

## ASIA AND THE NEAR EAST

### THE DEVELOPMENT CHALLENGE

The Asia and Near East (ANE) region is home to 800 million impoverished people, more than Africa and Latin America combined. Inadequate economic opportunity at both the national and local level is a problem throughout the region, and is of particular concern in South Asia and the Middle East. The ANE region has the highest levels of illiteracy, with over 600 million uneducated people—four times the totals for Africa, Latin America, and Europe/Eurasia combined. Illiteracy in the region disproportionately affects women and girls. South Asia has the highest rate of female illiteracy in the world at 57 percent, and in East Asia illiteracy is two and a half times higher among women than men. The region is also governed by some of the world's most closed and repressive regimes. Over half of all ANE countries are considered "not free."<sup>1</sup> Inadequate economic opportunity, the lack of education and skills training, together with corrupt and authoritarian governance, contribute to a disillusioned, isolated, and under-employed populace. In combination with high illiteracy rates—and with post-9/11 hindsight—it seems clear why the region became a nexus of intolerance and an exporter of terror.

Foreign assistance to the Asia and Near East region is one of the United States' most effective foreign policy tools for promoting regional stability. A prosperous, healthy, educated population able to participate in democratic processes reduces the risk of terrorism, civil conflict, and regional instability. A robust foreign assistance program will help invigorate economic growth and opportunity; tackle illiteracy and skills development; and promote inclusive, representative, and transparent governance. USAID's ANE Bureau, by addressing priority development needs, will also work to alter the social and economic geography upon which terrorism has grown.

The ANE Bureau proposes a comprehensive agenda to address the development needs of key frontline states in the war against terrorism by bringing resources to new initiatives that reduce poverty and hopelessness. These initiatives include expanding economic opportunity by developing trade capacity and invigorating economic opportunity at the local level; improving education in the region through programs that address illiteracy, gender disparities, and out-of-work youth; and working with governments and civil society to advance democratic reforms and make governments more representative, transparent, and responsive to their constituents.

Implementing these new initiatives and core programs will require (as compared with FY 2002 levels) expanding the DA and CSH budgets by a combined total of \$176.3 million, expanding the ESF budget by \$121.3 million (excluding Egypt, Israel, and cash transfer programs in Pakistan), and increasing OE by \$9.2 million. The bureau plans to hold its USDH level constant at the FY 2002 number.

#### 1. Middle East and North Africa

In the Middle East and North Africa sub-region, the need for robust foreign assistance has never been more compelling. September 11 pointed out the need to address the root causes of regional instability. In countries across the Middle East, economic hopelessness and political stagnation are breeding extremism, providing fertile ground for those seeking to fill the ranks of terrorist groups. Over the last 25 years, economic performance in the Middle East has fallen behind that of most other regions of the world. The economic situation is exacerbated by the demographic conditions, with a majority of the population in many of these countries below the age of 25. Each year millions of young people enter the labor market with no prospect of finding a job.

Governments in the Middle East face crucial choices on issues of economic development and policy reform. If they do not make the right choices, the region will continue to fall farther behind,

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<sup>1</sup> Source: Freedom House.

potentially strengthening the hand of the extremists and increasing the threat to stability. Economic assistance is critical to fostering the correct choices and providing the means to implement them. By addressing the major development problems of economic stagnation, lack of participatory government, competition over water resources, and high population rates, USAID can help to create the conditions necessary for regional peace and stability. To accomplish these objectives, the ANE Bureau is working closely with the Department of State to adjust the structure of all USAID programs in the sub-region to correspond closely with the objectives of the Middle East Partnership Initiative (MEPI) announced by Secretary of State Powell. Those objectives include:

- Ensuring that our assistance is focused on economic reform and private sector development, increasing educational opportunity, strengthening civil society and the rule of law, and increasing the participation of women in political and economic life;
- Expanding the reach of our assistance to more directly improve the lives of more people in the Middle East;
- Improving the efficiency of our assistance; and
- Monitoring and measuring the results more effectively.

MEPI now forms the thematic construct around which all of our programs in the region will be organized; it may also serve as a source of funding for activities undertaken by or in collaboration with these programs. The Department of State and USAID are conducting a joint review of the overall strategic direction of the Middle East and North Africa portfolio and its specific programs to ensure that USAID efforts are reaching as many people as possible, with a particular emphasis on women and youth, and that we are providing the most effective and efficient assistance possible. This review will ultimately entail significant changes in the level of funding of the programs, projects, and activities described in this Budget Justification. After completion of the joint review, USAID will notify the Congress through established procedures prior to obligating funds for any revised efforts.

## **2. South Asia**

South Asia is the frontline in the war on terrorism. The events of September 11 highlighted the strategic importance of this subregion to the United States, and the importance of improving economic and social conditions in South Asia to U.S. national security. South Asia faces some of the most daunting development problems in the world. The region is home to one-fifth of the world's population and 40 percent of the world's poor. More than half of the region's children under the age of five are malnourished. South Asia has the world's highest adult illiteracy rates, second highest fertility levels, a rapidly growing HIV/AIDS epidemic, widespread prevalence of infectious diseases, low socioeconomic status for women and girls, increasing urbanization and pollution, and staggering infant and child mortality. Each of these contributes to political instability.

In Afghanistan, years of civil war, compounded by Taliban rule and the worst drought in recent history, have devastated the country. While significant progress has been made in the past year (return of three million children to school, return of two million refugees, a successful Loya Jirga, and an increase in wheat production of 82 percent), approximately half of Afghanistan's 22 million people live in absolute poverty. Malnutrition is widespread. Fifty percent of the people are unemployed, while 70 percent are illiterate. Despite the significant increase in donor contributions, the slow pace of demonstrated improvements in people's lives continues to threaten the country's stability.

In Nepal, a Maoist insurgency has gained increasing control over rural areas and escalated dramatically in intensity. While the Government of Nepal controls all 75 district centers, Maoists now basically control seven of Nepal's 75 districts. In these districts, they have declared people's governments, established people's courts, and maintained or allowed the provision of basic health and education services. Maoists have significant presence in 17 additional districts and

have carried out violent activities – e.g., attacks on government offices, hydropower plants, telecommunications, and bridges – in 74 districts.

Pakistan, a key partner of the U.S. in the international campaign against terrorism, faces serious challenges to correct its social inequities, devolve political and economic authority to its provinces, and raise its basic health and education indicators. Next door in India, the world's largest democracy and home of the second largest Muslim population, the U.S. and India are seeking to transform their strategic relationship across military, security, economic and development lines. Bangladesh, although recognized for its continued democratic transfer of power and its significant social development progress in recent years, remains one of the poorest, most corrupt and most disaster-prone countries in the world. Finally, the issue of Kashmir represents a political and military tinderbox between the nuclear weapon states of India and Pakistan, which in the past year helped to lead to one million soldiers facing off with each other across the Line of Control.

On a positive note, Sri Lanka, for the first time in almost twenty years, now enjoys a cease-fire between the government and the Liberation Tigers of Tamil Eelam (LTTE). Considerable work now must be done to advance post-conflict reconciliation, inter-ethnic tolerance and respect, and a renewed commitment to development.

### **3. East Asia**

While nations in East Asia continue to struggle to emerge from a legacy of financial and political crises, East Asia has also been affected by the network of terrorism that became evident after September 11. This was made tragically clear by October bombing in Bali, Indonesia, which killed 300 people and precipitated the ordered evacuation in the U.S. Mission, as well as a series of bombings and kidnappings in the Philippines. With increasing evidence of terrorist networks in Southeast Asia, combating their operations, addressing the root causes of terrorism, reinforcing the influence of moderate Islam and supporting democracy and stability in the region are important U.S. priorities. At the same time, fragile post-conflict situations, including Mindanao in the Philippines and Aceh in Indonesia, require sustainable improvements in people's lives to improve the chances for lasting peace

Levels of development in East Asia vary widely. Some countries are in a state of economic and political transition; intrastate conflict threatens fragile democracies in several East Asian nations; and authoritarian regimes persist. The effects of the Asian financial crisis of the late 1990s linger across the region, while the spread of HIV/AIDS threatens all East Asia. Burma and Cambodia have the highest rates of HIV infection in Asia, and HIV crosses borders easily and rapidly in Southeast Asia.

USAID is responding to these challenges with a diverse portfolio of assistance emphasizing trade, education, health, and democracy. For example, in the Philippines and Indonesia, USAID continues to provide significant assistance in economic policy reform and is a catalyst among donors in such areas as anti-money laundering, bank reform, and customs and procurement reform. In Cambodia, USAID assistance is focused on human rights and opening up the political system to more than one party. USAID assistance for Burma is focused on providing education and health services for refugees along the Thai border. With USAID assistance, a number of countries are making progress on WTO membership and/or major trade agreements with the U.S. For example, in Vietnam, USAID is providing important technical expertise to help the Vietnamese comply with the requirements of the Bilateral Trade Agreement with the U.S.

### **PROGRAM AND MANAGEMENT CHALLENGES**

USAID continues to face three main program and management challenges in the ANE region. First, USAID has had to adjust available resources to tackle heightened foreign policy priorities (e.g., the establishment of new missions in Pakistan, Afghanistan, and increased efforts in basic

education) without jeopardizing existing bilateral and regional development activities. Existing activities remain critical to achieving development progress and stability and supporting broader U.S. foreign policy objectives in the three sub-regions.

Second, USAID must respond to requests to initiate or expand programs in non-presence countries while identifying better ways to manage assistance in such countries. USAID must be able to deliver meaningful development results that contribute to achievement of U.S. foreign policy objectives. To meet this challenge, USAID will take three major steps in FY 2003:

- The Agency will open a new Regional Development Office in Bangkok, Thailand. This office will be responsible for managing non-presence programs in Burma, China, Laos, and Vietnam, as well as a portfolio of regional programs with activities throughout South and Southeast Asia in the economic growth, health, and democracy sectors. It should be noted that these regional programs are not new; rather, management responsibility for them is simply being shifted from Washington to the field.
- USAID will expand the capacity of the existing bilateral mission in Egypt to serve as a regional support center for programs in presence and non-presence countries throughout the Near East and North Africa sub-region.
- The Agency will establish an office in Yemen to lead the development and management of USAID's expanding program in that country.

Finally, USAID is taking significant steps toward fulfilling the vision captured by the Global Development Alliance. Considering the daunting problems facing the ANE region, USAID programs alone are not enough. Accordingly, USAID has taken significant steps toward fostering greater collaboration with key bilateral donors and private sector entities (foundations, companies, NGOs, etc.) to mobilize resources in order to maximize efforts in support of U.S. foreign policy objectives. For example:

- USAID, British Petroleum, Great Britain's Department for International Development, and the Indonesian government have become partners in an effort to train Indonesians to use new income from gas production to prevent environmental damage and social disruption.
- Mirant Philippines partnered with USAID to electrify remote areas of Mindanao by using sustainable renewable energy systems such as solar panels and thereby spur economic development.
- To combat threats to orangutans posed by unsustainable and illegal logging, USAID partnered with the Nature Conservancy, Home Depot, local communities, and the Indonesian government to create economic incentives to manage forests sustainably and protect primate habitat.

## **OTHER DONORS**

Excluding its assistance to Israel, the United States now ranks second among donors in this region. The top donor is Japan, followed by the U.S., the World Bank, the European Union, Germany, France, and the Asian Development Bank (ADB). USAID continues to work with these donors and United Nations agencies to reach a consensus on development priorities and to coordinate programs in every USAID-assisted country. In particular, USAID is actively exploring new ways to cooperate with Japan and the ADB on parallel programs in Asia and the Middle East.

## **FY 2004 PROGRAM**

USAID requests \$2,831,595,000 for FY 2004 programs in the ANE region. Of this amount, \$358,888,000 would come from the Development Assistance (DA) account, \$240,318,000 from

the Child Survival and Health (CSH) account, \$2,130,750,000 from the Economic Support Fund (ESF) account. In addition, USAID is requesting \$101,639,000 from P.L. 480 Title II resources.

This FY 2004 request is broken down by sub-region as follows:

▪ East Asia	\$ 285.8 million
▪ South Asia	\$ 889.5 million
▪ Middle East and North Africa	\$1,432.9 million
▪ Regional	\$ 223.4 million

By USAID pillar, the FY 2004 request is as follows:

Economic Growth, Agriculture, and Trade	\$2,157.8 million
Global Health	\$ 330.4 million
Democracy, Conflict, and Humanitarian Assistance (which includes \$101.6 million in P.L. 480 Title II)	\$ 343.4 million