

**Statement of Lionel C. Johnson
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**Hearing on US-Bahrain Free Trade Agreement
Subcommittee on International Trade
Committee on Finance
United States Senate
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Chairman Grassley, Ranking Member Baucus and members of the Subcommittee on International Trade, thank you for the opportunity to testify on the importance of ratifying the bilateral Free Trade Agreement (FTA) with the Kingdom of Bahrain.

My name is Lionel Johnson, Vice President and Director, International Government Affairs of Citigroup. I also serve as Co-Chair of the US-Bahrain Free Trade Agreement Coalition, which comprises 75 companies and associations that strongly support this important trade agreement. From these two roles, I hope to offer helpful perspectives regarding the FTA and the promise that it holds for our two countries and their peoples for your Committee deliberations.

Important Milestone in Securing Broader Regional Free Trade

Prior to discussing how the Agreement will benefit the US business community and Citigroup in particular, I would like to offer some general comments on the strategic and economic importance of the Agreement.

The Bush Administration recently announced its desire to secure a broad Middle East Free Trade Area by 2013. This ambitious goal offers long-term security and economic benefits to the United States. The US-Bahrain Free Trade Agreement – along with the FTAs presently in force with Israel, Jordan and Morocco – represents a critical first step in realizing this important goal.

Agreement Advances US Security Objectives

Even with its vast supplies of natural resources, the Middle East remains one of the poorest regions in the world combined with a youthful population that sees little prospect of a brighter economic future. These twin factors lead to destabilizing conditions that may pose a direct security threat to the United States. Liberalized trade with the region offers the Middle East an alternative path: the promise of improved economic conditions,

true integration into the multilateral trading system, and an enhanced respect for the rule of law.

In addition, the Free Trade Agreement recognizes Bahrain's status as a long-standing US ally in the region. Bahrain was designated as a major non-NATO ally in October 2001 and has been helpful in advancing our counterterrorism efforts.

Agreement Advances US Economic Objectives

The Middle East is home to many of the world's poorest countries: Yemen has a per capita GDP of \$286, Syria's per capita GDP is \$1,238 and Lebanon's is \$2,999. However, the region is home to millions of young people who want to participate in the global economy. By unshackling the economies of the region, significant economic growth can result throughout the Middle East.

As these economies grow, it is crucial that American businesses, workers and farmers have a seat at the table. If we choose not to engage economically with the Middle East, our international competitors would be more than happy to expand trade ties with this region at our economic expense. Engagement with Middle East countries promises long-term tangible economic gains for the United States.

Importance to Citigroup

Citigroup is a preeminent financial services company, with 200 million customer accounts in more than 100 countries. Other major brand names under Citigroup's trademark red umbrella include Citi Cards, CitiFinancial, CitiMortgage, CitiInsurance, Primerica, Diners Club, Citigroup Asset Management, The Citigroup Private Bank, and CitiCapital.

We operate as Citibank N.A., and have been present in the Kingdom of Bahrain since 1969. We were among the first foreign banks to establish business operations in the Kingdom. We remain firmly committed to our presence in Bahrain, and believe that the FTA offers an excellent opportunity to grow our business in this important region and to enable us to offer a wider range of world-class financial services to our Bahraini and Persian Gulf customers.

Bahrain's leaders, including the Minister of Finance, are reformers in a region in search of expanded opportunities through greater participation in the global economy. The Bahrain Monetary Authority (BMA) – Bahrain's Central Bank – provides the licenses for all of our Bahraini divisions, with the exception of Citicorp International Trading Corporation (CITC), whose license is approved by the Commerce Ministry. We have found the Government of Bahrain to be strongly committed to economic reform and liberalization, and Citigroup is deeply grateful for its support of our activities in the

region. Bahrain Government officials often consult and work with us in the formulation of new laws and regulations that impact our sector.

The Kingdom of Bahrain selected Citigroup as the joint lead for its maiden \$500 million Euro Bond issue. We have also recently been given the mandate for Bahrain's \$250 million Islamic Bond (Sukuk) issue. Bahrain serves as a regional hub for Citigroup in providing financial services to Saudi Arabia, Qatar, Kuwait, Oman and Yemen. In addition, Bahrain is approved as an offshore booking hub for Citigroup's Central and Eastern Europe, Middle East, and Africa business.

The FTA will help the banking sector as market access becomes more liberalized. As the geographical and financial center of the Middle Eastern–West Asian region, Bahrain is perfectly positioned to serve as the economic gateway to the Gulf. Through Bahrain, the doors open to the GCC economies, while just across the Gulf region lay the increasingly important economies of Southwest Asia, with which Bahrain has had a long, thriving relationship.

Importance to Broader US Business Community

The US business community is very supportive of the Bahrain FTA. Upon its entry into force, the agreement will provide immediate duty-free access to 100% of bilateral trade in non-textile industrial goods, and 98% of US agricultural exports (and will phase out tariffs on the remaining products within 10 years). Under this agreement, Bahrain will lift existing restrictions for US companies in a number of important sectors: for example, accounting, architecture, engineering, construction and tourist services. The Agreement also removes market access barriers for US telecommunications firms.

We see the potential for this comprehensive and high standard FTA to increase US sales by:

- eliminating tariffs;
- improving customs and other trade facilitation procedures;
- assuring that product and safety standards are based on sound science that does not create unjustifiable barriers to trade;
- locking in intellectual property protection and enforcement to deter counterfeiting and piracy;
- undertaking a comprehensive approach to increased access to services markets; that improves transparency and predictability in regulatory procedures and adequately addresses discriminatory and other barriers;
- building on the existing US – Bahrain bilateral investment treaty to increase investor protection and increase opportunities for US investment;
- taking steps that encourage e-commerce; and
- increasing transparency and predictability in and access to Bahraini government procurement.

As Bahrain diversifies its economy away from oil, the financial services sector has become the second largest contributor to Bahrain's GDP. There are great opportunities for American financial services and insurance companies to invest and expand in Bahrain, as demonstrated by the strong presence of 65 American financial firms already located within its borders.

Other major projects in tourism, healthcare, education, construction, information technology, telecommunications and transportation are well suited for US business participation. High value US food and beverage products should also see increasing opportunities in Bahrain, especially as the tourism and restaurant base grows. A high quality FTA will improve the overall investment climate in Bahrain and provide another partner in increasing free trade in the region

Conclusion

Again I want to thank the Committee for the opportunity to testify on behalf of Citigroup and the US-Bahrain FTA Business Coalition in support of this agreement. We believe that the FTA will over time lead to increased job creation, trade expansion, improved technology, deepening of people-to-people ties, and enhancement of long-term economic development in this region of vital importance to the United States.

I would be happy to answer any questions you might have. In addition, I look forward to working with the Committee during the coming weeks to secure the FTA's early approval by Congress.