

**STATEMENT BY R. DAVID HARDEN,
MANAGING DIRECTOR OF THE GEORGETOWN STRATEGY GROUP, INC.
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FOREIGN AFFAIRS COMMITTEE
FEBRUARY 6, 2019**

Chairman Engel, Ranking Member McCaul, and Distinguished Members of the Committee, I am pleased to appear before you today to discuss U.S. Policy in the Arabian Peninsula: An Evaluation. Last night, I returned from the Middle East. During the past two weeks, I visited Tel Aviv, Ramallah, Amman, Riyadh, Dammam, and Abu Dhabi. Today, I am here to offer an on-the-ground economic analysis of the complex crises and foreign policy challenges that the United States will face in the decade ahead. My testimony begins with Yemen, then outlines three broad trends shaping the Arabian Peninsula, and concludes by proposing one big idea to this Committee.

I. YEMEN OVERWHELMS

Make no mistake: the human toll of the Yemen war is staggering. Of the nearly 29 million people in the country, about 22 million — nearly 76 percent of the population — need some form of humanitarian assistance. Among them, 16 million do not have reliable access to drinking water or food. Last year Yemen faced the world's largest cholera epidemic in recorded history; one million people suffered from an outbreak driven by the deterioration of the wastewater management systems primarily in Houthi-controlled territory.

The biggest challenge, widespread food insecurity, is not the result of a "drought famine." Food and basic commodities are in the markets but priced beyond reach of most of the population. When the Central Bank of Yemen (CBY) splintered in late 2016, the economy de-leveraged as the formal banking system collapsed. The Yemeni riyal then dropped precipitously in value and a war economy emerged further incentivizing the conflict and accelerating the humanitarian crises. In Geneva later this month, the United Nations (UN) is expected to call for another \$4 billion in emergency assistance for its Humanitarian Response Plan.

Yemen is a complicated war — or rather wars. By my count, there are five. The Houthi militias control 20 percent of the land, 70 percent of the population, and are in a civil war with the internationally recognized Yemen government, headed by President Abdrabbuh Mansur Hadi. Meanwhile, the Saudi-led coalition, consisting primarily of Saudi and Emirati forces with symbolic support from other Sunni states, is engaged in a proxy fight with Iran that supplies the Houthis with arms, cash, and strategic intelligence. In the south, Yemeni secession forces seek

to re-establish an independent state, the so-called nation of South Arabia, and are fighting both the Hadi government and, at times, any other tribal or political actors that stand in their way. The United Arab Emirates (UAE) and the U.S. are also engaged in a battle against the Islamic State of Iraq and the Levant (ISIS), and al-Qaeda in the Arab Peninsula (AQAP). Concurrently, both AQAP and ISIS treat parts of south, east, and central Yemen as their base to project power against the UAE, the Saudis, the Hadi Government, the Houthis, Iran, the United States and others actors. Not surprisingly, the Yemen war is not limited to Yemen. The Houthi militias have taken and, at times, controlled some hilltops on the Saudi side of the Yemen border. More concerning, the Houthis have fired ballistic missiles, mortars, and artillery into Saudi territory, including more than 215 Iranian configured missiles into Saudi cities such as Riyadh, Jeddah, and Jizan.

An Economic Way Forward?

There is no immediate military solution. Peace remains remote. December's Stockholm Agreement outlining a ceasefire for the the battle of Hodeidah seaport is fragile. The humanitarian response has only gotten more expensive. Given this bleak landscape, what realistically can be done to ease the suffering of the Yemeni people and initiate a virtuous cycle that fosters political and economic windows for stability and an eventual peace? The realistic next steps must be to improve the purchasing power at the household level by: (i) increasing supply and lowering costs of basic commodities, fuel and medicines; (ii) stabilizing the currency and increasing household income. This two-pronged strategy requires the international humanitarian community to recognize that commercial trade, a stable currency, and improved household incomes are the key drivers to mitigating the humanitarian crisis. While assistance does save lives of the most vulnerable, it does not change the economic and political calculus of the combatants. In short, the underlying incentives of the war economy must change.

Increase Supply and Lower Costs of Basic Commodities by Opening the Seaports and Land Crossings

The first prong of this economic strategy requires that the Saudi-led coalition in concert with the Hadi Government open all land and air crossings as well as all seaports as expansively and efficiently as practicable. No complex crises should rest on one major access point — as is the case for Hodeidah seaport. Additionally, the UN and the Saudi-led coalition should work to keep both Hodeidah and nearby Salef seaports open, even in the event of expanded conflict. The UN should use best efforts to negotiate continued predictability and access particularly for Hodeidah through third party management, a more robust UN Verification and Inspection Mechanism, and real time coordination with the Saudi Emergency and Humanitarian Operations Cell using better technology and communication mechanisms (additionally USAID should assign

an officer to the cell). Responsibility for averting a humanitarian catastrophe ultimately rests with the Houthi militias that control Hodeidah; they must turn the seaport over to UN or third party control.

In 2018, Aden experienced an increase in imports — in part as an attempt by the Hadi government to deny the Houthis port revenue and presumably in anticipation of a battle for Hodeidah. To further mitigate the humanitarian collapse, the Yemeni government can facilitate the ease of movement and imports by breaking oligarchical and monopolistic interests in Aden seaport. Policy changes could include opening up competitive import markets, reducing licensing requirements, facilitating berthing, and expediting unloading and transit from the port to markets.

Additionally, the Hadi government should partner with the Saudi-led coalition and possibly private sector investors to expand the port of Mocha to provide access to Taiz, the north, and broaden Mukalla port. Regarding land borders crossings, the Saudis can open border crossings at al Tuwwal and al Khadra so commercial traders can access the port of Jizan in southern Saudi Arabia. Further, Wadiyah crossing could be more efficient with 24 hour access, more lanes, and improved scanning systems. While remote, land crossings via Oman should be available and can help to broaden the competitive market place. Finally, for humanitarian purposes — as opposed to sustainable commercial trade — it is possible to expand service to Sana'a airport and other smaller airports throughout Yemen. While many of these solutions require time, some do not. During a humanitarian emergency it is critical to expand options for humanitarian access and private sector trade from as many channels as possible.

... and by Facilitating Private Sector Trade

Private sector traders provide nearly all of the basic commodities in Yemen; humanitarian assistance constitutes roughly five percent of total basic commodities. To that end, the Hadi government through the CBY, Ministry of Finance and the commercial banking sector have established trade facilitation letters of credit for a broad and inclusive range of traders to import basic commodities and medicines by drawing down on the \$2 billion deposited in Riyadh. This trade facility should be expanded and deepened. Further, access to international banking would allow global suppliers to assess less risk to traders, shippers and insurers thereby lowering the costs to end use buyers.

Similarly, relatively simple systems can be established in Aden (and eventually the other ports) to initiate automated and transparent customs systems, electronic payments and audited accounts to mitigate the risk of corruption, create import efficiencies, and lower the costs of transportation. Another pragmatic idea is to consolidate Yemeni and Saudi customs on the

Saudi-side of the Wadiya crossing to create one verifiable control point and to lower corruption risk. This would allow for a faster and less costly flow of goods to Yemen. Finally, a direct way to lower costs and increase trade is for the Hadi government to eliminate all customs and duties on all basic commodities given the emergency nature of the humanitarian crises. Presumably this savings would not be passed on to people in Houthi controlled territory however.

These steps would increase the volume of basic commodities imported into Yemen and drive down market prices. Collectively, however, this is only one half of the solution to improve household purchasing power for millions of Yemeni people.

Stabilize the Currency and Increase Household Income

The second part of the economic strategy is for the Hadi government to stabilize the currency beyond recent CBY steps and reduce other non-trade barriers that inhibit the ability of families to purchase basic commodities.

The Central Bank

The CBY Governor may be the most important person on the most important issue — and must therefore continue to take bold steps to stabilize the currency. First, the CBY must closely partner with the International Monetary Fund to complete its diagnostic assessment and bring the CBY back into the international banking system. Second, the CBY should institutionalize and deepen the use of electronic payments and/or checks flowing through the banking system to lower corruption risk and to allow for financial flows through correspondent banking relationships. Third, in addition to a trade facilitation credit system, the CBY can re-establish and expand the viability of letter of credits in the private sector but will need more resources to accelerate trade. This last initiative would allow even small traders the ability to buy and sell and, promptly, stimulate local economies.

The Hadi Government

The Hadi government must establish more sophisticated budget and an accounting systems so there is clarity regarding use of oil revenue and to stem the flow of unaccounted leakages fueling the war economy. Better use of government revenue to help pay the salaries of healthcare workers and teachers on a sustained basis will go a long way to blunt the humanitarian crisis. Transparent, credible budgets and accounting systems would be a confidence boost to the UN and donors to help subsidize these salary payments through the Ministry of Finance and the CBY. A failure to perform basic budgeting and accounting may result in the UN setting up a

parallel finance system which will only serve to erode confidence in Yemeni national institutions.

The United Nations

The humanitarian community must purchase as many local goods and services from the Yemeni markets as practicable including locally milled and fortified flour, high caloric date bars for school lunches and locally-sourced services. Further, the UN can also engage in a more rigorous system to prevent unaccounted leakages by incorporating social networking technology, multi-channel communications platforms with beneficiaries and service providers, and enhanced biometric screening to ensure that assistance is getting to the most vulnerable on the basis of need. Finally, a regional World Food Programme commodities hub closer to Yemen would enhance responsiveness and lower operational costs.

The Private Sector

The private sector has a substantial role to play in mitigating the humanitarian crises. First, the key private sector players should encourage a market economy that is open to small and medium sized businesses. There must be a shift towards a responsible market system that is not simply extractive, oligarchical, and corrupt. Further, a responsible market system will attract investors and restore consumer faith. In other conflicts, senior private sector leaders have played a positive role in mitigating conflict and charting a more hopeful course for a nation at war or brink of war. Similarly, as we saw last month in Amman, the Yemeni business community is starting to recognize this opportunity and obligation.

Emergent technologies provide potential possibilities. Specifically, innovators and entrepreneurs have business opportunities with renewable energy and water technology adaptable for a Yemen market. Finally, the CBY can approve and support a mobile banking systems and leading finance technologies. An interesting and adaptive example is M-Pesa in Kenya (including in the refugee camps), Thailand and other locations, where the unbanked can access the banking system with confidence and efficiency. The cost of wiring money from the abroad to Yemen is so expensive that disrupting the wire transfer costs alone would save families and communities enormous sums and unlock diaspora remittances more effectively.

Blunting the humanitarian crises in Yemen is a security, political, economic, and moral imperative. Aside from ending the war through a negotiated political settlement, the most efficient approach is to improve household purchasing power. To do so, requires a greater market supply of basic commodities, lower commodity prices, a stable currency, and improved household income. These steps could help the Yemeni people re-engage in their economy and

ultimately create an environment where political accommodation is more likely to succeed. This economic strategic approach is not impossible, even in the midst of an ongoing war.

Whither Stabilization?

As the Secretary of State, USAID Administrator, and Secretary of Defense wrote in the 2018 Stabilization Assistance Review

Increasing stability and reducing violence in conflict-affected areas are essential to realize America's national security goals and advance a world in which nations can embrace their sovereignty and citizens can realize their full potential. The United States and our allies face an increasingly complex and uncertain world in which many of our adversaries sow instability and benefit from it. Protracted conflicts provide fertile ground for violent extremists and criminals to expand their influence and threaten U.S. interests. These conflicts cause mass displacements and divert international resources that might otherwise be spent fostering economic growth and trade.

Arresting the humanitarian crisis in Yemen is a tall order, but it is not enough. Any nascent political accommodation must be matched by effective stabilization efforts. Currently, there are pockets of stability in Yemen, most notably in Marib and Mukalla. Yet, the international community has no stabilization strategy which sets forth the plans and timeline for local and substantially improved governance coupled with electricity, water, health, education, and jobs. At the local level, the challenge is to encourage institutions to meet citizen needs and to address underlying grievances which give rise to sustained conflict. If the international community can initiate effective stabilization at the local level, then it can scale to regional and national levels when macro political and economic conditions are more promising. The U.S. should provide value-added leadership and seed funding to help the international community implement an effective stabilization strategy.

The Bottom Line in Yemen

The future of Yemen will ultimately rest with the Yemeni people. The U.S. only can help shape its future — our influence could be extraordinarily constructive, but there are no guarantees of peace. In every instance, this Committee should brace itself that the tragedy of Yemen is likely to drag on longer than any of us can bear.

II. THREE TRENDS: THE NEW GREAT GAME, TECHNOLOGY AND CAPITAL IN THE DECADE AHEAD, AND RISING NATIONAL ASPIRATIONS

The tragedy of Yemen — coupled with Syria, Iraq, and Afghanistan — is exhausting. There is little appetite in U.S. domestic politics to commit further blood and treasure to a region which continues to be mired in conflict. As Mara Karlin and Tamara Cofman Wittes noted in this month's *Foreign Affairs*, America rests in a "Middle East Purgatory". My worry though is that this Administration slips from purgatory to neo-isolationism where Syria is just "sand and death", Yemen is a non-descript side story of mass human suffering, and the Administration adopts policies of benign neglect based on Senator Rand Paul's quip that "Sunnis have been killing Shias since 680 AD." America cannot afford to think in this manner, to be disengaged, and resigned to ill-formed perceptions if we simultaneously wish to remain a great power and wield persuasive influence in the generation ahead.

The binary choice between endless wars and neo-isolationism is a false dichotomy. The rise of a new great game, transformational changes in finance and technology, and rising national aspirations are upon us. America can help shape the future of the Arabian Peninsula in a manner which defends our security interests, advances our central values of human rights and democracy, minimizes our military footprint, and positions the U.S. to seize the opportunities of a complex future. To begin, however, we must acknowledge three broad trends that will shape the world, and America's position in it, over the next decade.

First, the Administration is undervaluing its historical leadership role in the post World War II era. The U.S. largely built the post World War II institutions that served as the greatest force for peace and prosperity in history. These institutions, including the North Atlantic Treaty Organization (NATO), the UN, and the multilateral finance banks served as global shaping forces for more than 70 years. We are now witnessing the rise of a new great game with China, Russia, Turkey, and Iran vying for power, position, and markets throughout the Middle East, particularly in the Arabian Peninsula as well as in the Horn of Africa.

Second, the decade ahead will be defined by rapid technological changes, (particularly in artificial intelligence and big data analytics), rapid public and private capital flows (including increased financing from non-U.S. sources), the continued mass movement of people across borders and regions as we have seen in Syria, and a shifting of markets and trade routes away from the dollar economy in favor of our rising nation state challengers. It is an open question, for example, as to whether China or the U.S. will own the technology and finance futures. In fact, we may find a bipolar economic world in the Middle East, Asia and Africa in the medium term.

Third, national aspirations particularly in the Gulf states will result in unprecedented opportunity and serious inflection points for American foreign policy. Saudi Arabia and the UAE are rising regional powers with complementary and at times competing geo-political interests. Saudi Arabia has an ambitious economic vision for 2030 that will require a respect for human rights and consistent rule of law to actually implement. The United Arab Emirates seeks economic expansion and political influence as demonstrated specifically by its race to build regional seaports, boost trade partnerships, and create new markets. Rising national aspirations, coupled with rapid technological and financial trends, will likely accelerate the Israel-Sunni bloc re-alignment in way which will be exciting and unexpected in the U.S. The Palestinians, of course, will retain their drive for statehood. As long as this Administration continues to devalue Palestinian aspirations, any proposed peace plan will not have political traction and its likely failure will inhibit better regional cooperation.

American foreign policy in the Middle East is essentially backward looking, defined substantially by September 11th and the War on Terror. Interestingly, the Gulf states' domestic and foreign policies are intent on shaping their destinies — with or without America. Given this forward looking context, I believe the Administration is underprepared, underperforming, and failing to take adequate steps to meet the risks and capitalize on the opportunities ahead.

III. ONE BIG IDEA: THE CRISIS RESPONSE CORPS AS A FORCE MULTIPLIER

The American private sector can compete globally. In the Middle East, our technology and finance firms are unlocking opportunities and opening markets. A snapshot today of Tel Aviv, Ramallah, Amman, Riyadh, Abu Dhabi, and Dubai looks remarkably different and exceedingly more vibrant than 15 years ago — and the U.S. is obviously present. Now, imagine the next two decades, when Generation Z assumes political, economic, and social leadership roles. This new generation of Americans will engage the Middle East — the only issue will be our global position. The U.S. risk though, is that, we vacate the Middle East from the sheer exhaustion of Yemen, Syria, Iraq, and Afghanistan. When we disengage, the U.S. will lose the ability to shape the future, mitigate risks, and capitalize on unprecedented opportunities. We inadvertently but consequently will yield sizable influence to rival interests. I firmly believe that America must remain deeply committed to the Middle East albeit with a substantially lighter military footprint but with a much more intense, thoughtful, agile, and robust civilian crisis response capability.

I, therefore, propose an interagency, National Security Council-led “Crisis Response Corps” to align soft power, diplomacy and development in a manner which helps the U.S. manage the most complex global crises in the Middle East from a predominantly civilian platform.

The history of American soft power abroad is worth a review. In 1954, President Eisenhower signed into law the legislation that would eventually become known as the Food for Peace Act. This legislation established the Food for Peace program which actively brings help and hope to the far reaches of the world for 65 years. Since its inception, the US has fed more than 4 billion hungry people. Ten years later, in 1964, the Johnson Administration created the Office of Foreign Disaster Assistance (OFDA) to provide emergency non-food humanitarian assistance in response to international crises and disasters. In 1994, the Clinton Administration established the Office of Transition Initiatives (OTI) to provide fast, flexible, short-term assistance to take advantage of windows of opportunity to build democracy and peace. OTI seeks to lay the foundations for long-term development by promoting reconciliation, jump-starting economies, and helping stable democracies take hold. These three ideas, by Republicans and Democrats, envisioned a bold America — one that represented the best of our values. To this day, Food for Peace, OFDA and OTI shape the world, alleviate suffering, and secure our future.

As our military footprint in Afghanistan, Syria, and Yemen scales down, there has not sufficient thinking to design the interagency platforms by which the U.S. can better, more effectively, and efficiently respond to complex crises. Our current structures — as innovative as they were generations ago — are not equipped to move funds, talent and technology into these complex crises to secure our military gains and national interests.

The U.S. needs a bolder vision for the next generation of challenges. The Crisis Response Corps will provide innovative skills in diplomacy and stabilization to include rapid data analytics and adaptive technologies (including in power, water, agriculture, health, finance and social networking technologies) at a level sufficient to understand, influence, and impact emergent risks and capture unforeseeable opportunities. To successfully navigate the Middle East ahead, America must sharpen its operational agility, build (not devalue) alliances, and more effectively leverage public and private capital, technology and talent to help solve the most pressing issues in the next generation.

CONCLUSION

Chairman Engel, Ranking Member McCaul, and Distinguished Members of the Committee, I am deeply grateful for this opportunity to testify before this Committee today. Yemen, Syria, Iraq, and Afghanistan are today's challenges. We must, however, be keenly observant to the macro trends that will shape the Arabian Peninsula, the Middle East, and the world in the decade ahead. These trends will require that the United States adapt its strategic thinking, develop agile platforms, pursue more precise goals, mitigate risks, and seize unparalleled opportunities for the next generation. Thank you.