutually reinforcing nature of the two tracks is essential in the Middle East. We have very unfortunately seen deadly attacks in Israel, Lebanon, North Africa, and in the Gulf. These developments have stressed the peace process more than at any time since the White House handshake.

To me, however, the stresses on the political track mean that it becomes even more important to proceed with our economic approach to the Middle East peace process.

We have pursued this economic track vigorously. We have stepped up cooperation with key Middle East nations, established new forms of multilateral economic cooperation, and strongly supported the emergence of annual economic summit meetings. I'd like to give you a short status report on our accomplishments.

The Core Four of the Levant

We continue to have the strongest relations with Israel. Through the bilateral Joint Economic Development Center (JEDG) and the U.S.-Israel Science and Technology Commission (USISTC), we are working with that nation on steps proposed by the Netanyahu government to move Israel toward a post-industrial economy. These steps would reduce the deficit and inflation and restructure the economy through privatization and deregulation. The U.S.-Israel Science and Technology Commission (USISTC), co-chaired by Commerce Secretary Mickey Kantor, is making excellent progress in supporting joint technology commercialization projects.

"Trade and investment are an essential foundation to underpin the peace process and upon which a more prosperous, stable, and peaceful Middle East can be built. We firmly believe that peace and stability are intrinsically tied to jobs and an improved standard of living, just as economic growth alone cannot guarantee peace without security."

In Egypt, Vice President Gore and President Mubarak head a binational commission aimed at identifying and implementing concrete steps by which that country can restructure its economy to grow more rapidly, enhance its international competitiveness, and, thereby, become more stable and secure. This governmental dialogue is supplemented by a joint business group, the Presidents' Council, whose work and advice is furnished directly to our two nations' leaders.

Let me also mention a regional initiative with many accomplishments and great promise. In February of last year, the late Secretary Ron Brown played a leading role in launching an initiative aimed at uniting the peace process nations commercially. He called for a meeting to take place with his counterparts from Israel, Egypt, Jordan, and the Palestinian Authority. That meeting took place, hosted by former Egyptian Minister Mahmood, in Taba, Egypt. It was an important and historic event in underscoring the commitment of the participants to the peace process and to the goals of regional economic cooperation and trade development. The Taba meeting was the first opportunity for trade leaders of the region and the U.S. to jointly discuss commercial issues, including market access barriers.

As a result of that meeting and follow-up meetings, the trade leaders announced a number of steps that should be taken to accomplish our joint objectives. For example, we are developing a Middle East information highway, called "PeaceNet," which will collect and disseminate trade and investment opportunities in the region. In addition, for example, we are working to identify barriers to regional trade. Working with our Taba partners as well as our sister agencies, the Commerce Department has prepared the market access study which identified barriers to regional trade and recommended steps that could eliminate or reduce those barriers to trade.

The Economic Summit Process

As you know, the Middle East/North Africa Economic Summit process began about three years ago in Casablanca. There, the meeting was the message. Last year in Amman, where the Summit process was formalized into an annual event, the message was that the Middle East is open for business. And indeed this has been the case as many noteworthy deals have been struck. In fact, at least 10 major industrial projects in the region were either initiated, advanced, or signed at the Amman Summit, worth billions of dollars. These are tangible benefits of the economic approach to the peace process.

"With the Fourth Economic Summit to be held in Doha, we will be looking toward our friends in the Gulf to become truly equal partners in this Summit process. The countries of the GCC will have an opportunity to showcase themselves, within a regional context."

Now with the Cairo Summit fast approaching, we intend to encourage this process to move a step further. New problems on the political track of the peace process raised questions in Egypt and elsewhere about the Summit. But we will do all we can to keep the Summit on track — and to return the momentum to the peace process by focusing on the very positive benefits of what can be

achieved at Cairo. In this regard, President Mubarak's recent confirmation that the Summit will take place as planned from November 12-14 is very welcome news indeed. Through the Summit, even more private sector opportunities can be identified and, more importantly, these opportunities can be linked to specific steps by governments to reform and liberalize their economies and trade regimes.

And, of course, we are looking ahead to Doha. With the Fourth Economic Summit to be held in Doha, we will be looking toward our friends in the Gulf to become truly equal partners in this Summit process. The countries of the GCC will have an opportunity to showcase themselves, within a regional context. This type of commitment clearly will be heard by the U.S. business community and, I am sure, the larger international business community as well. We hope that increased foreign investment in the Gulf countries will result from the Doha Summit, demonstrating the benefits to the Gulf nations themselves of regional economic cooperation and peace in the MENA area.

Regional Economic Institutions

In working with the region on the political and economic tracks, it became clear that the Middle East needed an institutional basis to promote regional economic cooperation and peace. Since the 1991 Madrid conference, that institution-building has occurred importantly through the Regional Economic Development Working Group, bringing together Middle East nations with partners in America, Europe, and Asia.

In addition, the Summit process has created a number of institutions that are oriented toward the private sector. The Regional Business Council (RBC), for example, will be a strictly private sector organization. Initially, the RBC will be established by Egypt, Israel, Jordan, and the Palestinians, but it will be open to broader regional membership. The Council should serve an important role in engaging in the ongoing policy dialogue with regional governments and should function as a vehicle for economic reform and regional commercial cooperation.

The Council will offer a valuable forum where private companies can network; it will serve as a voice to the public sector. To show our commitment to the RBC, the United States has provided technical assistance to jump-start its operations. The Council's first annual meeting should take place around the time of the Cairo Summit. We hope that this regional institution will play an important role as a voice for the private sector, helping to ensure that the views of business guide governments and the Summit process ahead.

The Middle East Development Bank is an institution that will promote development across the MENA region. The Bank will operate more like a merchant bank than a traditional development bank.

Using its small capital base, about \$5 billion, the Bank will leverage existing resources in the private sector, the World Bank, and other multilateral institutions. The Bank has three specific tasks: to promote privatization, private sector growth, and entrepreneurship; to support regional development projects, particularly trans-border infrastructure; and to enhance regional economic policy dialogue and coordination through a regional forum.

The Administration strongly supports the establishment of the Bank, which also received the strong endorsements of President Mubarak and Prime Minister Netanyahu during their recent trips to Washington. In our view, the Bank is a vital part of our support for regional economic growth and reform.

Another important institution that is poised to take advantage of one of the economic advantages of the Middle East is the Middle East-Mediterranean Travel and Tourism Association. It will be launched at the Cairo Economic Summit.

Peace has made tourism an even more attractive option in the region. In 1995, tourism generated more than \$78 billion in revenue, or about nine percent of the region's GDP. It also generated about \$19 billion in infrastructure and other capital investment. Tourism and tourism-related industry employs about ten percent of the workforce in the region.

Intra-regional tourism will help bridge cultural gaps and foster greater understanding. In fact, Israel and Jordan have recently begun to offer airline service between their respective capitals. Already 100,000 Israelis and tens of thousands of Jordanians have visited each others' countries.

"Peace has made tourism an even more attractive option in the region. In 1995, tourism generated more than \$78 billion in revenue, or about nine percent of the region's GDP... Tourism and tourism-related industry employs about ten percent of the workforce in the region."

North Africa

In North Africa, the United States continues to work hard to help make each of our Maghreb partners more attractive for foreign trade and investment. Senior U.S. officials, including the late Secretary Ron Brown, have met with the leaders of Morocco, Tunisia, and Algeria to discuss ways to strengthen our economic ties. Morocco and Tunisia, in particular, have given great support to the peace process, and it is only fitting that they should reap the benefits of the peace.

Under our Trade and Investment Framework Agreement with Morocco and our Bilateral Investment Treaty with Tunisia, we are expanding our commercial relations. In Algeria, our economic engagement is also increasing, most notably in the energy area. And in these three countries, we are seeking to encourage sub-regional cooperation in a manner that parallels our ties with the Arab countries and the Gulf.

U.S.-GCC Economic Dialogue

At the last meeting of the U.S.-Gulf Cooperation Council (GCC) Economic Dialogue in Bahrain last March, we heard the GCC delegation say in no uncertain terms that they were anxious to increase levels of trade, investment, training, and technology transfer with the United States. Many of these nations are seriously confronting the prospect of

dealing with increasing numbers of young entrants into the workforce with less oil-derived government revenue and still very low levels of investment. As in the case of the Taba Declaration last year, the U.S. and the Gulf countries joined in the most forward-looking statement yet calling for a complete end of the Arab boycott of Israel.

We also joined in explicit statements about the need to counter the threats of Iran and Iraq, which are even more timely as the Saddam regime engages once again in aggressive behavior.

Participants in the Economic Dialogue worked out a concerted program — the GCC co-chair termed it a breakthrough — at that meeting in order to deal with the top priorities for both sides: investment and tax agreements; overcoming barriers to trade and investment; and strengthening economic cooperation between the U.S. and the GCC nations, within the Gulf Cooperation Council, and among the MENA nations themselves.

The Departments of Commerce and State recently hosted the first meeting of the Working Groups established to deal with each of these priorities.

In Working Group One, we discussed in detail GCC investment codes and taxation concerns. We presented a detailed paper in Working Group Two elaborating specific trade and investment barriers which our industry helped us to identify as being significant impediments. Working Group Three, on regional economic cooperation, proved the most sensitive, as you might imagine. Nevertheless, we made progress there as well, submitting questions which we suggested might help inform thinking on both sides. The Working Groups will convene in Washington at the policy level next month to conduct an interim review of our progress.

Based on our joint work in the Dialogue process, we hope that the upcoming GCC heads of state meeting later this year will review progress and provide the all-important political green light for real movement in making the Gulf region a much more attractive place for investors and business.

Regional Economic Cooperation

The prospects for greater economic cooperation and integration are great — whether in the sub-regions of the Levant, North Africa, and the Gulf or in the MENA region as a whole. To fulfill these prospects, we must meet the challenges. Currently, intra-regional merchandise trade is limited to only seven percent of total exports and imports, compared to intra-regional levels of over 60 percent in the European Union, over 30 percent in Asia, and around 20 percent in the Western Hemisphere. Of course, greater regional cooperation requires greater political commitment as well. It is important that the countries of the Middle East realize that greater intra-regional trade will strengthen all of the countries of the region, and that trade and peace will be mutually reinforcing.

Another important way to bring this about is to encourage the countries of the region to pursue flagship transnational projects. These projects include some that are just in the planning stages and some that are further developed. They include the Qatar-

Israel LNG initiative, the Egypt-Israel gas pipeline, development of the Jordan Rift Valley, the Trilateral Industrial Development Initiative, industrial zones, GCC electrical power and natural gas grids, and joint-venture textile projects among Egyptian, Jordanian, and Israeli entrepreneurs. These and other noteworthy proposals make a compelling case for increased economic, and therefore political, cooperation among nations of the Middle East.

Conclusion

Clearly, we face more challenges on the political track of the peace process than we have in the past. We can, and we must, overcome these challenges. However, some in the region have suggested that we should delay progress on the economic track until these challenges are resolved. I believe that these voices have got it exactly wrong. We should redouble our economic efforts — bilaterally, multilaterally, and regionally — because economic progress is important in its own right, and because economic progress will create a climate more conducive to political accommodations and peace.

A prosperous future for MENA nations is possible. It is not a matter of resource endowments, distance to major world markets, or past history. It is a matter of choice.

We believe that the countries of this region have the ability to grow faster and enhance the material quality of life for more and more of their citizens. We believe that they have the ability to attract capital and technology and to develop markets for a myriad of products and services. We believe that these nations can develop their economies to absorb the large number of job entrants who are already waiting to begin their future.

It will take a choice — a choice by these nations to adopt reform policies which will lead to the growth and prosperity which we can see in so many developing regions of the world today. Peace and substantial economic reforms will work here as they have everywhere else.

The programs and initiatives I have outlined today are only intended to lay a foundation for what could be an economic rebirth for the region. The United States government is firmly committed to work with the nations of the MENA region along both tracks — political and economic. It is our fervent hope that both move quickly and succeed. Thank you.

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ABOUT THE AUTHORS

Ambassador Robert H. Pelletreau, Jr., a career Foreign Service Officer, recently retired as Assistant Secretary of State for Near Eastern Affairs.

Since joining the Foreign Service in 1962, his diplomatic career has included service in Algeria, Morocco, Mauritania, Lebanon, Jordan, Syria, as U.S. Ambassador to Bahrain, Director for Arabian Peninsula Affairs in the U.S. Department of State (1981-1983), and as Deputy Assistant Secretary of Defense for Near Eastern Affairs and South Asian Affairs (1980-81 and 1985-87). He served as U.S. Ambassador to Tunisia (1987-91) and most recently as U.S. Ambassador to Egypt until his nomination as Assistant Secretary of State for Near Eastern Affairs. He was sworn into the latter position on February 18, 1994.

Born in Patchogue, New York in 1935, Ambassador Pelletreau attended the Institute of Political Studies in Paris, Yale University (B.A., 1957), Harvard Law School (LL.B., 1961), and practiced law with the New York firm Chadbourne & Parke. He is a recipient of the Department of Defense Civilian Service Medal, the Department of State Distinguished Honor Award, the Department of Defense Medal for Distinguished Public Service, and the American Foreign Service Association Christian Herter Award. Ambassador Pelletreau speaks Arabic and French, is married to Dr. Pamela Day Pelletreau, and has three children.

General J.H. Binford Peay, III, USA, is the Commander-in-Chief, U.S. Central Command (U.S. CENTCOM) at MacDill Air Force Base, Florida.

After attending the U.S. Army War College, General Peay served as Senior Aide to the Chairman of the Joint Chiefs of Staff. During this time, he was also the Chief of the Army Initiatives Group in the Office of the Deputy Chief of Staff for Operations and Plans, U.S. Army. Following was service as Assistant Chief of Staff, Director of Plans and Training, I Corps, and Commander, 9th Infantry Division Artillery, both assignments at Fort Lewis, Washington. In 1985, he was reassigned to the Army Staff as Executive to the Chief of Staff, U.S. Army. From 1987-88, he served with the Screaming Eagles as Assistant Division Commander, 101st Airborne Division at Fort Campbell, Kentucky, and from 1988-89, as Deputy Commandant, Command and General Staff College, Fort Leavenworth, Kansas.

In 1989, General Peay assumed command of the 101st Airborne Division (Air Assault) and led the Division throughout Operations Desert Shield and Desert Storm. Promoted to the rank of Lieutenant General, he was assigned as the Deputy Chief of Staff for Operations and Plans, Department of the Army, and Senior Army Member, United Nations Military Committee, from 1991-93. In 1993, he was promoted to the rank of General and appointed the 24th Vice Chief of Staff of the U.S. Army. He assumed his present position as Commander-in-Chief, U.S. Central Command, on August 5, 1994.

Mr. Jan H. Kalicki is Counselor to the U.S. Department of Commerce, specializing in international trade and investment, and is responsible at the Department for the Middle East, the New Independent States, and other emerging markets. In addition, Mr. Kalicki is the Clinton Administration's Ombudsman for Energy and Commercial Cooperation with the New Independent States.

Mr. Kalicki was previously Senior Vice President at Lehman Brothers in New York, where he managed the Firm's N.I.S. and Middle East businesses, and Senior Advisor and Adjunct Professor at Brown University in Rhode Island, serving at both institutions since 1984. He has also served as Executive Director of the Center for Foreign Policy Development and Assistant to the President of Brown (1985 to 1988) and taught previously at Harvard, Georgetown, and Princeton Universities. He was Chief Foreign Policy Adviser to Senator Edward M. Kennedy (1977 to 1984), a Member of the U.S. State Department's Policy Planning Staff under Secretary Kissinger and Secretary Vance (1974 to 1977), and a U.S. Foreign Service Officer (1972 to 1974).

Mr. Kalicki received his B.A. in 1968 from Columbia College and his Ph.D. in 1971 from the London School of Economics and Political Science. He is the author of a book and numerous publications on U.S. foreign national security and international economic policies. Mr. Kalicki is a member of the Council on Foreign Relations, the Royal Institute of International Affairs, and the International Institute for Strategic Studies. He was born in London, England in 1948. He is married and has two sons.