

Multilateral Development Banks Support U.S. National Security Objectives

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Chairman Miller, Ranking Member McCarthy and distinguished members of the committee, my name is Alan Larson. I am Senior International Policy Advisor at Covington & Burling LLP. Before joining Covington six years ago, I served for thirty-two years as career diplomat in the U.S. Foreign Service Office.

During my State Department career, I was fortunate to serve in three different Senate-confirmed positions in the administrations of three different Presidents. I concluded my career as with six years of service as Under Secretary of State for Economic Affairs, two years during the last the Administration of William Clinton and four years during the Administration of the George W. Bush. As Under Secretary, I also served as the Alternate Governor of the United States to the World Bank and to several regional development banks, working closely with the U.S. Department of the Treasury.

It is worth recalling that from earliest days of the World Bank's existence, the United States conceived of the World Bank as a contributor to U.S. national security and foreign policy aims. In fact, the World Bank was founded at the end of World War II, when the United State was seeking to safeguard the vital national security gains achieved during World War II by promoting economic reconstruction and development. . In 1944 at Bretton Woods, Dean Acheson played a leading role in writing the charter of the Bank for International Reconstruction and Development, or the World Bank. Acheson, who later became Secretary of State during the Truman Administration, understood the national security importance of a multilateral institution that would help build strong

economies out of the wreckage of World War II. (Forgive me for adding that Secretary Acheson also had been a partner at Covington & Burling before and after his service as Secretary of State.)

To be sure, the World Bank and the regional economic development banks usually are thought of first in the context of efforts to promote the economic development of poorer developing countries. They play a vital role in that sphere. As a former diplomat who spent a large part of my career in the developing countries, I believe this role of promoting growth and development and alleviating poverty is an important mission. Indeed, the World Bank has learned a great deal about the policies that foster inclusive and broadly shared economic growth, with strong job formation. Such growth strategies not only are an important priority in the lowest income developing countries, but they also turn out to be important in transition countries emerging from conflict that are central national security concerns for the United States.

Even when the Bank is supporting broadly based development in poorer countries that are not central national security concerns of the United States, I also believe that this mission contributes significantly to the security of the United States. During my early assignments in Africa and the Caribbean, I saw firsthand how poverty was a Petri dish that provided an environment in which a variety of social vices--political instability, human trafficking, communicable diseases and narcotics trafficking to name a few—could multiply. These vices threaten U.S. security and the World Bank, through its work on the front lines in combating poverty and economic development, helps combat these threats to U.S. national security and foreign policy.

During the second half of my career I saw a close range multiple ways in which the multilateral development banks (the MDBs) serve U.S. national security interests. The Presidents and the Secretaries of State I served, Republicans and Democrats alike, used the MDBs as valuable, indeed indispensable, tools for addressing key national security problems. In my testimony today, I would like to provide some concrete examples to illustrate how this worked in practice.

Consider Panama. President George Herbert Walker Bush sent troops into Panama to protect the threat for Panamanian strongman Manuel Noriega. While the military action was still underway, I traveled to Panama with Larry Eagleburger and Treasury officials to consider the steps the United States could take to restore the economy. Noriega was captured during our visit. The plan we formulated during that visit relied significantly on the MDBs –the World Bank and the Inter-American Development Bank—to restore the Panamanian economy

Later during the same Administration, the Cold War ended and the geopolitical environment in Europe shifted importantly in the direction of the United States. When the countries of Central Europe broke away from the grip of Communism, the United States and its Western allies had a historic opportunity and obligation to ensure that there would be no slide into economic stagnation and political instability. We wanted to support valiant peoples--in Poland, Hungary, the Czech Republic and other countries of the region--restructure and reinvigorate their economies. In that way, we could to solidify their new political and economic freedom.

The World Bank and the newly created European Bank for Economic Reconstruction and Development (EBRD) made historic contributions to this process of economic restructuring and reinvigoration. The United States had played a strong role during the Reagan and Bush Administrations in ensuring that the EBRD would be structured in such a way as to make it able to support the private sector, as well as making more traditional development loans to governments.

Bob Zoellick was serving as Under Secretary of State for Economic at that time. Bob played a crucial role in helping President Bush and Secretary of State Baker respond to the opportunity to use multilateral institutions such as the World Bank and the EBRD to solidify the independence, prosperity and freedom of Central Europe. I had the opportunity to work with Bob on elements of this economic response as I prepared for my assignment as Ambassador to the Organization for Economic Cooperation and

Development (OECD). We devised a special new initiative to bring, in cooperation with the World Bank and the EBRD, the know-how of the OECD to bear on the economic challenges of these countries. We also created a pathway to membership for these countries in the OECD.

As Under Secretary of State, as Deputy Secretary of State and as U.S. Trade Representative, Bob creatively brought economic tools to the service of U.S. foreign policy and national security objectives. He is the sort of person we have recruited to leadership positions in the MDBs. In my experience, the leaders of the MDBs have had a deep appreciation of the ways in which economic development contributes to global security.

We faced different security challenges during the Clinton Administration. For example, a series of financial crises posed a serious threat to key Asian partners and allies of the United States including Korea, Thailand and Indonesia. The financial crises of these countries, had they not been checked, would have had seriously negative implications for the security and foreign policy interests of the United States in Asia. Secretary of State Albright therefore sent me to Asia with Larry Summers, then the Deputy Secretary of the Treasury, at the beginning of the crisis. We stopped in eight capitals in five days. The United States persuaded the countries affected by the financial crisis to take the necessary strong economic policy actions. Substantial assistance was required to help these countries implement their reform programs. While the United States provided various forms of assistance, the most substantial amounts of assistance came from the MDBs. The World Bank and the Asian Development Bank played essential roles in this effort.

Earlier during the Clinton Administration, I saw a need for additional actions and, I felt, a new institution to promote economic integration and provide a sounder foundation for peace among Israel, Egypt, Jordan and the Palestinians. The Administration came to the view that a new MDB could make a major contribution to the economic and security interests of the United States in the Middle East. For two years, the Clinton Administration pushed hard for a Middle East Development Bank that would support

private sector development, promote economic integration finance economic infrastructure and use the prospect of economic development to soften the political tensions that buffeted the region.

For various reasons, the two year effort to create a Middle East Development Bank did not succeed. As I will discuss in more detail later, I now believe the United States would be better placed to defeat terrorism and to overcome the security and economic challenges we now face in the Middle East if a Middle East Development Bank had been in place then. .

Last weekend we commemorated the tenth anniversary of security challenge that struck the United States on 9/11/2001. Ten years ago the United States moved quickly in response to this threat to our homeland. The strong response of the men and women of our armed forces, and the efforts of our allies, deserve our admiration and praise.

At the same time, we must not overlook the important contributions that economic assistance in general, and the MDBs in particular, have made to our improved security today. During the autumn of 2001, the Bush Administration began serious thinking about how we could mobilize an effective international coalition to support the economic development and restructuring, and in that way the independence, of a new Afghan Government. The World Bank played an indispensable role in supporting the donors conference that we held in Tokyo to mobilize support, but more importantly it played a critically important and ongoing role in the economic development programs that followed.

The witnesses in the government panel that immediately preceded ours have described in more detail than can I the ways in which the MDBs are assisting economic development in Afghanistan and Iraq. I know that in 2003 and 2004 during my last two years at the State Department, I worked very closely with World Bank officials. I was convinced that the World Bank would be absolutely essential to any successful effort to help build the successful economies. I know that without a successful economy that produced jobs and

growth; we would not achieve the results that would justify the huge investment of money and blood that the United States was making and would continue to make in the future.

My statement has focused on the contributions the World Bank has made to U.S. security and foreign policy objectives, with some emphasis the Bank's role in conflict zones. It is worthwhile also to comment briefly on the geopolitical significance of the Bank's role in supporting the development of the emerging nations that play a growing role in the international economic and political systems.

The World Bank and the regional development banks have played an indispensable role in the emergence of new economic powers, notably China and India. Today many of us, myself included, often think of these countries, especially China, as economic competitors of the United States. The deeper truth, in my opinion, is that the United States is a safer and more secure country today than we would be had these two giants remained economic backwaters.

An economically stronger India is becoming a responsible stakeholder in the international community. It is a stabilizing force in South Asia and around the world. India's strong economic growth undergirds its more constructive foreign policy and security policy.

China's decision to prioritize economic development through greater reliance on market forces was a very consequential decision. In my opinion, from the standpoint of the security interests of the United States, it is far preferable to have a China focused on the economic development of its people through cooperation with the United States than it would have been to have a China that chases a Maoist dream. In my view, U.S. interests have been served by the fact that Western economists at the World Bank provided significant know-how in support China's economic reform process and that China's ascent has been based on greater reliance on market forces and integration into the global economy. To be sure, China will be a foreign policy challenge for the United States for the foreseeable future. For my part, I would prefer to have the challenges of today than

to have the security and foreign policy challenges that we would have with an insular China that was still in the grip of Maoist thinking.

Finally, let me return to the current challenges we face in the Middle East. Arab Spring has demonstrated anew the importance of economic growth and economic integration of this region with the rest of the global economy. The continuing threat of terrorism from this part of the world further underscored the need for economic growth, job creation and stronger regional institutions.

I would go further and say that the security interests of the United States are challenged by the absence of regional institutions capable of promoting economic development and economic integration in the Middle East. The Obama Administration is striving creatively to work with the European Union and the countries of the Middle East to build ad hoc structures to overcome the disillusionment and hopelessness and which foster disaffection and provide fuel for terrorist ideologies. The leaders of the Middle East region, however, must take the lead in shaping any new regional institutions.

I would offer one idea for consideration. It could be that the countries of the region, especially the most financially well-endowed countries of the region, could join together with Europe and the United States to create new regional institutions and new approaches to promote the development of the region. It may be time for the leaders of the region to revisit the idea of creating a new Middle East Development Bank. Such a Bank could be designed to support the formation of new business, finance regional economic infrastructure and foster regional economic integration. Such an institution might be the most cost-effective way of promoting regional security. U.S. support of such a regional initiative could be a cost effective way of safeguarding the investments the United States has made in the Middle East during the last ten years.

In an era of budget stringency, taxpayers' dollars need to be treated like sacred trusts.

When it comes to advancing the national security and foreign policy interests of the United States, economic development and restructuring are essential elements and for the

United States the World Bank and the other MDBs have been good investments. We can and should ensure the MDBs function efficiently and that other nations bear a larger share of the financial cost of supporting them where that is appropriate.

At the same time, however, we also should examine closely the many ways in which timely investments in the MDBs can promote burden sharing and achieve U.S. national security and foreign policy objectives more economically than other policy instruments can do. In the national security space, the United States rightly is concerned about burden-sharing. Frankly, when it comes to defense expenditures and military preparedness, most of our friends don't fully shoulder their share of the burden. In the case of the MDBs, however, burden sharing is built into the very structure of the organizations. When MDBs address issues central to international security, they often can do so in a way that not is efficient but also one in which the burdens are fairly shared.

Thank you.