

## TESTIMONY:

Bill Maxwell

Director, International Trade Policy and Business Development  
HP Government and Public Affairs

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Chairman Grassley, Ranking Member Baucus, and members of the committee, thank you for providing me the opportunity to speak before you today. My name is Bill Maxwell and I currently serve in Washington as Director of International Trade Policy and Business Development for the Hewlett-Packard Company. I am here to discuss how the United States can improve security in the Middle East and globally by fostering greater economic opportunities in the area, and how free trade and other market-based economic incentives can serve as the foundational pillars for achieving a more stable and prosperous Middle East.

Several examples of countries having undergone transitions to free-market economies since the 1970's, including, Spain, Taiwan and South Korea, demonstrate the power of industry and commerce to facilitate social, political and regional stability. In each of the aforementioned cases, political reform was not imposed on autocratic systems from the outside, but rather, it was grown from the inside – largely by a rising middle class that demanded social and political rights. Moreover, in each case, the lure of participating in a regional trading block, in the case of Spain and the European Community – or the benefits derived from already participating in such a block, as in the case of Taiwan and South Korea with APEC – Asia Pacific Economic Cooperation – provided a powerful impetus for reform. Perhaps it would be useful to think in terms of encouraging the creation of a similar organization in the Middle East – the Middle East Economic Cooperation – MEEC.

The creation of a common Arab market could yield similar dividends to the nations of the Middle East. Taken as a whole, the 22 Arab-speaking nations, having a population of more than 200 million, represents a region of great potential, both in terms of consumer demand and human capital. However, while population is expected to grow at five percent a year, gross domestic product growth is projected to remain at three to four percent, which means that absent some economic shift, it will be difficult to reduce current levels of unemployment, which run as high as 20 percent.

This demographic challenge has led many Arab leaders to acknowledge that part of the solution must be attracting new business and foreign investment to the Middle East. However, this is precisely where much of the problem arises. Rather than one unified market, the Arab-speaking world today is 22 separate

markets, each with its own rules, regulations, barriers to investment and trade restrictions; all of which lead to a striking lack of regional cooperation. During the 1990's, less than seven percent of Middle East trade came from other Middle Eastern countries. Contrast that with Europe, where more than two-thirds of all trade is among countries in Europe; or Asia, where 30 percent of trade originates within Asia.

The lack of unification and cooperation among Middle Eastern countries has also put the region at a competitive disadvantage in the global economy. For companies like Hewlett-Packard, which operates in 178 nations around the world, it is less problematic and more cost-efficient to conduct business in regions defined by cooperation, such as the European Union or Asia Pacific Economic Cooperation. Such trade areas offer more hospitable investment climates, lower transaction costs, less restrictive barriers to entry, higher standards of transparency and more access to capital. Historical comparisons support this assertion.

In the 1950's, the per capita income level of Egypt and Korea were virtually equal. Today, Egypt's per capita income level is less than one-fifth of South Korea's. Similarly, Saudi Arabia's per capita gross domestic product was at one time higher than Taiwan's, but now is only half of Taiwan's output. To put these figures in perspective, the combined gross domestic product of all 22 Arab-speaking nations is less than the gross domestic product of Spain.

The Middle East's lack of integration for many historical reasons has also led to an imbalance between the wealth of certain nations and the availability of human resources. For instance, countries like Kuwait have great financial resources, but have limited human resources; whereas countries like Jordan have an abundance of capable and available human resources, but high levels of unemployment. These problems and inequities can easily be solved through integrated economic cooperation among the countries.

Integrating the 22 Arab-speaking nations of the Middle East into one common market is not without obstacles, including inevitable trade disputes and sovereignty concerns. However, the process of overcoming the challenges will, in the end, yield long-term benefits. Creating a more stable climate to spur entrepreneurship and attract investment will encourage Arab nations to confront issues of transparency and rule of law that are basic for creating a middle class. As many Arab leaders know, this is not about solutions being imposed from the outside – this is an issue of fundamental self-interest.

The reason companies like Hewlett-Packard are so committed to the Middle East today is because we believe in the vast promise of the region. As Carly Fiorina, HP CEO said in a recent speech, "HP is privileged to do our part ...

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[in fostering the economic development of the area]. HP has made a commitment to be an asset as well as a partner as the future of the Middle East takes shape. We are proud today to be the largest IT Company operating in the Middle East, working from Saudi Arabia to Egypt, Jordan to UAE to use IT to empower more people than ever before.”

As Senator Baucus said in his statement accompanying the submission of the Senate bill 1121—the Middle East Trade and Engagement Act of 2003—, historically, the Middle East has played an important role in global trade. Economics and history prove that as markets open, businesses grow; and as businesses grow, jobs are created, both in the regions of investment as well as investing nations. Thus, Hewlett-Packard sees the economic growth in the Middle East as a means to revitalize and strengthen ties both between the countries of the region, as well as the Middle East and United States.

In this context, on behalf of Hewlett-Packard, please allow to me express our company’s support S 1121 as introduced by Senator Baucus and Senator McCain. This bill promotes the notion that free trade and other market-based economic incentives are fundamental to achieving stability and prosperity in the Middle East.