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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

THE HUDSON INSTITUTE - "TRADE CAPACITY BUILDING"

with Administrator Andrew Natsios

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MR. WEINSTEIN: Good afternoon and welcome to Hudson Institute. I'm Kenneth Weinstein, Director of Hudson's Washington, D.C. office. We're delighted to be the venue for today's kickoff of the U.S. Agency for International Development's Trade Capacity Strategy. That being said at the outset, let me kindly ask everybody to please shut off your cell phones, since they will be picked up, ringers will be picked by the cameras and recording equipment here.

We're especially honored to have such distinguished panelists with us to discuss the Trade Capacity Strategy, primarily USAID Administrator Andrew Natsios, His Excellency Karim Kwar, the Ambassador of Jordan to the United States, and my Hudson Institute colleague, Senior Fellow, Carol Adelman.

It is altogether appropriate that this forum be held here at Hudson. Trade and Development have been critical issues for Hudson ever since our founding some 42 years ago. Herman Kahn,

Hudson's Founder, the great futurist, viewed trade and technology, especially agricultural technology, but medical and information technology as well, as critical to what he termed the Great Transition, the historical period we are now in that will bring the lessons of the modern world to all mankind.

Over the years Hudson scholars have written literally dozens, if not hundreds of articles and monographs on the importance of technology to the developing world. Over the decades our scholars have written widely on trade in the regions from Europe to the Americas to Asia. Two Hudson Institute colleagues, economist Dennis Avery and Irwin Stelzer, sit on the U.S. Trade Representatives Trade and Environmental Policy Advisory Committee. And I should add that as today's event follows on the heels of the President's May 9 speech calling for the U.S.-Middle East free trade area, I should add that Hudson has done much critical work in recent years under the guidance of [Inaudible] on middle east policy as well, focusing in particular on democrats and the Palestinian authority.

That being said, it is my distinct pleasure to introduce Hudson Senior Fellow, Carol Adelman, who will take over the proceedings. Carol is a development specialist whose work here at Hudson focuses on international health care, and foreign trade as well. Her articles have appeared in such publications as the Wall Street Journal, the Lancet, and Policy Review. She holds a doctorate in public health from the Johns Hopkins University, and served as Assistant Administrator at the U.S. Agency for International Development in the first Bush Administration, where she was in charge

of AID programs to Asia, the Middle East, Central and Eastern Europe during the critical time period as Berlin Wall came tumbling down.

Carol is one of the authors of USAID's Foreign Aid in the National Interest, promoting freedom, security, and opportunity. And Carol's contribution to this very important volume stresses the greatly under-reported role of the U.S. private sector in foreign aid. Carol is a cherished colleague here at Hudson, a far-sighted policy analyst, whose critical work on the importance of the private sector in development efforts I think helped to reshape our understanding of how development occurs.

[Applause.]

MS. ADELMAN: Thank you, Ken.

It really is a treat to be here and to have Andrew here and Ambassador Kavar. I thank you so much for coming, and on such an important topic. And why is it important? Because trade and investment is indeed positively correlated with economic growth as this wonderful report that [Inaudible] totally [Inaudible] I'm sure tells as well as just the larger size of trading investment versus foreign aid and the more lasting and sustainable impact from job creation and lasting institutions created by the private sector, and the fact that trade investments support democracy, that the institutions and the public transparency, and a kind of public accountability that comes with international agreements, both internationally and domestically, are critical to open markets and open societies, that they go hand-in-hand.

I used to say they are two sides of the same coin, when everybody said, "Which comes first? Open markets and then democracy? Or democracy and then open markets?"

And I'm especially honored today to introduce Andrew. Andrew and I worked together in the Bush 1 Administration, and we were there at a very special time when the wall fell. And we, I think, both felt that it was a historic privilege to just happen to be in the U.S. Agency for International Development at a time when there were so many opportunities to help countries that had been so caught in the time warp of communism, have the opportunity to help them come out of this.

And I feel that Andrew is now again at a very historic time in the agency, as he seeks to now bring AID's resources to particularly the Middle East, but to many of the least developed countries in Africa that are now besieged by the great pandemics of this century.

You all probably know Andrew. But after working with him at AID, probably some of you know that he went on to be CEO of the Massachusetts Turnpike Authority, in charge of the Big Dig. And I always wondered, Andrew, if that didn't give you a lot of experience in digging yourself out of intragovernmental warfare in Washington, D.C. You'll have to tell us that.

[Laughter.]

MS. ADELMAN: If you have any experiences there. Then he was Vice President, of course, of World Vision, and did a wonderful job there. And dear to think tanks' hearts is that Andrew was in a think tank. And he went to two very prestigious universities, but

especially dear to those of us in the think tank world is that he's the author of two books. And those of you who have written books know what that means, and the time and the effort that goes into that. And his one book was on U.S. Foreign Policy, The Four Horsemen, and The Apocalypse. And the other one was on The Great North Korean Famine.

So, without any further adieu, I'm really honored to introduce a good friend and former colleague, although I feel like we're colleagues now, having worked with you on the foreign aid in the Foreign Aid in the National Interest, and it's such an exciting report.

I'd like to introduce Administrator Andrew Natsios, to talk to us about his new program.

[Applause.]

ADMINISTRATOR NATSIOS: Thank you very much, Carol. It's a pleasure to be here today.

I want to first thank you for all of the work you've done with us since I became Administrator, in some critical areas of intellectual ferment, not the least of which is the Global Development Alliance, and the last chapter of the Foreign Aid in the National Interest Report, in which Carol for the first time describes in some detail the level of private foreign aid from civil society in the United States.

It's sort of interesting, when I first became Administrator, I went to a meeting called the Tidewater Conference,

which has been going on for 24 or 25 years now. And it's a meeting of all the development ministers of donor governments, and they meet without staff, and the U.N. is allowed to go as observers and the iffy's but not to say anything, which I sort of like a lot. Instead of being lectured to, we lecture to them. But they sit there and they listen to us.

But it's quiet and there's no media, and it was very interesting. And I described what we had done announcing the Global Development Alliance. And one alliance we had done where we had put \$50 million in and the Gates Foundation had put \$750 million. And they started calculating what that meant. And I said, "Well, you know, I'm sure we can do that in every case." And we can't guarantee a leverage of that magnitude. But it certainly is a nice sort of ratio, \$50 million to \$750 million. And they were sort of in shock.

And I went to another conference in Nigeria last December, in which I described Carol's research that indicated conservatively that private American universities give \$1.2 billion in scholarships, not related to the U.S. government; private money to people from the developing world, many of which we have AID missions in. Because this conference was on education for all and improving literacy rates and all.

And I said, "We should count this." They said, "Absolutely not. You can't count private contributions. And we never heard of such a thing. You know, what's this \$1.2 billion?" And I said, "Are you telling me that if we train a person to be a teacher at the School of Education at Harvard, or Columbia University, that you don't count that as capacity building in foreign assistance?" Well,

of course, they couldn't say no, because they sent people with public scholarships to the same schools.

I said, "I don't understand why if you have private money the scholarship's nature changes its character, because it's private money versus public money that funds the scholarships. A scholarship's a scholarship." And of course, that caused a very heated discussion. And it is very entertaining to see how difficult it was for international public sector institutions to deal with non-ODA money that has the same objectives as ODA does. Official Development Assistance.

Anyway, Carol's research has caused a lot of trouble in international conferences, which I just want to thank her for, because--

[Laughter.]

ADMINISTRATOR NATSIOS: --I find it very entertaining myself.

I was asked, or the comment was made, as to what the Big Dig prepared me for. And there are two lessons from the Big Dig. I had been the CFO and the CO of state government the day before I took over the Big Dig. Paul Celluci, my friend who is now Ambassador to Canada, gave me 24 hours notice. He came to work on Friday. I said, "Paul, I think Tuesday you're going to fire Krisiotis [ph] as head of the Big Dig, and I'm going to name five world-class engineers to take this over."

And he said, "Andrew, I'm not going to fire him, but if I do, I have the perfect candidate." And I said, "Who is that?" He said, "You." And I said, "No, no, no, no. I hate the Big Dig. I voted against it. It's not a good expenditure of public money."

[Laughter.]

ADMINISTRATOR NATSIOS: "I don't think is a good idea." He said, "No, we're not going to do it. I just wanted to tell you that just sort of as a joke."

And on Monday he came to work and he said, "Tomorrow morning at 9:00, I am going to fire Krisiotis. I am announcing you as the new head of the Big Dig." I said, "I will not accept." He said, "You don't have any choice, because I'm going to announce it."

[Laughter.]

ADMINISTRATOR NATSIOS: And I said, "Why are you doing this to me?" He said, "Because I need someone to fix it. And I don't need an engineer, because the engineering is fine. The problem is the finances, and you're a finance person." So I took it over.

So the rule is: Never accept jobs from friends.

[Laughter.]

ADMINISTRATOR NATSIOS: Second is: Never accept a job with 24 hours' notice.

[Laughter.]

ADMINISTRATOR NATSIOS: And the third thing I did learn is I know how to dig big holes and then bury myself in the holes.

[Laughter.]

ADMINISTRATOR NATSIOS: Okay?

However, what I'm going to talk about today is neither big holes nor Big Digs. We're going to talk about something that I really think the empirical evidence is clear on, that the only way poor countries become prosperous is through growth. And the question of course is the relationship between foreign assistance, public and private, and growth rates. Is there a relationship?

I think there is. But we need to talk about this, because there's been a debate in the city that I think is inappropriate. It's trade, not aid. Well, it is trade and aid, but it's the right kind of trade and the right kind of aid. And we'll talk about the nuances here in just a minute. Next slide please.

This is from the National Security Strategy of the President. First that economic growth is a key element of that strategy. This is a document that was very controversial when it came up. By the way, it's on our website. For those of you who don't think we're a foreign policy agency, we have more foreign policy documents than we do development documents, now, because we are a foreign policy agency, defined in a little different context in terms of chronology, since we take a much longer view in terms of time. But, nonetheless an essential part of our strategy.

By the way, the National Security Strategy says there are three tools of diplomacy or tools of foreign strategy that we use in foreign affairs. One is diplomacy, the second is defense, and the third is development. So the President himself and Condi Rice have

identified development as one of the three triad of tools available to policy makers.

This is the President says: A strong world economy enhances our national security by advancing prosperity and freedom in the rest of the world. Economy growth supported by free trade and free markets creates new jobs and higher incomes. Now, next slide.

Now, there's been a lot of, I think, loose talk about the relationship between terrorism, which is clearly a national security challenge we face, and poverty. And it is clear that there's no real direct relationship between poverty and terrorism. The people who attacked the United States September 11th were not from poor families. They were from middle-class families and most of them had degrees and were educated people. So we should be careful about making loose connections.

However, it is true that countries that have a lot of corruption, weak institutions, or our failed or weak states are vulnerable to the terrorist networks and drug cartels and human trafficking. And the other international criminal syndicates that we deal with all over the world.

It is interesting that the three countries that al Qaeda called home were: Sudan, that's been in the middle of a civil war for 20 years; Somalia, which has not had a national government since 1991; and Afghanistan, which had not had a government in ten years. Taliban was really not a government; it was movement, not a government. And it didn't control the whole country.

Why is it Taliban was attracted to three failed states? Because it's much easier to function there. That's why.

Next slide, please.

Now, I do want to use just a little bit of political philosophy. There's an old document called "The Politics of Aristotle," a favorite writer of mine. And it's not on this slide. But Aristotle says as he analyzes the different models of political development. I mean it actually is a classic work for D&G, Democracy and Governance scholars on the classical Greek fifth-century models for how you develop politically.

And he says something interesting. He said: The most stable political systems are those with a large middle class with a functional aristocracy. That are democratic. So democracy equals middle class, and aristocracy to moderate; the aristocracy moderates the extreme tendencies of democracy. This is what Aristotle argues. But he says if you have a large middle class, it tends to create a stable political system.

And that lesson, frankly, is very true in the 20th century. There are very few functioning democracies that do not have a middle class. How do you create a middle class in a very, very poor country?

I'm amused, I listen to people lecturing people from the developing world when I was in a conference. I won't tell you where, it would be politically incorrect to say. And they were criticizing Mozambique for some national document. And they were claiming that there wasn't enough focus on poverty reduction. And one of the ministers got up and said, it was quite funny, she said, "I wish you

people would stop lecturing us. You've never been to Mozambique. There is no middle class in this country. There are a few rich people, a very few number of them, and everybody's poor. So the notion that we should have a strategy focused on the poor, which are 98 percent of the country, doesn't make a lot of sense. If you focus the strategy on development of the economy in Mozambique, you are by definition helping poor people, because that's what everybody is in the country."

And he said, "Stop giving us lectures on how we should redevelop our national development strategy."

And so if you see the countries that are making progress are those that are making progress toward developing a middle class. And how do you do that? Of course, through economy growth.

This chart is from work that was done by a guy named Collier at the World Bank on conflict. And it was very interesting because what they did is they took five variables that aggregated up to what they call a 'risk multiple,' which tells us the likelihood of armed conflict in the country itself.

The largest variable by far is income level. The second variable there. And the second largest is sort of the consolidation of peace. But if you look at them, they're: Commodity price dependence; income level; growth rate, the economy; peace; and the population size. And these all add up to high levels of risk. In terms of countries that are marginalized. Which marginalized countries that don't have good factors data in these five categories have ten times greater risk of conflict than those which are developing successfully. Next slide, please.

So we need to focus now on long-term growth. And the question is how you do that. I mentioned just a minute ago the relationship between democracy and middle-class development. But we do know there is also a relationship between good governance, democracy, and development.

And Larry Diamond wrote the first chapter from the Herbert Hoover Institute at Stanford, wrote the first chapter in the book, that Carol wrote a chapter on private foreign aid. And his chapter is on, of course, democracy, one of the two democracy scholars in the United States. And he makes a very convincing argue that good governance and democratic governance to restrain the power of the state are critical elements in long-term economic growth.

The second piece of evidence we have is from the Asia Giants, which show that investment in primary health care first, and secondly in primary education, are critical factors in the development of the Asia Giants.

I might also add I come from Massachusetts, and of course we were the first industrialized state. That's where the industrial revolution started in the United States. It is not a coincidence it is also the state where the Puritans prior to the Revolution put in state-wide laws requiring literacy at the village level. Every town had to have a school. And of course the great Federalist leader in the 1830s, Horace Mann, who is sort of an icon now of education, wrote first laws in the 1830s in Massachusetts, implementing a very

aggressive campaign of literacy at the local level, 170 years ago, that created the base for the industrial revolution in Massachusetts.

We also know that there's a relationship between improving agricultural productivity and free markets, because 80 percent of the people in the poorest countries of the world are farmers, or they rely indirectly on farm-related incomes for their family livelihoods.

Also, we were looking at some very interesting data recently on what has created or improved agricultural productivity. In the beginning stages of the Green Revolution, there were many factors that led to increased productivity. But since 1980 the most important factor, 50 percent of the growth and agricultural productivity in the developing world is the result of improved seeds, which are technology-related, and that tend to be in the private markets.

And a lot of research has been done on this through the CGIAR network, but there are private companies doing this research. And as that seed gets out, it clearly improves the productivity of land. India has higher per-hectare productivity than some area of the United States, believe it or not. Four tons per hectare in many areas of India.

By the way, you know what the tonnage productivity in Iraq is? It's comparable to North Korea's. Two-thirds of ton per hectare. It's among the lowest in the world. It completely ruined the agricultural system by lack of new technologies, lack of investment, destruction of the irrigation systems, lack of maintenance. And that's one thing we're going to be dealing with in that.

But there is a relationship clearly between productivity in the agricultural sector and longer-term growth. Usually it proceeds it, and I think all countries that have grown economically with the exception of Singapore, Hong Kong, and Mauritius, which are not really countries, they're more city-states. Mauritius is a small island, group of islands, in the Indian Ocean.

But all of the countries have proceeded their industrial growth with wide improvements in agricultural productivity. Next slide, please.

ADMINISTRATOR NATSIOS: The question, of course, is what other parts are there to this paradigm? I don't like using that word, paradigm. This strategy for poverty reduction through robust growth? And of course these are the three principles in the President's Millennium Challenge Account speech and the legislation that's before Congress.

The first is economic opportunity, particularly in micro-economic reform. Which is the tax code, the regulatory system. We've done a lot of work in the macro-economics, the stable currency and low inflation. That sort of thing. But the reality is we have failed in the micro-economic. How long does it take to start a business? How productive are enterprises in the private sector?

And those micro-economic reforms lead to improved productivity in business enterprise and in investment. And that is a critical part of robust growth.

Secondly, the data, as I just mentioned in the area of education and health count. And a stable political system without civil war going on. If you have a civil war going on, you're not going to get a lot of investment. Because as Colin Powell says all the time, capital is a coward. It does not move to places of high risk. And of course, democracy and good governance. Next slide, please.

Trade and investment are the principle mechanisms through which the global market forces generate growth, and they do that through competition and the development of human resources and higher levels of education, technology transfer and innovation. I just mentioned seed technologies that are a critical part of agricultural productivity. And the fact that the developing countries are critical parts of our strategy at Doha is quite intriguing. It's not north versus south. Many developing countries are our strongest supporters in the Doha Round. I won't tell you who we're debating with. You can guess. But it's not with the developing world. Of course, that's annoyed the Europeans a lot that their former colonies are allied with us. But I'm not supposed to say that. We're supposed to be collaborative and collegial here.

Next slide, please.

This is a very, very important critical factor. Countries that have taken down their tariff walls, and done the micro- and macro-economic reforms and have stable systems and integrated themselves into the international market place, have had annual per-capita increase in income of 5 percent. It's not an accident the Ambassador from Jordan, my good friend, is here today. Because

Jordan since they signed the Free Trade Agreement with the United States, have had--I'm stealing your thunder now, Ambassador--

[Laughter.]

ADMINISTRATOR NATSIOS: --four or five percent growth rate, the highest by far in the Arab world. But if you take out, I mean I don't think Jordan has any oil at all, does it? No. It's very interesting, a country without oil is growing more rapidly than countries with oil. Tells you something, doesn't it?

And the countries that have created huge walls around themselves refuse to join the marketplace, or allow oligopolies to control the national economies, had a decline of 1.5 percent in their growth rates, a decline.

Next slide shows this graphically. Okay? The 3.5 percent are the basically wealthy countries; 5.7 are the normal integrators; 1.5- are the slow integrators. And you see there the oil exporters are 2.1. Of course, if you took all of the oil exporter countries in the developing world and you took out oil, their gross national product is lower than Finland's. At least in the Middle East. That's something from a World Bank study.

Next please.

This is incorrect. "Foreign aid to the developing world actually total \$50 billion," not \$50 million. Some people wish it were \$50 million, but it's \$50 billion. The amount of assistance, and this is a critical statistic, I don't even actually know if it's in this slide show. But the World Bank did a study: What would

happen to the growth of wealth in the developing world, the poorest countries, if there were no trade barriers? If they were all fully integrated into the world and there were no barriers on our side or their side. There is a free-trading system world-wide.

And the Bank estimates there would be an increase in GNP in those countries of \$300 billion a year. \$300 billion a year. Now, the interesting thing is where it comes from. A third of that comes from increased trade between the north and the south. Between western Europe, Canada, the United States, and Japan, and the South. Two-thirds of it comes from trade between countries in the South. So the greatest benefit of free trade is not with the United States or Western Europe or Canada. It is African countries trading with African countries, Latin American countries trading with Latin American countries.

It's very interesting is you look at, we're facing terrible famine conditions now developing in Ethiopia. There's not a free trading system in the horn of Africa. And there are many other problems. But one of the problems is there isn't convertible currency in Ethiopia; there are trade barriers to the surpluses developed by Ethiopian farmers, to trading that in neighboring countries.

And so many Ethiopian farmers who could not in fact easily sell their surplus a year and a half ago said, "Well, why are we growing it? We went into debt growing this food. And now we can't sell it because the price dropped to 20 percent of the normal market value. Because there was a surplus and they couldn't export it. So

they said, "We're not going to grow a surplus next year." And the didn't.

There was a drought in the rest or the country, and the impression is the whole country was affected by drought. That is not true. Large parts of the country could have easily grown a surplus, because of the incentives being wrong and their not being a free trading system, farmers made decisions based on market signals. And so the best way, along with other things that need to be done in Ethiopia to avoid ever having famines in the future is liberalization of markets.

Exports from the developing world can earn \$2.4 trillion. Developing countries not account for 40 percent of all U.S. exports. It does go both ways. Some people in the America think we shouldn't be doing this, because it means cheap imports will come in here, will cause unemployment. That is simply not true. Ultimately it will help stimulate job creation in the United States.

Next slide.

Now, the question is what do we do about it? And the perception is that if you lower trade barriers and you do nothing else, everything will be fine. That is not the case. The evidence is that trade capacity complements trade barrier removal and whether it's through the Doha Round or earlier trade negotiations, USAID spends actually more money than the iffys and the World Bank do by a factor of 2.

We spend twice as much money in this. Because some people say, "Why is AID doing this? It should be the international banks that are engaged in this. We do twice as much trade capacity building as the banks do. And it was done before I got there; it was done. In fact Carol started this with her colleagues in the first Bush Administration. But we now have the most robust trade capacity building foreign aid program in the world by far.

You see the chart on the left is for all U.S. government agencies. We spend \$638 million from all federal sources for trade capacity building. But 70 percent of it is through AID, which is the right-hand chart there.

Next slide, please.

You can see that we're 70 percent of this total which is-- apparently my friends in Europe tell me we are the best and that they don't do this kind of work, except for the British a little bit. Because if it's going to be done by anyone, it should be done by us. I'm proud of that fact. What does that mean? Because people say it when it's nice to say it. What does that mean?

Next slide, please.

The first is that we are actively engaged in training people for WTO accession. For example, we worked in southern Africa with the Trade Alliance in the southern part of Africa, where they are trying to bring barriers down. Because if they don't understand how their own markets work and what's in their own interests, they may negotiate the wrong thing, or may be afraid of negotiating a free trade agreement in their own region. So, training people in how their own governments work, how their own trading system works, how

their business community works, what their exports are, what will happen to their countries, economically if there is a reduction of barriers, is a critical of stimulating these negotiations.

And we've had some success in many areas of the developing world in doing that right now.

We're actively involved in helping countries in the negotiations for the Doha Round. We worked with the Jordanian government. In fact Jordan--I think I'm stealing your thunder again--had the fastest WTO accession I think in recorded history. And I'll let the Ambassador talk about that. But we did provide some technical support in that effort, as I recall.

Secondly, there are a number of non-tariff-based barriers to trade. There's customs, and if a customs system is corrupt or incompetent or inefficient it can really restrain trade. There are intellectual property rights issues that are all caught up in the WTO accession issues. And there are sanitary and phytosanitary code issues that are also barriers. We have them in the United States. There are much more severe barriers to trade with Europe. Even though they say they're going to bring down the barriers, the fact is Europe had a lot of regulatory constraints to trade with the developing world. Something we have to work on, as well.

We are also working in the third area of trade and investment law, in agricultural diversification, in implementing AGOA, which is the legislation that was passed some years ago which we just renewed, that reduces trade barriers to countries in Africa

which have met a minimum set of standards. And it's had a profound effect on trade with Africa, as the data shows in the last few years.

And so there are also regulatory issues in terms of the commercial codes and regulatory codes in these countries.

So these are three areas that we're heavily working in as well. Next slide, please.

Our trade budget in 2000, just to show, because we don't have figures yet for 2002. But this is how it's distributed, in terms of the chart. Next slide, please.

You can see, if you look at the data on the 49 LDCs, the Least Developed Countries, that they are slow integrators. Only one country in the list of LDCs moved into middle-income status in the last 23 years. That was Botswana, and we helped them. But they did it, frankly, because they found a way of avoiding the diamond wealth of the country from being looted by the elites, and being used for general public purposes.

So, if you can combine democracy with reform, because there has to be reform, with trade capacity building, you can in fact stimulate growth. And the data shows that very clearly, and that's why we're investing more and more money in the trade capacity building area.

That's it. Thank you very much.

We're going to have questions at the end? Okay, let's do that.

[Applause.]

MS. ADELMAN: Thank you. And I think this is very, very exciting. While we all talked in the Bush 1 Administration a lot

about improving trade, we were really at a very nascent stage in terms of what do you do. And how can you help countries implement this. We didn't even have the right kinds of expertise or mechanisms set up to do that. And I think now you're in much better shape to do that. And it's a wonderful time to be launching it. Although you already have done a lot in the past. But it's a great time to be stepping that up. Very exciting. I'm sure there will be lots of questions about it.

I would like to now introduce Ambassador Karim Kavar, who has been here as Ambassador since last year, I gather. Is that correct? Although he is hardly new to the United States, he received his masters from Boston College. And I was reading this with great interest, in Management, Finance, and Computer Science. And I was thinking, "There is a man who knew exactly what was right to major in."

[Laughter.]

AMBASSADOR KAWAR: Until two years ago.

[Laughter.]

MS. ADELMAN: Until two years ago. True. None of this international relations stuff for him.

But very, very critical fields. And indeed, very smart fields to major in. And he is in fact well known as a very dynamic business leader in Jordan. One of the leaders of Jordan's private-sector-led growth, which is world-famous now.

So we're delighted to have you here at Hudson. And he is particularly knowledgeable, as you wouldn't be surprised from his major, in information and communications technology. And as I was reading through your bio, I noticed that at age 20, Ambassador Kwar started his first company, and then at the same time was also head of ten other companies, and what looked like a holding company. I wanted to call you the Father of Jordan's IT. But then I decided that age 20 was way too young to call anyone 'Father' of Jordan's IT. We'll have to think of maybe the sparkplug, or something of the whole information technology and information systems there, which was a key industry for Jordan.

And I had the pleasure of being the Assistant Administrator for the Middle East. And we always used to use Jordan's USAY program as an example of the kind of ways that AID could work with the private sector. Because Jordan was so open to that.

He is a member of the Young Entrepreneurs' Association, and the Young Presidents Organization. Everything young here. Not surprising. Because he was so successful at a young age. And he received the award called The Global Leader for Tomorrow from the World Economic Forum, as well as being an Eisenhower Fellow.

But dear to my heart, he is also a member of the Jordanian Intellectual Property Association. And I think that this is a particular area, Andrew, in this trade capacity building where we've asked developing countries to comply with the WTO agreements by 2005, and the [Inaudible] by 2016. But here is an area where we can really help with: How do you set up patent registration and patent

enforcement. And I think Jordan would be an excellent example in helping other developing countries as well.

In fact I did an article on that in the Asian Wall Street Journal, and I actually mentioned Jordan as being one of the countries where having a stronger intellectual property system had attracted more investment and more technology transfer, as an example for the reasons of that. So, we're part of you in many ways.

Good. Well, without any further adieu, we would like to introduce this young Ambassador Kawar to the podium.

[Applause.]

AMBASSADOR KAWAR: Thank you very much. I'm not sure if I'm worthy of that introduction. But thank you, Administrator Natsios and Carol of the Hudson Institute. Thank you for inviting me this afternoon. And I hope that Jordan is country where we walk the talk, where we put all of those strategies into action. As His Majesty, King Abdullah puts it, Jordan is caught between Iraq and a hard place.

[Laughter.]

AMBASSADOR KAWAR: And I don't think anyone envies us for the neighbors we have and the problems we have in our area. Yet, we believe that whenever there are challenges, there are opportunities.

During the war in Iraq, a group of USAID contractors were evacuated from Jordan and they were here in the U.S. And I thought what a great idea that we can get this group together and maybe hold a seminar similar to this one, but where it would be entitled "Return

on U.S. Assistance" and to present Jordan as a success story.

Because that's really how I see it. I see that USAID has made a good investment in Jordan, and where we've had a good return.

That return, as Administrator Natsios mentioned, we had economic growth last year of over 5 percent, and the year before that it was 4.3 percent. And that's despite all the tension in our region, with little contribution coming in from the tourism sector, which as you might know, is a major sector not only for Jordan but also for Israel and other countries in the region.

Our exports to the U.S. have grown significantly as well. Back in '97 our exports were merely \$7 million. In '98 they were \$16 million. But last year they topped \$400 million. And in the process, we have created over 40,000 new jobs in just a few sectors.

So this is thanks to USAID, and here I'm reminded by the words of President Lyndon Johnson, who said, "When I was young, poverty was so common, it didn't have a name." And thanks to USAID, now we know what poverty is, and we know where to find it. And certainly Jordan doesn't suffer from extreme poverty. But yet we realize the challenges ahead of us. And together with USAID we have been addressing those issues. But also looking at health, looking at water projects, which are very important, and focusing on education.

And speaking of Iraq, and the new route we're heading with democracy in the region, in Jordan we have been focusing on what we call the pillars of democracy. And those are education, those are the rule of law, transparency, accountability, human rights, freedom of the press, good governance. Those are the issues that we believe will create a democracy. And when a full democracy is achieved, it

will be built on a solid base, rather than a premature democracy, which could easily be hijacked by new dictators. So we hope we have a big stake in making sure that Iraq and the Coalition succeeds in Iraq in bringing about a representative government to start with and hopefully over the years--and we have to be realistic in our goals--that democracy will be fully achieved.

Jordan has a small population of 5.2 million. But you might know as well that in that part of the world a good part of the population is very young. So half of Jordan's population is under the age of 18. So that's quite young. We have 22 universities. And we have been investing a lot in education. By the way, now every school in Jordan teaches English and computer skills, starting from grade 1. And by the year 2005 we will have a broadband network that connects all those schools. So hopefully we will be moving in the right direction.

But that of course poses a big challenge. Because if we do not keep up with this pace and create enough jobs to absorb all those young and educated people who are entering the workforce, then we have a major challenge on our hands, which Jordan has suffered from. It's called 'brain drain.' Many of those educated young Jordanians tend to leave and seek job opportunities elsewhere. So now the challenge is how do we convert that into a brain gain, where we create opportunities back home in Jordan, so that they come back with their savings, and more importantly with their experience, addition to invest it in Jordan.

Realizing the challenge and with a huge focus on the economy, Jordan has embarked over four years ago on a transformation plan. That of course was started surprisingly not by the government but also by the private sector. A group of 28 business associations came together with the help of USAID, and developed a strategy called "Jordan Vision 20/20." And this is where the private sector wanted to see Jordan in 20 years. And they've set one simple objective, which is to double the per-capita income in 20 years.

Realizing what sort of a challenge that would put on us, we had to develop of course strategies. Those strategies emphasize the issue of leadership, the private public partnership, how can we have both the government and the private sector work together towards one common objective.

And of course we focused on two major tools, by which we can grow our economy. And that's by attracting foreign investment, and too by increasing exports. Without those two main targets we could not have the economic growth that we wanted to achieve.

In order to attract foreign investment, we had to focus on competitiveness. How can we create in Jordan an environment where it's conducive for investments to come, where there be a good return on their investment. And that they would have an ability to export.

And this is where we looked at trade barriers. Jordan has gone into all possible agreements in that region. So Jordan has acceded that the WTO. And that was done in a record time, as Administrator Natsios mentioned. Jordan under His Majesty, King Abdullah, decided in March of 1999 that we need to join the WTO, and

we did that by December. We missed the [Inaudible] just because it did not continue. But we joined in January of 2000.

And that was a major accomplishment. And that actually set a standard of, you know, when there is a will, there is a way. And I have to insist that we could not have done it also without the support that we got from USAID.

I will share with you a bit of my experience. And that has been in what's known as the Reach Initiative. In early '99 His Majesty, who just turned 41, he challenged me actually and a group of others. He said, "Well what can we do in the IT sector and information technology? How can we create in Jordan an IT hub?"

And after some thinking, I came back with what I thought was a brilliant proposition. I said, "Jordan has to have a REACH. And REACH is an acronym.

'R' is a regulatory framework to make sure that our laws, are IT-friendly. And here we looked at intellectual property rights, among other laws. You know, "How can someone register a company within ours instead of having to wait weeks?" And so on.

So the laws had to be friendly for this industry and other industries.

'E' would be for an enabling environment to provide the telecommunications needed for this industry to prosper.

'A' we thought would be for assistance or aid from our government. But knowing that our government was not in a position to assist the sector, 'A' became advancement of national It projects,

such as E-Government, and E-Learning, where the government would contract local firms to do this work, and would indirectly finance their growth.

'C' is of course for capital and finance.

And 'H' is for human resource development. And I thought this sort of summed up what we need to do in order to reach somewhere. His Majesty turned to me, and he said, "That's good, but not good enough." He said, "You haven't given me anything to work with. What I need from you is an action plan. Tell me what needs to be done, by whom, and when. And you have one month to do it."

Well that sort of spoiled my summer of '99 holiday. But that has set a tone of also, and when we say 'leadership,' this is what's important. Countries such as Jordan realize what needs to be done. And this is where from some of the consultancy background that I have, it's very simple to bring in a consultant into a company, for example, and say, "Well, look we have a problem with the bottom line." And the consultant would simply say, "Of course, you have to cut your costs and increase your revenues, and you'll get out of that problem." But how to actually do it is something else altogether. And this is where you need people from experience.

And when Jordan came to do it, we didn't want to start from scratch. We looked at other country's experiences. We looked at Ireland. We looked at India, for example, in IT. We looked at even smaller countries, such as Costa Rica. We looked at Singapore. And thought "What experiences can we look at and share from? And therefore when we embark on our own strategy we don't have to start from square one.

And that has proven to be a very good experience for us. Because we could also look at not only how those countries were successful; but where they have failed as well, and avoid the mistakes that they have committed. And that has saved us, I guess, a few years, where we did not have to experiment.

Some of the things that we did in Jordan was focus on privatization; taking many of the government-owned production activities and go through creating a government-owned corporation; then inviting either strategic partners that would invest in this company or manage this company. And then go for an IPO, for example. And this is what happened in our telecommunications sector.

But that took actually a few years. It didn't happen overnight. But in that area we have a success story. When we talk about the wireless communications field, for example, Jordan Telecom, which is the company that was privatized, in the year 2000 we had one private operator that was a competitor of Jordan Telecom. And the size of the wireless market was 120,000 subscribers. The government in liberalizing that sector, introduced a second license. And the market grew in less than two years to over a million subscribers. Which is out of 5 million population, that's a good penetration rate of over 20 percent.

And that has proven that, you know, competition is healthy. And again, when you lower the trade barriers, even within the country, you create a competitive environment, where those companies can prosper, and certainly Jordan Telecom has been instrumental in

also providing services that would attract other companies to look at Jordan. Because there are basic infrastructure requirements that are needed when you're attracting foreign investment, or when you're exporting. In the case of Jordan we export also services, we trade in services. So software development services, for example, this is one area where we're doing a lot of work. And without telecommunications we cannot do it.

We mentioned, of course, one key area here that we talked about is legislative reform. In joining the World Trade Organization, we had to review some 70 laws. That has enabled us also to sign in our opinion an even more important agreement, which is the Free Trade Area Agreement with the United States. But we could not have done that if we had not acceded to the WTO before.

And in our accession, we had to look specifically at intellectual property rights, and we had to adhere to all the various conventions. But mainly to be TRIPS-compliant. And with our FDA we had to be even TRIPS-plus; we had to offer more than what WTO required.

But in moving forward, we realized also that the private sector needed a lot of assistance. And this is where USAID has also stepped in to assist in establishing some business associations that were not established before with focus on certain sectors. So we identified what are the engines for economic growth. And given that Jordan has little natural resources, we had to focus on services, for example, or to focus on industries where intellectual property is a significant component.

So, for example, our pharmaceutical industry is the second-largest exporter to countries in the region. But we also saw that the need to support those business associations that represent sectors where the sector comes in and sorts out their difference, because when you have competitors in a small country such as Jordan, it's very difficult to bring them together. But when you show them that the export market is a huge market where they do not see Jordanian competition, when they're exporting, they're facing other competitors, they realize that there is a larger pie that they can address. And therefore they came together, looked at their commonalities or their common objectives, and were able to even act as a lobby group with the government to change some more laws and to support such industries.

So several business associations have been established, and those have helped in helping industries reach markets that they could not reach before, and that has contributed significantly to the growth of those sectors, as well as our exports.

Finally, when we look at our trade, one of the problems that we have in the region is that intra-regional trade between the Arab countries stands at less than 8 percent. And that's including oil. So if you take oil out of the formula, you'll find it's even lower than that. Jordan is a country that has larger trade numbers with its neighbors than the average Arab country. But this is an area where we need to focus.

And in this case, we believe in Jordan strongly that if we raise the water in the harbor, then all boats will rise. And this is where when the Middle East FDA has been announced last week, Jordan welcomed it, of course. Other countries would have said, "No, since we have this FDA, we don't want anyone else to have it." On the contrary, we thought that this is something that would be good for the whole region. And this is where we feel today that Jordan cannot develop further if we do not help other countries in the region moving forward.

We look at Iraq and of the practical examples that we can offer. Instead of Iraq starting from scratch, for example, they can look at Jordanian laws, which are already in Arabic; they are WTO-compliant; they are FDA-compliant; they have gone through several iterations. And that is something that we could offer to the new government in Iraq where they don't have to start from scratch, but they can start from where we left off. And we believe that would be very important for the future of the region.

So we look forward to an area where intraregional trade can grow to higher numbers, where also the political environment in the region through peace, through the support of the road map, and hopefully solving the hard place on our western borders, where we can bring peace to our region, and hopefully prosperity.

And thanks again to USAID for their support, which is greatly appreciate. Thank you very much.

[Applause.]

MS. ADELMAN: Thank you, Ambassador Kavar. We'll take questions from the audience now. Then does this move? Or should we ask our speakers--

MR. : [Inaudible]

MS. ADELMAN: Okay, this mike. Okay, good. Well, then if we're ready to start, please. Yes?

QUESTION: I'm Jim Burns from Washington Trade Daily. A question for Mr. Natsios. It seems like the AID is going to develop more money for capacity building in the years ahead. Can you give us any idea in the upcoming budget, of what you might be considering, now, for--would it come out of the MCA account for development aid?

ADMINISTRATOR NATSIOS: Well, first is we propose some for '03, more than we received. This is not particularly popular in Congress with the exception of Jim Kolbe, who is in a powerful position, but he's one person. People, lobby groups in Washington and the Congress, do not quite understand what this means. And when they do they don't see the benefits of it to the United States and to our allies.

When they travel and they actually see what the money goes for, we find they come back very strongly supporting the mission. So one thing I urge is that more people who have questions about trade capacity building actually go to countries and see tangibly, by talking with the business community, going to industrial parks, seeing customs reforms that have gone through, talking with the heads of state. It's very convincing, once you've seen it [Inaudible].

And Jordan is one of the best examples of that. Because the King is visionary in this and is so open to discuss this.

And so we didn't get quite what we asked for in the '03 budget, but we certainly got a lot.

I would say that the best growth is going to be through the Millennium Challenge Account. And the reason for that is simple. The President has said the Millennium Challenge Account is not going to be earmarked by sector or country. You will get benefits from it based on performance. And the countries that are most likely to get money under the MCA are also the most reform-minded where trade capacity building money will be most useful.

We asked African heads of state: "Where do you want more money in?" They said, "Two things, trade capacity building and agriculture." Believe it or not. Privately and publicly. It was quite interesting to me how out of since we are with what the heads of state in Africa want for their own countries.

We've set up three trade hubs in Africa, one in Botswana, one in Ghana, and one in Kenya. I believe if my memory serves me correctly. And we have 12 instructors in each of those capitals, 36 total, who bring people in from neighboring countries that are interested in doing work in this area for initial training. But that was an initiative of President Bush that we implemented last year; it's not functional, and we're doing the same thing now in Central America. Adolfo Franco, the Assistant Administrator for Latin America is as enthusiastic as I am on this.

And Bob Zelleck just called in the CEOs of the countries in Central America. We had lunch with them at the Blair House, Zelleck

did and I, and John Taylor from Treasury, and Adolfo Franco. And we talked about this. And this is all their first priority as well.

So we expect more money. I think the MCA, given the structure of it, which would be driven by the countries themselves, saying "This is where we want to spend the money," given what we've been told in the field, I expect most countries that receive benefits will chose trade capacity building as one of the areas that they'll receive benefits under early, under the MCA.

MS. ADELMAN: Next question? In the far back, we have a microphone there.

QUESTION: For Ambassador Kawar. You indicated a huge increase in exports in a very short and brief time period. I'm curious as to what the majority of that increase consisted of.

AMBASSADOR KAWAR: Thank you for the question. The increase came in actually a specific industry, which is the textile and garment industry. And thank you for reminding me, because I forgot to mention that one of the agreements that Jordan has with the United States is what's referred to as the 'qualifying industrial zones,' the QIZ Agreement. And that has allowed those manufacturers in Jordan that have an arrangement with Israel following the '94 peace treaty, where 8 percent of the component or 23 percent of the equity in that venture, those manufacturing facilities can export to the United States duty-free and tax-free, and quota-free. So Jordan has managed to attract some manufacturers in Jordan that have exported to the United States apparel mostly, to some of the brand

names. So you might check the jacket you're wearing; it might be made in Jordan.

MS. ADELMAN: Next? We have one right here. Mr. Farris [ph].

QUESTION: Andrew, you mentioned middle class.

MS. ADELMAN: George, there's a microphone behind you and it might be helpful for some of the folks.

QUESTION: Sure.

You mentioned rule of law and the middle class that you emphasize democracy. Now the rule of law is not synonymous with democracy. The great success stories of development of the modern era all started under dictatorships. Taiwan, Korea, Singapore, most recently Chile [ph]. And as they developed, as they increased their productivity and a middle class evolved, then they evolved into democracies. Why is it that this administration as well as the last administration always puts emphasis on the word, 'democracy' which can be confusing, as opposed to emphasizing rule of law and development, which come really in most instances ahead of a true democracy?

ADMINISTRATOR NATSIOS: Well, I'm not sure, George, that I would agree with you in terms of the data. If you look carefully at the countries that actually have developed, I use three European examples. One is Spain, one is Portugal, the other is Greece. Those three countries have had per-capita increases in income massively. But they did it under the democracy. They did it after Franco died, and Salazar died, and they went to a democratic government. That is

also true in Greece after the dictatorship fell. The growth rates dramatically rose.

Rule of law can take place in autocratic systems. But usually it doesn't, because an autocratic system is really abusive. It means there is no rule of law. That's the problem with it.

The Asia Giants, according to the research--there's a big debate as to why Asia was successful in Taiwan and in South Korea, in particular. But of course Japan did industrial in a more rapid rate after World War II, and there was a democracy. There was a democratic system.

But in the case of the Asia Giants, the argument is made that the fear of Communist China constrained the elites from looting the national economy. Because Chiang Kai-Shek actually said that if we don't make the benefits of our economic prosperity general, then we will have happened in mainland China happen in Taiwan. So there was a real fear of this giant country of a billion people sort of hovering around them very close by.

You saw what happened, though, and after the problem in Asia when the economic collapse took place, the democracies recovered rapidly and the countries that were not democracies, like Indonesia, the collapse was more severe and much slower in improving.

I would also disagree with you on Latin America. Pinochet may have changed some laws, but the most rapid decline in poverty took place after Pinochet left and there was a democratic governance. In the 1990s there was a 50 percent reduction in the number of poor

people in the country. It went from 60 percent of the population being under the poverty line to 30 percent between 1990 and 2000. And that was the time period when in fact the country had democratized.

Costa Rica is the other success story. The two greatest success stories in Latin America: Costa Rica, which has been a democracy for 50 years, and Chile.

There are examples. You're correct, of autocracy working. But Botswana is the best example in Africa. Botswana has been a functioning democracy for 40 years now. So, there are exceptions, but if you look at the totality of the countries that have developed, it is countries that are moving toward it.

Now, we have to define democracy. That's the last point I would make. Elections are not just--you know, we talk too much about elections in democracy. Are they important? Yes, they are. But, Ambassador Kwararungwe properly said a free press is important; civil society is important; a business community that's independent of the government; the protection of human rights. It's basically constraints in the power of the state to be abusive. And a community tends to do that more than those that are not democracies.

There are enlightened countries that are moving toward democracy more rapidly than others that are gradually preparing, the way I think Jordan is the best example, of a stable effort to gradually build the institutions.

And so, the one place it's generally succeeded with autocracy is Asia. And the reason for that I think was the elites were constrained by fear of Red China in the '60s and '70s.

MS. ADELMAN: Thank you. Right here in the middle. You have the mike.

QUESTION: Andrew Ricegamp, Christian Reform, World Relief Partners for Christian Development. My experience has been in Bangladesh, and I've seen the investment in agriculture, and the capacity-building that NGOs have been done be part of the reason that last year Bangladesh actually exported rice for the first time.

I'd like to hear you speak to the role of NGOs in this.

ADMINISTRATOR NATSIOS: Well, let me talk about Bangladesh first, and then I'll talk about NGOs. In 1985, total production of rice in Bangladesh was 11 million tons. Three years ago it was 22 million tons. They doubled production in 15 years. And they did it the right way. They did it through the introduction of the Green Revolution of new technologies. But, I might add, they're also a democracy.

We thought Bangladesh was a basket-case in 1990. There was absolutely no way this country could possibly succeed. It has floods all the time; there are no natural resources. I mean you go through those; it's grossly overpopulated. And they are industrializing now so rapidly, the finance minister says they don't have enough people in the rural areas to harvest the crops now, because everybody's in the factories in the cities. They're moving in en masse.

The country is rapidly industrializing.

I think the utility of the NGOs, three things they did extraordinarily well in Bangladesh. One is they brought the Green

Revolution along with the Ministry of Agriculture to rural areas. The NGOs introduced this technology. Because you don't just dump it out; it happens. You have to teach people; you have to create the networks to get the improved seed out, and the new techniques and all that.

The second thing is the Grameen Bank. It's the most elaborate system of microfinance and medium-size enterprise development in the world. The most sophisticated. And of course, that is an NGO. The Grameen Bank is an indigenous NGO in the country.

The third thing is, I think, the development of a very rich and elaborate network of NGOs in Bangladesh which led to the creation of a democracy that was stable; it was not just elections, it was beyond that. It was the notion of civic society, or constraints in the power of the state. They still have problems. There is a problem in Bangladesh with transparency; there's a problem with corruption. And that is the most severe impediment to development. But they are doing everything else right.

And the NGOs were a major factor in that. But strong national leadership was. The right policies in place were. It's a good example of a country that was supposed to be hopeless that is now really doing very well.

MS. ADELMAN: We have a question here in the front row. The gentleman on the end.

QUESTION: Bill Lorie [ph], Equity International. This is a question for Ambassador Kavar. How do you see Jordan facilitating the economic development of Iraq?

AMBASSADOR KAWAR: I think the reconstruction of Iraq is the responsibility of all of its neighbors. Jordan certainly today is trying with its humanitarian responsibilities. You know, setting up a field hospital there and working also on the trade routes and transportation. But also we believe that Jordanians, for example, could bridge the cultural gap, the language gap, the technical gap between the American prime contractors and the Iraqi laborers. Because we believe Iraqis should build their own country.

ADMINISTRATOR NATSIOS: I must go to a principals' meeting now on the MCA. So I must take leave. Thank you for doing this, Carol.

MS. ADELMAN: Thank you, Andrew, for a wonderful panel.

[Applause.]

ADMINISTRATOR NATSIOS: You may have more questions of the Ambassador.

MS. ADELMAN: Yes, we will be delighted to have more questions. Thank you so much, Andrew, for coming.

ADMINISTRATOR NATSIOS: Thank you.

MS. ADELMAN: Our pleasure.

QUESTION: Thank you.

MS. ADELMAN: Did you still have some more you wanted to say on that, Ambassador? Okay. Thank you.

Good, and there is a question right there. The gentleman with his hand up, and we'll get back to the front row.

QUESTION: Thank you. Peter Pelham of Pelham Associates. I would like to preface my question to the Ambassador, just to let you know that I did have George Farris for a number of years as a trustee of one of my institutions. And he always asks challenging questions.

Mr. Ambassador, I have visited your country on a number of occasions. I like what you had to say. But I'd really like to know what the role, in your opinion, of education as part of the building of a trade capacity would be in terms of training and in terms of research.

AMBASSADOR KAWAR: I think it's a very significant role that education plays. Today we're talking about a different form of literacy. You know, it's not good enough to be able to read and write; I mean you have to be able to access the internet and find what you're looking for. And this is where a major emphasis is in Jordan. And given our small population relatively, we cannot be the industrial power that other countries are already. So for us we have to focus on becoming a knowledge-based economy, where we can actually look at the value-added that an educated society can bring, and to look at trade and services, and where through communications the world is our market, where we don't have to just consider trade with our immediate neighbors. But we can reach far continents that shipping traditional goods limitation was there because of also the cost of transportation.

So this is where education for us is a very fundamental focus in becoming a knowledge society.

MS. ADELMAN: Good. Thank you. And we'll take the one in the back, and then we'll come up. Are you finished now? Okay, the one in the back. Thanks.

QUESTION: Yes. I was wondering how a phaseout of the MFA will affect Jordan's trade prospects, especially in the garment textile area.

AMBASSADOR KAWAR: Well, for this reason Jordan has been focusing on competitiveness. You know, where our garment and textile industry has to be a competitive one. We have to look at a cluster approach. We are looking at all the supporting industries. And that's hopefully where we can remain competitive.

This is why when we look at other industries as we'll, competitiveness is certainly a key focus for us.

MS. ADELMAN: Thank you. Right here.

QUESTION: [Inaudible] with Reuters News Service. In terms of the Administration's regional free trade initiative for the Middle East, it's talked about pursuing bilateral agreements with various countries in the region, and you know ultimately stitching together a regional free-trade pack out of that. I just wondered, looking around the region, which countries would you expect to be the leaders in that effort, to be the ones that might be the first to get a bilateral trade agreement with the United States?

AMBASSADOR KAWAR: If the Administration hasn't named them, I don't think I can. Not that I know. But I would assume that the nations that have already joined the WTO, that those would be the

most likely to have their FTAs. Morocco is one country that's already in negotiation. But I believe they will look at other countries.

And if I may remind you that the President mentioned that this will be over a decade. So I don't think that all countries will go into bilaterals, or will start negotiations immediately. But it will take some time. But I would tie it to WTO, because certainly reform would be required, and WTO accession might be one step before having an FTA.

MS. ADELMAN: We have one over there. You have had your hand up for a while, so why don't you go first, and then we'll take the front row.

QUESTION: Thank you. I'm Sonalia Arsukularanta [ph]. I'm from Aid to Artisans. We create economic opportunities through the handcraft sector, creating employment and generating opportunities through the handcraft sector. And we're currently working closely with USAID to design and develop trade capacity building, particularly in Latin America.

But Mr. Ambassador, I'm happy to say that we have had a very successful project in Jordan, and we would like to--in fact we do have a program called REACH also, "Revitalizing Economic Activity with Creative Hands."

[Laughter.]

QUESTION: So, my question is what potential might there be for that type of program? Because we do think that that has tremendous potential, particularly in the textile industry sector in Jordan through these new trade capacity initiatives. Thank you.

AMBASSADOR KAWAR: Certainly it has a lot and when we look at handicrafts, we cannot separate that also from microfinance, reaching to the rural areas where such skills and traditions that have been carried through generations need to be preserved.

And also I would add another dimension, which is the intellectual property protection. Because when you look at designs that need to be protected as well. And this is where, again, we have to focus on innovation and creativity, even in handicrafts. But also, we need to find the middle people that can help those craft people who are making such brilliant products reach markets that otherwise they won't reach. So hopefully the program that you mentioned will be a handy one that can help those makers of crafts reach world markets.

MS. ADELMAN: Another question here in the front, and then we'll take one more after that in the back. If that's all right.

QUESTION: Yes. My question deals with this. There seems to be a debate in the Doha development agenda on the reduction of tariffs. And for developing countries that rely for revenue on those tariffs. As they go down, is there any, in Jordan's view? Or how has it worked in Jordan? Is there any viable alternative to reducing tariffs?

AMBASSADOR KAWAR: Sure. Well, Jordan has an aggressive program of tariff reduction over the years. But we have seen that, for example, the fees that would be paid. So you're giving more businesses the opportunity to start up, and therefore you would

compensate government revenue through other forms. So again we've seen that balance. But in general, it's creating a more productive economy that has certainly contributed to the increase in revenues in our budget.

But also, this goes hand-in-hand with creating a more efficient government. Government in Jordan, for example, has always been the largest employer. And this is where the government now is shrinking in terms of its size of employment, and more opportunities are created in the private sector. So this is where it's of course a healthier balance. And this is where I would imagine that government has less and less to do.

And even when it comes to issues where the government traditionally covered then; for example in building infrastructure and providing telecommunications. This is where we see an opportunity for the private sector. So instead of the government investing in traditionally providing such services, the private sector can invest where you create a competitive and a healthy environment where businesses can grow and create opportunities, rather than burden government things, which government doesn't do best.

QUESTION: There's quite a risk on government's part, too. To hand things over to the private sector.

AMBASSADOR KAWAR: Well, if there is no risk, there is no reward.

[Laughter.]

AMBASSADOR KAWAR: Certainly of course there are risks, but this is where our government has invested in the regulatory aspect of

it. So focusing on regulations to make sure that whatever private sector role there is, it's within certain guiding principles that do not compromise service to citizens, and also make sure that's it's offered within certain prices that make those services affordable.

MS. ADELMAN: Thank you. Why don't we take one last question in the back? And I think the gentleman, there you are, you know who you are. And then I'm sure that if you have any burning questions, you can come up afterwards and ask the Ambassador.

QUESTION: Actually my question was just pre-empted. I also was curious about Jordan's experience in the fiscal adjustments that come with WTO compliance. Certainly when you give up tariff revenue and need to turn to more direct taxation from property taxes, income taxes, and even maybe value added taxes, you're running into a severe problem a lot of countries don't have the capacity or the political will to implement those programs.

And I was just wondering what Jordan's experience has been in getting that sort of legislation through your parliament and pass, so that you don't have to cut back on your public programs in health, education, and other areas that inevitably come when you're cutting back on tariff revenue.

AMBASSADOR KAWAR: Well, I have to say we haven't been doing it on our own. One, Jordan has been getting some debt relief, which has helped considerably. Two, we have been working with the IMF on many of our programs.

And I was surprised last September when I went to the IMF meetings and basically there were no complaints about Jordan's program. Which is a reflection also of the seriousness that our government exercises in its fiscal reform. So, again, we take this issue seriously. And therefore we have been working with the IMF to make sure that we do not miss the targets and the deadlines that are the program itself.

So this has been a significant focus for us.

MS. ADELMAN: Thank you so much, Ambassador Kwar. And thank you all for coming.

[Applause.]

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