

NATIONAL COUNCIL ON U.S.-ARAB RELATIONS

19TH ANNUAL ARAB-U.S. POLICYMAKERS CONFERENCE

“Arab-U.S. Relations: Going Where?”

FRIDAY, OCTOBER 22, 2010

RONALD REAGAN BUILDING & INTERNATIONAL TRADE CENTER
WASHINGTON, D.C.

"BUSINESS AND FINANCIAL DEVELOPMENT"

CHAIR:

Ms. Barbara G. B. Ferguson – Washington Bureau Chief, *Arab News*; Co-Chair, International correspondents committee, The National Press Club, Washington, D.C.; author, “Country Reports” on Bahrain, Morocco, and Kazakhstan for the *Washington Times*; embedded war correspondent during Operations Desert Shield and Desert Storm in Kuwait in 1990-1991 and in Operation Iraqi Freedom in 2003.

SPEAKERS:

Ambassador Ford M. Fraker – Senior Adviser and Chairman for the Middle East and North Africa Group at Kohlberg Kravis Roberts & Co. L.P.

Dr. Hani K. Findakly – Investment Banker and Director of Clinton Group, Inc.; former Vice Chairman of the Clinton Group; Member of the Council on Foreign Relations and its task forces on “The Balkans 2010” and “Middle East Trade and Investments.”

Mr. Brad Bourland – Chief Economist at Jadwa Investment Company.

Dr. Lama Suleiman – First Deputy Chairman of the Board of Directors of the Jeddah Chamber of Commerce and Industry (JCCI).

BUSINESS AND FINANCIAL DEVELOPMENT

[Ms. Barbara Ferguson] Thank you. Good afternoon everyone I am delighted to have the opportunity to step in but I think we should have a five-minute break before we came in to try to tackle everyone here but I'm going to do my best. As a journalist I'm delighted to have the opportunity to be onboard here with all of these business and financial people and I'm going to explain to you shortly why. But I want to tell you, to begin with that I have just come back from the change of command for the U.S. Marine Corps and it's a very interesting to me that this conference is all about building partnerships. And as we're talking about the military having to draw down and become smaller in the years that come here in the United States it is important to realize how vastly significant our relationships with other countries are going to be. For example we just announced that we are going to be selling F15's to Saudi Arabia for \$60 billion. So again partnerships are huge.

Arab News is an English-language daily that is based in Saudi Arabia and what's so ironic is that the people that we have on the panel today, if I have this correct, Ambassador Fraker just came back from Saudi Arabia, Mr. Bourland is still living in Saudi Arabia, is that correct, and then also Doctor Suleiman is in Saudi Arabia. So this is going to be very interesting group, a little heavy on the Saudi side.

When it comes to the importance of partnerships I have a little interesting tidbit to tell you about Arab news. We have the unique opportunity, I guess one can call that depending on how you look at this. Rupert Murdoch, which you all may know of, has just bought the minority shares of our publications. Which shows globalization is taking place not only in business and finance but also in the media.

As a reporter, I was embedded with the Marines Corps. I had the opportunity to serve with the Marine Corps and I'm still working part time with them as an advisor down at Quantico and one of the important things that we found is we are working on training the Marines to be culturally competent and I think that's why many of you are here today is to understand the importance of the attitudes internationally, how best to work with your partners. So let me begin by introducing the people we have.

Ambassador Fraker, as I said at just returned from Saudi Arabia. He also worked as a banker in the United Arab Emirates, Bahrain and Lebanon. He is an expert in international finance.

Doctor Hani Findakly is an investment banker and has expertise in Wall Street and at the World Bank. Now one question that I would like to ask Doctor Findakly because you taught at MIT weren't you able to teach those bankers at Wall Street anything?

Mr. Bourland is currently in Riyadh, he was a former Foreign Service officer and worked with the U.S. team to help Saudi Arabia become part of the WTO, which is huge. He's also an expert on global economics and the world oil market.

And as for Dr. Suleiman, of course I'm extremely proud to have her here today. We tend still to be very limited on understanding of women's roles in and the significance of their positions in

Saudi Arabia's and she is here today to break many of the stereotypes that we still hold about women in Saudi Arabia.

And finally we have Ambassador Sean Donnelly who is going to be winding up the comments that are made today. He worked with the Peace Corps and from there became a Foreign Service officer, which I think is a very interesting change from one side to the other. He served in Egypt, Bahrain, Oman and Morocco, speaks French and a little bit of Arabic. Now, as he's working Vice President of the Middle Eastern Affairs at the U.S. Chamber of Commerce, I of course hope he's going to talk about campaign funding for the midterm elections this season.

Thank you all very much.

[Ambassador Fraker] Good afternoon. A couple of comments before we begin. Following on from the Sesame Street show that we saw. For sure I know if I'd had Grover on my staff at the embassy we would have gotten five-year visas for the Saudis a lot faster.

The other comment was my good friend His Royal Highness Prince Turki commented on a conversation the we had yesterday when, having sat through the sessions of Iraq and Iran, I commented that there were many experts in this town, he agreed with that, but I then went on to say and not a single one of them came out to visit me in Saudi Arabia when I was Ambassador. So we had a laugh about that.

Anyway, good afternoon to all of you. It's a great pleasure for me to be here again this year and I'd like to thank John Duke Anthony and the Council for inviting me back to speak to you today.

I would also like to thank all of you for showing great, good stamina for still being here after a long session yesterday and a long session today, it's clearly been an exciting conference and action packed I would say also.

And with that in mind I promise to keep my remarks this afternoon short, because I believe that the most interesting part of the sessions is the panel discussion, which I think we should try to get to as soon as possible.

I'd like this afternoon to talk briefly about two topics within the context of our subject, which is business and financial development in the Middle East.

The first topic is the overall business environment for foreign companies wanting to come to the region. As the former U.S. Ambassador to Saudi Arabia a big part of my job was promoting U.S.-Saudi business ties. What I said then to U.S. companies and what I am still saying is this, if you are a company with international aspirations and you are not looking at the Middle East then you are missing the opportunity of the decade if not the next three decades.

Having been involved in finance and investments in the Middle East for over 35 years I have never seen a better time to come do business in the region. The obvious reason is that all the governments are spending lots of money. All the GCC countries are embarking on large development programs and in the case of Saudi Arabia it is massive. A trillion dollars of projects

have been announced in Saudi alone. So when you add Qatar, the UAE, Kuwait and Oman as well there have never been more opportunities for foreign companies to win contracts and do business.

Again using Saudi Arabia as an example, the largest economy in the region. The environment for foreign businesses has improved dramatically over the last 10 years. Under the auspices of SAGIA, the Saudi Arabian Government Investment Authority, the Kingdom has made a concerted effort to open up to foreign companies and investment. And SAGIA is justly proud that Saudi Arabia has moved up the World Bank table on ease of doing business to what should be the number 10 spot by the end of the year. This is at a great achievement.

SAGIA stands as a one-stop shop in the Kingdom for foreign companies coming to do business. And SAGIA's ability to facilitate licenses, advise on joint venture partners and generally steer companies through the processes is a great step forward for Saudi and demonstrates the government's commitment to bringing in foreign expertise and support.

And it is a similar picture throughout the Gulf, a huge drive to develop projects. As the different countries embark on large programs, all fueled by the substantial oil and gas surpluses they have enjoyed for a number of years. Surpluses that have been generally very wisely managed such that the Middle East was one of the least affected regions during the recent economic recession, that so badly hit most of the rest of the world.

So at a time when many countries in the world are at still struggling to recover, business in the Middle East is booming and if you haven't yet you need to come out and see it for yourself. So that's the good news side of things.

My second topic is somewhat less positive and it is this. That if the Middle East governments don't deal with the education problems they have, then all the money in the world won't fix the fact that high unemployment levels amongst their youth will be serious threat to their development plans and will create serious social problems.

The good news side of this is that all governments seem to understand the problem, and a lot of money is being committed now to build new schools, address curriculum issues, retrain teachers and emphasize the need for critical thinking, and math and science as subjects. The point is that students need to be taught these skills if they are to be successful in the modern economy.

The KAUST project, the King Abdullah University for Science and Technology, that Prince Turki referenced earlier is a great showcase for the Saudi commitment to these ideals at a graduate school level. But it has to start at the primary schools and be accepted and adopted throughout the whole school system. And that is the great challenge for all governments. And one they cannot fail at because the consequences of failure are too dire from both an economic and a social standpoint.

So I look forward to developing these topics in a greater depth during our panel discussion and I thank you all for your attention today.

[Mr. Brad Bourland] Your Royal Highness, ladies and gentleman, Dr. Anthony, it is a great pleasure for me personally and Jadwa investment to be represented here today. My goodness I remember the first Council conference that I spoke at, I don't remember the year but suffice to say that it was a much more intimate crowd at a Hamilton Inn I believe. So congratulations on the great progress you've achieved over the years.

I thought I would approach this today by addressing quickly a few of the questions that I hear most from our clients and shareholders and stakeholders in Saudi Arabia and the market there. So let me go through those quickly and those questions, I think are, I'm an economist so I'm going to talk less about the markets and a little more about the economy, but those questions are first, what's been the impact on us and I'm a participant in the market in Saudi Arabia's, so by us I mean players in Saudi Arabia. What's been the impact on us of the global recession and financial crisis? Second how has it affected oil revenues and what that meant for us? And third what's the condition of our government finances in the region? Fourth, how are our banks fairing through this mess? And I think, maybe fifth how are our markets doing and how has that been affected?

Well you know downturns in the United States started in mid-2006, recession started in 2007 and like other emerging markets we naively thought this was a U.S. problem and Saudi Arabia oil prices continued to rise into mid-2008, in August reaching \$147 a barrel and then it is hard and it hit us fast between August and December of 2008. Oil prices dropped to \$34 a barrel in December and we really felt it clobber our markets, clobber the oil market. Consumers acted like consumers everywhere, they started to hold cash, banks became more cautious and didn't lend etcetera. So the key distinction between the slowly unfolding recession in the United States that started with housing and banks, hit emerging markets including those of us in the Middle East hard, but we rebounded hard. By May of 2009 oil prices had rebounded and interestingly if you look at oil prices since that period they have been amazingly stable in historical terms, the volatility of the daily change in oil price has been measured by standard deviation of change. The oil price has been the least volatility that we have seen in years. So it's quite an interesting development in the oil price.

But on the impact of the recession on us in most countries in the region, certainly in the Gulf, there never was technically a recession, we had slowed growth, slowed from 4 or 5%, even 6%, it was starting to feel like a boom before the global crisis, to about 1%. So never technically really had a recession but had to severe slowdown that has since bounced back and bounced it back fairly quickly. The concern now that I hear most about is about a double dip and what would that mean, because it has been painful because the U.S. problem of U.S. housing hit us in the Middle East. We don't want that to happen again.

The consensus that I hear from the IMF meetings last week, ten days ago, was basically there is not going to be a double dip recession in the United States but the world is growing at different speed limits. China and India are going up to grow 8 to 10%. Europe and Japan are going to grow sort of one percent-ish, the United States is going to grow 2% and in the Middle East will grow 5 or 6%. As I travel the world as an economist it's clear that in the Far East, in Asia there is unbounded optimism about the future and growth and what the future holds and the increase in prosperity.

In Europe on the other extreme of the spectrum and quite a bit of pessimism, and in U.S. kind of concern not as skeptical and pessimistic as in Europe but I think in the Middle East we have a foot in both camps. We want to be as optimistic as in Asia but we're pretty much still tied to the markets in Europe and the United States as well. So we don't have the full confidence that you often see in the Far East and that is reflected in our growth rates and in what is likely to be the growth rates in the region going forward.

So that's the first question. What's been the impact of the recession on the region of concern? It hit us but we never did technically sink into recession, but slower growth from which we've rebounded. Still, concern about the future lies somewhere between the high growth of the Far East and the lower growth of Europe and the U.S. in terms of the outlook going forward.

Second question, what about oil and oil prices. I heard his Royal Highness say that Saudi Arabia had moved forward over history talking about political policy in the Middle East but with a single mind old single-mindedness of purpose and vision of where it's been and where it's going.

I learned an interesting fact a couple of days ago I didn't know. There was Tuesday and Wednesday of this week a conference in Riyadh celebrating the 50th anniversary of the founding of OPEC and I was speaking with a gentleman who is quite an OPEC historian. He said did you know that when OPEC was founded 50 years ago, I believe the four original founders Saudi Arabia, Iraq, Iran and Venezuela all produced and had the capability to produce at that time about the same amount of oil, within 100,000 barrels per day. Think in your mind do you know what that number is that they could produce at that time. They all could produce about 1 million barrels per day. Today Saudi Arabia can produce about 12 1/2 million barrels per day, and Iran about 4 million barrels per day, Iraq around two and Venezuela around two. Saudi Arabia produces three times more than the next closest in OPEC and I think if you look at the four countries really that says more about their political path over history than about their geological potential. So the steadiness also applies I think very much in the oil sector.

Now that was an interesting fact. I suppose today I think OPEC is probably pretty happy with oil prices where they are, especially in relation to the global economy and where it is with the concern about the slow down. As I said oil prices have been fairly steady and not very volatile and hovering between \$70 and \$80 a barrel. Today \$81 a barrel. And if you never think about oil prices and Middle East economics or give it a thought for five minutes a month I'll give you some rules to think about. What kind of oil prices do they need in the region to have a prosperity, growth of the economies, buoyant markets and optimism? It's a moving target because in 2003 when oil prices started to rise it only took at that time about \$28 a barrel to produce a budget surplus in Saudi Arabia and throughout the region. This year it takes \$60 a barrel or so on average, higher than that to produce a balanced budget. So that's a moving target that goes up.

But in the oil prices, should they sink back into the \$20s it would be very bad for the economics of the region. Oil still drives things. Oil prices between I think between \$50 and \$70 a barrel produces budgets that are manageable, government finances that are okay, but not a lot of optimism and not a high level of growth. I think we're in a sweet spot of oil prices between \$70 and \$100 a barrel that creates good growth, strong government finances, confidence in prosperity

and any price above \$100 a barrel is probably too high and is oil setting itself up for a fall. A bit of a bubble being built. But we're in that sweet spot now and things are growing well. So that's enough about oil.

Let me address the third question. What does it mean for government finances? Imagine if you will, in this political season, the tea party in the United States, if the U.S. government had almost zero debt and the equivalent of 100% in GDP cash in the bank, I think the political landscape would be very different. That's the case in much of the oil-producing Middle East and government finances are extremely strong and poised to provide the capability for government stimulus of the economy for some years to come.

The one thing I'm worried about for government finances is that moving target of oil prices. Oil prices do need to go up by \$5-\$10 per barrel per year to keep up with the spending growth and keep budgets balanced. But that's a problem for 10 years from now.

How have our banks done in the region? Well they're well capitalized, didn't have exposure to many of the toxic Western assets so it looked like they were fine compared to the banks in Europe and the United States in particular.

And then came Dubai and then came some major defaults in Saudi Arabia and that has set back banking and credit throughout the region and it still hasn't fully recovered. So I would say in that regard we're a little bit behind the recovery and re-capitalization of Western banks where credit is still tight and there are still concerns about our clients and their concerns about the bank balance sheets throughout the region.

And finally just a word about how are our market, unfortunately the stock markets and bond markets in the region got hit and started to move with global markets even though the underlying economy is fine. So I'll simply say that foreigners can invest in the markets there. It's a good deal now. Take a look and buy stocks in the region especially the Saudi market. Thank you very much for your attention.

[Dr. Hani Findakly]

Well, good afternoon. Thanks John Duke for calling me, and thanks very much for giving me a total of 24 hours to prepare my remarks. Congratulations, Prince Turki, for the award, it is very much deserved, very proud of your friendship.

Good afternoon everybody. In preparing for this presentation I thought I should focus on what I consider to be important trends and developments in the business and the investment sector in the Arab world. Which I believe have long-term and very positive implications on the rise of competitiveness of the region and its increasing integration and an increasingly interconnected global economy.

These developments are in my view even more important than the current positive economic statistics that Brad just referred to which obviously will vary from time to time but recent trends in my view hold the promise for the first time in my observation of the region for the last 30 to

40 years of what I consider to be a good prospect for sustainable growth, for faster job creation and ultimately sustained prosperity for the entire region.

I have two premises that I will base my presentation on. The first is that the region is undergoing a very rapid and in many ways a radical process of transformation along three important dimensions.

First is the devolution of economic priorities from the government and the public sector into the private sector.

The second dimension is qualitative as well as quantitative changes in the educational system in the region that promises to produce a more educated and more skilled workforce that will compete on a global basis.

And the third dimension is what I think is the most important one which is a quantum improvement in corporate governance in both public and private companies that dominate particularly in family-owned companies, that dominates the private sector in most countries of the region.

My second premise of this presentation draws really on the experience of the last two decades of Asia, Latin America and Eastern Europe. The premise is that once the momentum for change reaches a critical mass and speed, that's what they call a tipping point, it will accelerate further and will be almost irreversible. Now the region is not yet in my view at that tipping point but it looks like it's very certainly and very surely moving at a very deliberate pace towards that point.

To give you some context of where the region is in historical change as it occurs in the later stages of the 20th century and the early stages of the 21st century, it's helpful to take some historical look. The world economy, the global economy as we best can measure it today has been stagnant in the first century AD, one year A.D. to 1500. The global economy had a per capita income roughly between \$500 or \$600 in current dollars and was basically flat and uniform. There was not much change in countries across the globe.

It was only after the 15 to 16th century, the Renaissance in Europe, the Industrial Revolution and the rise of the United States and ultimately Japan, that Western economies, what we look at as Western economies today began to pull away. And they began to grow at a much faster pace reaching a per capita GDP of about \$4000 by the end of the 1950s.

During this long period however, about 500 years between 1500-1600 until about 1950 what we have now come to call the developing world remained stagnant, it didn't change a whole lot from the previous 1500 years. By 1950 for example, China's GDP was still a \$600 per capita, India was \$550, roughly on par with each other. Even then since that time the growth in the second half of the 20th century for China and India and other countries had been relatively slow. China's GDP for example did not cross the \$1 trillion mark until about 2000 and has since, however, quadrupled to about four trillion dollars, as noted by the World Bank Atlas methods.

Now this historical perspective is important, I think, in understanding the unprecedented rate of change that the world economy has undergone and its implications for the Arab world. Obviously rapid advances in communication technology and more important to open trade and capital flows have unleashed powerful market forces that have accelerated the rate of change in a way that Asia has achieved in the last 50 or even 25 years is what the Western world has experienced in about 550 years.

Now against this backdrop of massive change in the global economic order, the economies of the Arab world haven't, really till the start of this decade, had been mostly stagnant. They had been moving up and down regularly and with the exception of a couple of cycles, mid-1970s, late 70s-early 80s during the oil shocks large sums of capital flooded the region. The real GDP of the region has on average grown by only 1% to 2% for the entire period between 1970 and about late 1990s.

Against this 1 to 2% growth population has been growing on average during that period by about 2 1/2%, which leaves a gap of about 1%-1.5% over a period of about 30 years. It has cumulatively contributed to a decline, a real decline in the real per capita income and therefore living standards of most people.

Much has changed however since that time. In the first 10 years alone for example Arab GDPs on average have grown by about 5% to 5 1/2% a year. The total GDP of the Arab world from Saudi Arabia to Morocco now exceeds \$1.1 trillion. That by the way is about the same size of the GDP of India, which has a population of roughly three times the size of the Arab population.

John Anthony is giving me a minute so let me. I will just conclude. And the way I will conclude is the of the arguments that I've made I would be happy to anybody who's interested to send copies of my presentation.

The economies of the Arab world have been undergoing a rapid change that resulted from enhanced, an enhanced regulatory environment, enhanced corporate governance. This transformation has also created a more hospitable environment for both direct portfolio investments in the region and for foreign investors as Ambassador Fraker had talked about.

The necessary conditions that I believe for more sustainable and more rapid growth are already broadly in place and are in different stages of development this includes national economic priorities that are better aligned with the economic needs of the country, more competent economic and monetary policy management, enhanced regulatory and legal practices, and enhanced regimes of corporate governance and significantly a new focus on education and skill building.

To be sure there are many challenges and obstacles. Some of them are serious enough that it could potentially derail the current momentum. However, I think the forces of change already in place are sufficiently powerful that it could make it very hard to reverse at any time in recent memory.

Thank you very much.

[Dr. Lama Suleiman] [Arabic Greeting] It is very intimidating as the lady said before me to be here with all the information I've learned for the first two days I hope I have something to add to everything I have learned.

Women in Saudi Arabia. It feels like. I don't know if you have seen the movie Tarzan. When Tarzan came out of the jungle he went to London to Hyde Park and everybody was, I feel a bit I feel with Tarzan.

The first of course, allow me to say what a pleasure and an honor it is to be here with you today. One should never underestimate the value of gatherings such as this, which seek to support and encourage the better understanding of one another.

Of course, understanding should depend on the situation and on who and how we define it. As we all know only too well there is always more that we can do to bridge the gap. The contemporary history of Saudi Arabia is one in which a great deal was achieved in a relatively short amount of time. Throughout this time it was the state that generated the majority of development in the areas of education, healthcare, national security, and employment. Economic prosperity while undoubtedly the result of countries being blessed with natural resources cannot be secured without significant investment in the human and economic resources, and I think that the panel explained that very well.

In this regard I believe that we should be proud of our country's achievement that in order to build on those achievements reform is also necessary. Effective reform in the case of Saudi Arabia relies on finding ways for both state and society, they cannot work separately they have to work together, to reach the highest levels of efficiency and mutually supporting each other under the leadership of his Majesty King Abdullah our government is committed to finding ways of improving the system to embrace all members of society, men and women, to integrate in a national and global economy, and this is the challenge that requires the active participation of everyone.

Saudi Arabia is committed to improve the standard of living to all its citizens. We all share certain definitions of reform and in our case attention must be given to changing circumstances and changing times, whereby new solutions and ways of working must be sought. Of course this is where the youth that has been sent, the scholarships that went everywhere around the world are going to come back with tools and skills, and I say tools and skills and I do not talk about theories where we only cut and paste because we have tried that in the past and it does not work. We need to learn tools and we need to have skills to be able to create our own environment, to be able to make it into a more developed, to help the development of the nation.

We can benefit from examples in the region and the world around us although that is never one universal solution that can fit all our problems. We need to be able to formulate our own responses to our own challenges. As we all know our country recognizes the need to decrease its dependence on its natural resources, as everybody's been saying and turn instead to developing

its human resources both in order to stimulate the economy and to respond to the needs of a rapidly growing and youthful population.

Saudi Arabia has always equally financed men and women's education. Yet in the past mostly men received support in seeking employment. 61 percent of our university graduates in 2009 are women. Here I would like to add that even though in the past there was no support for employment for women however 85% of the women were working in the education sector and about 4% were in the health sector. The rate of unemployment for the young men today is at 7% while the rate of unemployment for young women is of 27%, of these 27%, 78% are university graduates.

So with the problems of Saudization and helping more Saudi's to take these jobs we will not have any problems once at all these graduate women will be able to find these opportunities.

Of course these numbers have placed a need to integrate these women in the workforce on the countries list is today on the country's list of priorities. The situation in Saudi Arabia is complex. Attitudes toward women's participation and integration into the development process have often been ambivalent, by both men and women. While women and gender issues have proved to be controversial and contentious the debate about the role of women has often been overshadowed by a deeply entrenched fear of compromising or sacrificing values, culture and one's identity.

Despite the obvious limitations many of the regulations hindering women's participation have been and are being identified, nullified or altered to allow equal opportunity to all members of society and to reduce any discriminated act. From a gender perspective in particular we have found that putting plans to paper and updating regulations is one thing while achieving actual tangible change is something else altogether.

Saudi Arabia is no longer only addressing women's practical needs such as education, health or job creation but is also working at addressing the strategic needs. Meeting women's strategic needs means trying to involve them in decision-making whether at local or national levels and mainstreaming a gender perspective so that budgets, plans, policies, laws and institutions actually change and evolve to reflect the interest of both men and women.

The state appointed a woman as Deputy Minister, a woman as a Vice Mayor. Women today are participating in the Chambers of Commerce elections. If none are elected the state is appointing some. This is what we would call something like a quota.

Companies and private sectors are eager to recruit more women as they have proven to be more compliant and committed and I don't mean anything against men but it's the truth. The country is aware that having a strategic gender dimension in our national thinking is crucial. Otherwise changes will be short-lived and superficial. Let me now in conclusion reflect upon the attitudes towards women's advancement in Saudi Arabia, and how we are actually moving forward in this regard.

We are working at untangling the misconceptions and misinterpretations that shapes society's view about the role of women. Misinterpretation is an extremely important word here because

there are misinterpretations whether on the national level or on the international level. Mishandled over time with badly articulated traditions, culture and environment, however, are not forgetting that we must hold on to our customs and beliefs that differences in cultures do not have to be degrading maybe only misunderstood. Wearing an abaya is for sure something that is misunderstood.

Then we embark on a process of highlighting and clarifying the true progressive and evolutionary nature that Islam gave to women as a way of life and not simply as a religion as being major members and developers of society that have a voice, equal rights and opportunities privileges and clear responsibilities. We understand that fear of change must be handled with the utmost refinement, diplomacy and assurance while imposing change only due to international pressure and a strange need to deny diversity with a blind imitation of the Western world would jeopardize many members of our society especially the most vulnerable ones. Once such discussion and processes of consensus building are achieved we can in turn begin to develop our own paradigm and standards for women's role in society. This would reflect our own interpretation of equality between the sexes where equity would prevail and the often different but complementary roles of men and women.

As a Saudi citizen and a woman who has been given the opportunity to participate in her country's development, I believe that it is essential that we continue to expand the circle of participation in our nation's progress. Some of the progress I have mentioned to you today indicates that strategic issues surrounding reforms are being addressed and for this we do have reasons to be optimistic.

Thank you very much.

[Ferguson] While Ambassador Donnelly is coming up I've been told by Dr. Anthony that we are going to try to end this at four o'clock, four ten, so if you all have any questions if you could bring them up on paper right now that would be great.

[Ambassador Donnelly] Your Royal Highness, ladies at gentlemen, thank you for coming this afternoon. Thanks to Dr. Anthony for inviting me to join you here today as the commentator. I'm not sure that actually how a commentator is different from a speaker. This is actually the third opportunity I have had to participate in this. I came as senior State Department economic official, I came when I was running the Middle East Department at the Office of US Trade Representative at the White House, and now running the Middle East office at the US Chamber of Commerce. And I have always enjoyed these sessions.

Really just to comment on the four speakers today I found really nothing with which I disagreed. I certainly that the points Ambassador Fraker made about the increased potential of trade and investment opportunities in the Middle East and American companies that don't realize it are going to get left behind, so that I think is clear. And I certainly endorse his second point that has been picked up about the importance of education. It's the same thing in the United States but it's certainly true in Saudi Arabia and the rest of the Middle East, in Egypt and Morocco and any other country in the Middle East that, to be competitive, to create jobs for growing youth

populations were going to have to have the resources for our educational system but were also going to have to be prepared to make some fundamental reforms.

I was trying to take notes on Mr. Bourland's comments on the Gulf financial markets and energy markets, all I say is that I thought he had it exactly right, I thought and there were some good advice for all of us. I've thought the historical perspective from Dr. Findakly was really useful particularly for those of us Americans who come from such a young country and a few hundred years ago when you had a rich culture in the Gulf and in so many other parts of the world people were still running around in bearskins here in North America. I think we often miss that perspective of history and longer-term trends.

And I thought Dr. Suleiman's points about the role of women were so important, I only wish we could keep her here in the United States for about six months and send her around the country trying to start educating people on some of these points.

I would just like to make a few points from the point of view of the U.S. American business community as it relates to the Middle East. Starting with trade and picking up on Ambassador Fraker's point, American exports to the Middle East broadly defined are approximately what our exports to China are. And I don't think that's understood including by many in the American business community and it's one of the messages that those of us who work on the Middle East in the business community need to get out to our members.

Certainly we at the Chamber of Commerce have made a strategic decision to beef up our Middle East department to engage in new activities. I know that many other businesses organizations are here today. I think it made similar decisions and major companies in the U.S. know it. But we really have to get the message out around the country to the small and medium-size companies that would be great partners for the Gulf, for Saudi Arabia but also for other parts of the Middle East.

Just a couple of points that we would make to our Administration. America needs to have a trade policy and to get back in the trade policy game. We really in the past two years have done nothing. We still have free trade agreements that the Obama administration inherited that are sitting or languishing and we also I think ought to try to get our Middle East free trade agreement program up and running again.

We need to do that. The new Congress is going to have, and the Administration are going to have to come to grips with important issues on taxes, corporate taxes and competitiveness, how we have the second highest corporate tax rates in the world are in the OECD countries, here at the United States and that's having an adverse impact and we need to think about our tax regime. We need to think about our global taxation where American citizens are taxed on global income and almost no other countries do that.

And we need to think an awful lot about this issue of standards and regulations. As trade barriers, tariffs and quotas have come down to a great extent the new barriers in trade are really about what are the standards to meet to qualify to get into a market and frankly America has

unilaterally disarmed in that area as our European friends and competitors are out there, selling their standards system, training people from the Gulf and the rest of the Middle East on that.

America's agencies including the National Institute of Standards and Technology, the Food and Drug Administration, Department of Agriculture are really not doing it. We need both a political commitment, that this is important to get out there and to help give countries partners around the world, a sense of America's standards and why they are the best standards on which to base your regulations and we need to find the resources to get out there and compete and do it because otherwise we're going to find ourselves even further behind.

So there's a lot to do. I would like to commend the administration on two important initiatives that I think relate very much to the Middle East. One is the export control regime effort to update and liberalize that, that the Administration and the Congress are working on and the President and the Administration, the President personally have been involved in this. We think this is very important to modernize so that American manufacturers and companies are not at a disadvantage trying to sell our equipment by imposing unilateral controls on technologies that aren't necessary in today's global economy.

And second, and it was touched on earlier, nuclear energy is being an important part of development. We were very encouraged by the administration and the Congress working with the UAE on the so-called 123 Agreement on Nuclear Cooperation and we hope that sets a precedent for doing similar kinds of agreements for civil nuclear power and American technology involved in that, in other countries is in the Gulf and around the Middle East. I think it's a good environmental policy, it's good economic policy and it's good for jobs both in the United States and in the Middle East.

So I'll stop there, thanks.

[Ferguson] As I work part-time training Marines on Arab culture and Islam, and as I have control of the questions here, I'm going to ask a question near and dear to my heart, which is addressed to Ambassador Fraker and to Ambassador Donnelly.

Ambassador Smith mentioned this morning that we cannot do the job of representing the U.S. from behind embassy walls. As ambassadors how important do you believe it is for ambassadors and senior diplomatic personnel to be completely fluent and able to communicate in the local language of their postings and of course to be armed with knowledge and understanding and the culture and the traditions.

[Fraker] Why don't I start off with that. I think it's incredibly important that our diplomats have a deep and broad knowledge of the cultures where they are operating. Language is a critical part of that. I know that every time I tried to communicate in my very basic Arabic, it was greatly appreciated. But more important than language is actually just showing up, getting outside the walls as Ambassador Smith said this morning is far and away the most important aspect of this. Certainly it was something I tried to do when I was Ambassador and had the opportunity to travel to many different cities in Saudi Arabia in the north, south, east, and west. I know that was greatly appreciated by the people, so I would endorse that.

[Donnelly] I think that's exactly right Ambassador Fraker. Should every American diplomat serving in the Middle East speak Arabic? Yes. Is it going to happen? No.

But we need, the State Department is making an effort to, some of the increases in personnel the Department has been able to get in the last few years including particularly those from Colin Powell's period as Secretary of State are now working their way from junior levels to mid-levels and there is now a bit of what the military has always had and the State Department hasn't, a sort of training float so that you have enough people that you can take a few out and train them for two years in Arabic or Chinese or Russian.

So I think it is getting better. It's going to be a challenge but I agree with Ambassador Fraker, the language, the cultural sensitivity are very important but they are less important than just having the spirit that the role of an ambassador or a diplomat is to get out, outside the embassy and talk to people at all levels in the country on their grounds, where they live and work.

[Ferguson] Doctor Suleiman, I have a question for you. Concerning the role of women. What will be necessary for all American women to be successful in business in the Arab world and this is a short-term and long-term... Then a second question that I have, regarding women to succeed, what are the key changes needed in business laws to make it possible for women to play an enhanced role in business leadership and business ownership perhaps the men on the panel can answer after you answer the first question.

[Suleiman] I don't think there is any difference between men or women. I mean to come into businesses, a lot of businesses at we have today in Saudi Arabia, whether they are European or American are headed by women. And they have been open in the Middle East for many years.

[Ferguson] And for women to travel to Saudi Arabia to obtain a visa, for example?

[Suleiman] It may take a little longer and there are some challenges, but nothing is impossible.

[Ferguson] Okay, nothing is impossible. Alright, for the gentlemen here was out of the key change is needed in business laws to make it possible for women to play an enhanced role in business leadership.

[Suleiman] Do you want me to answer that because it is also about women?

[Ferguson] Alright. Go ahead.

[Suleiman] Of course, there are challenges. Everything has started since 2005 when elections started and women came into the chambers at the commerce. And many laws and regulations with the Ministry of Commerce have already been changed. At one point a woman needed a guardian to be able to have a license, a business license. Today a woman is not longer required to have a male guardian, she can have her own license however it is preferred that a woman would hire a male manager to help her in the management of a business like construction or real estate that requires. This is the point that we are still working at. However, there is also a big misunderstanding about whether there is still a guardian. Because I keep reading everywhere

from Human Rights Watch that still in Saudi Arabia women still need their guardian's signature. That is not true. It was changed in 2007. But the ignorance of the change has, this is what I've explained, it takes awhile for the change to reach the international world.

[Ferguson] As a journalist I can say we can blame the press for that.

Alright, for everyone this is actually an interesting two-pronged question here. What are some of the key business investment opportunities for foreign capital in the Arab world and what the key lessons American businesses need to learn in order to function more effectively in the Arab world.

[Bourland] I speak to a lot of groups of American businessmen and one thing that I like to say is that there are a lot of myth-perceptions about that Middle East and that they should just be fact based and come out and visit and kick the tires. They may choose that it is not the market they want to participate in or they choose that it is. But they should at least do it on facts rather than on emotions. So that's my first recommendation, come out and check out the market.

In our case we like to invest in things related to hydrocarbons, there's such an obvious natural advantage, competitive advantage, for the region there. So we certainly like petrochemicals. To give an example of that, in 1985 I believe it was, about 80% of the petrochemical plants were being built in the United States or Europe. Today, 80% of the petrochemical plants are being built in the Gulf or China. China where the market is. So the petrochemical industry is moving out there. It is obviously a good investment opportunity for Western companies.

[Ferguson] Anyone else want to take that question?

No. Yeah.

[Donnelly] I think I'd probably say the same thing in a slightly different way. To realize what you need to do is to do business in today's Middle East. Not in some stereotype from Lawrence of Arabia or what you saw on a TV show or something like that.

From a business, there's a lot of social issues embedded in that. But from a business side I think people need to realize that everyone else in the world has discovered the Middle East and for U.S. companies, large or small, if they don't get out there soon are going to find themselves left behind and have missed the opportunities to get in there. So I think it's everyone else, we're not that much smarter than everyone else, and everyone else is out there. And not just our few big oil companies. We need to get American business out there and to see, and to find partners, and to have the creativity and flexibility to take advantages of the opportunities and to know they are going to have to compete.

[Ferguson] Dr. Findakly, this question is for you. Many international educators, including many in the Gulf, emphasize the need for critical thinking skills in education. Yet Japan, the world's third largest economy has a traditional curriculum. Is it possible to achieve employment goals without critical thinking?

[Findakly] Good question. I think there are examples beyond Japan that follow the traditional method of thinking. Singapore has been singled out as a country that has pushed the education curriculum particularly at the high school level, but increasingly at the university level without critical thinking. But there also have been some changes that are taking place over there. There's a story of a Singapore educational delegation that came to the United States in the last couple of years with the idea of teaching and advising Americans about the improvement in the educational curriculum in the United States and went back with some ideas about changing the educational curriculum in Singapore to be more in line with critical thinking methods. I think critical thinking is important. It is important not only in educating and training people, but also to create a culture of excellence and a culture of innovation in society, that many other societies are beginning to find is very important. And I am encouraged by the fact that a number of reform programs in the region, countries anywhere from Saudi Arabia, to Jordan, to Bahrain, to other places are beginning to embrace that methodology, that process. King Abdullah University of Science and Technology that Prince Turki mentioned, I just visited there a few months ago. And I was quite impressed about the adoption of those scientific discovery methods, in there to the point where they have a number of patents that are beginning to flow out of that university. About 300-350 patents in the span of less than one year of existence. So yes, I think that critical thinking is important and you are seeing more and more of that changing in Asia itself.

[Ferguson] We're going to have just one last question because Secretary Sanchez has arrived and will speaking next.

And this I think is a very interesting question. What will be the impact, because we have talked a lot about education, and the development of education with the younger people in the Gulf countries. So what will be the impact of an expanding national workforce in several of the Arab states on the expat workforce that has filled many jobs in construction and service sectors. Who'd like to take that one?

[Bourland] This may not be what you expected to hear but I think there is room for both to grow quite a bit. That's been the history and that's probably the future. Saudi Arabia did a census this year and just a few weeks ago released the preliminary results. The government had been saying there are seven million expats in the Kingdom, but according to the census there are eight and a half million expats in Saudi Arabia, so I think we'll see continued growth of both populations in the region, as the economy grows at a healthy pace.

[Suleiman] I just want to add also what is happening today, as you know Saudization is so important and trying to find these job opportunities for young Saudi men and women. What we're trying to do is finding the right jobs for the right people. At one point there was such a panic because of the unemployment rate, that they were throwing Saudi men in any company, just to say, and it was, we were able to measure it by a quantity. And this was a disaster because, these Saudi men deserved to have the right jobs for them. However, for non-Saudis, once all these jobs are picked and chosen and there is always, as His Excellency said, there is always possibility that we are expanding and there is an increase in job opportunities, but putting everyone in the right job is extremely important.

I also would like to expand in saying we also would like the help of foreign companies in taking this very seriously in helping and creating these jobs for Saudis, men, and also, being courageous enough to give the opportunities to women. There are many women. A lot of foreign companies, they do not have the courage, they will tell you, "No, what if someone comes and tells me it's not allowed.. should it be.. should it not be." I'm expecting more courage from foreign companies and I'm finding that local companies have much more. So please help us in finding the jobs. Thank you.

[Findakly] The answer is that it depends on your time horizon. There are currently about five million Saudi students in different stages in the educational system in Saudi Arabia. That's about a third of the native population of Saudi Arabia. Interestingly enough about half of the high school graduates are opting to go to college. This compares very favorably to the U.S. work force which has only 27.7% of its work force as college graduates, compares very favorably with Europe, not as favorably with Asia. So overtime as more and more of those graduates come on line they are obviously going to displace slowly and surely the foreign work force. But the demand and the growth for services and skills is so large that you really have to look beyond the next ten or twenty years before you're seeing a meaningful impact on the work force between foreign and domestic.

[Ferguson] This has been an extremely educational and well informed group of experts. Thank you again for all of you.

<END>