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Exploring Economic Cooperation in the Middle East
A Catalyst for the Helsinki Conference?

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Abstract

The envisaged Helsinki Conference on the establishment of a zone free of weapons of mass destruction and their delivery vehicles is supposed to be purely focused on arms. Nevertheless, the negotiations will not evolve within a political vacuum. Expanding economic cooperation among neighbors, therefore, may contribute not only to a generally more positive atmosphere, but may also help realizing compromise-oriented solutions to the weapons problem. We are well aware that the relations between Israel and Palestine, Egypt, Jordan, and Turkey are dominated by various conflicts: there is no solution to the Israeli-Palestinian conflict on the horizon, the Peace Treaties with Egypt and Jordan have remained mostly 'cold', and the political ties with Turkey face severe challenges. While politics remains the single most important factor in the respective dyads, the economy is not irrelevant. Despite rather asymmetrical political and economic relations, it is widely recognized that economic elements can principally have an impact. They could prove essential for peace building in the Israeli-Palestinian case as well as for peace preserving and enhancing towards Egypt, Jordan, and Turkey. This way, economy contributes to intensifying dialogue, reducing misunderstandings, increasing confidence, and may, finally, facilitate chances of success for developing a sustainable security architecture for the Middle East. ■

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Creating a positive environment will be vital in order to make the envisaged Middle East Conference on a zone free of weapons of mass destruction (WMD) and their delivery vehicles (DVs) happen, successful, and sustainable. This gathering proposed by the 2010 Review Conference of the Nuclear Non-Proliferation Treaty is supposed to engage all states in the Middle East in a joint effort to disarmament. In this process, it will be essential to identify supportive developments and actors in the region. While the negative – even destructive – trends and driving forces are well known in this conflict-ridden area, optimistic developments are often overlooked. The positive impact of economic cooperation is such a potential that will be further explored in this Policy Brief, as it may provide fruitful ground to induce change on a social and eventually political level.

In order to introduce gradual improvement of external relations between Middle Eastern states, the spill-over of a 'commercial mentality' from economics towards the security area may prove to be helpful. Therefore, this Policy Brief assesses the possibilities of expanding economic cooperation between and among neighbors that could contribute to a generally more positive atmosphere in Helsinki. This Policy Brief focuses on the economic relationships between Israel and four regional counterparts: Palestine, Egypt, Jordan, and Turkey. The case studies will reflect on the respective (a)symmetric constellation in both economic and political terms. Therefore, the following guiding questions are relevant for the analysis of the conditions, limits, and impact of economic cooperation in the individual cases: what is the current situation of economic cooperation on the state and private-sector level and what is the role of political and economic (a)symmetries? Which opportunities exist for increasing economic cooperation and what is the role of business communities in this regard?

Making the Case for Economic Cooperation in the Middle East

Certainly, the Middle East as conflict-ridden as it has been would benefit from the promotion of economic cooperation. As various examples in history have shown, an increase in economic ties can have spill-over effects onto the political level. Thus, cooperation through trading goods and exchanging services can principally play a positive role with respect to stability, conflict prevention, and, finally, peace. Explanations of why economic integration fosters peace are manifold. Among them are the following arguments:

- Economic cooperation between private actors eventually spills over onto the political domain;
- conflict between economically interdependent states is too costly, as it disrupts commerce and threatens foreign investment; and
- economic exchange involves contact and communication which promotes learning about each other and teaches that people from other states are morally equal and reasonable.[1]

However, the fact that the term 'economic cooperation' has acquired an ambivalent meaning in the Middle East, is little surprising: its implication ranges between a promising and a precarious tool. The positive connotation trusts that it will help pursuing genuine economic interests and eventually have an impact on the political level in supporting the establishment of peaceful relations. The critics hold that economic cooperation with an adversary or even an enemy signals the willingness to engage in collaboration and may undermine national interests in foreign economics and other spheres of foreign relations. While the liberal economic peace theory shows that economic interdependence is generally conducive to peace, the effects and the potential of economic cooperation can only be understood when taking into account the context, namely the occurrence and dynamics of the conflict itself. Hence, if we ignored the spoilers, restrictive conditions, and, most importantly, the variety of regional political and economic asymmetries, the picture would truly be incomplete.[2]

Economic and Political (A)symmetries – Obstacles or Opportunities for Economic Cooperation?

Among the specific features of the relationships between Israel and the selected neighbors in this Policy Brief, political and economic (a)symmetries loom large, displaying barriers and possibilities as well as implications for assessing economic cooperation. The bilateral relationships selected for this Policy Brief do not only reveal different types of political regimes, but also – and much more relevant – two categories of trading partners: Israel, Egypt, Jordan, and Turkey are sovereign states while Palestine has not reached statehood yet. The West Bank is for the most part under Israeli occupation and Gaza is almost entirely isolated in physical-geographical terms. The political asymmetry is further characterized by the fact that the Palestinian Authority (PA) does not control the borders of the West Bank, leaving Israel in control of all imports and exports. In addition, the relation of Israel and the Palestinians is characterized by a protracted and at times military conflict without near-term settlement while Israel enjoys peaceful although not entirely stable relations with Egypt, Jordan, and Turkey.

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These (a)symmetries are underlined by the complex, mutually dependent relationship between states and economics. As the states set the regulatory framework for foreign economic relations, they have the power to shape and steer economic development. The higher the political barriers to investment and trade become, the less beneficial economic activities are in return. In setting the margins for economic policy, political actors are led by normative motives depending on their envisaged goals in national politics and foreign relations. Generally, economic interdependence entails a cooperation promoting aspect on the political level. However, especially when relations are politically asymmetric, trade can be a source of influence, which may lead to dependency, exploitation, and conflict.[3] Asymmetric political relations do not entirely eliminate the pacifying effect of economic relations, but reduce such impact.[4]

In addition to this crucial political (a)symmetry in the selected cases, the economic one is a striking feature as well. In contrast to the political actors economic performers are interested in maximizing their benefits and thereby contribute to overall prosperity. Although businesses are depending on politics to allow for trade, the principle of comparative advantages illustrates that economic exchange is possible between asymmetrically strong business partners if their specialization is mutually beneficial. Hence, asymmetric economic relations are not necessarily an obstacle to cooperation, but may on the contrary lead to common benefits.

A short overview of the economic key data of the five actors analyzed suggests various levels of economic asymmetries. Within this group, Israel has the most technologically advanced economy, including a rapidly developing high-tech sector. Israel's gross domestic product (GDP) per capita amounts to $28,809 and as of 2012 Israel ranks 16th out of 187 on the Human Development Index (HDI), placing it in the category of 'very highly developed'. Turkey's GDP per capita is $18,348 and the country ranks 90th on the HDI ('high development'). The relation between Israel and Turkey can be described as more or less economically symmetrical. The Israeli economic relationship with Egypt and Jordan in contrast is rather asymmetrical. Egypt's GDP per capita amounts to $6,723, less than one fourth of Israel's, and the country is placed 112th on the HDI ('medium developed'). Jordan generates a GDP per capita of $6,148 and ranks 100th on the Development Index (also 'medium developed'). Both countries' GDP per capita combined does not even match half of Israel's.[5] With respect to Palestine, the Israeli GDP per capita is 15 times higher than in the West Bank ($1,924) and 32 times higher than in the Gaza Strip ($876). In addition, Palestine remains highly dependent on foreign donors – indeed, it is not viable without permanent assistance from the EU and the U.S. Considering that Israel absorbs about 90 percent of Palestinian exports and is the source for about 80 percent of imports, the Israeli-Palestinian economic relation is not 'interdependent', but rather entirely 'dependent'.

The Role of Business Communities: Promising 'Actors of Change'?

Assuming commercial traders benefit from economic cooperation, they may in the long run contribute to developments towards stability and peace. Such normative considerations may be motivation to business communities; however, their main interest consists of maximizing gains and remaining in the competitive market.[6] This profit-oriented, prosperity-seeking behavior may prove to be a positive driving force for economic cooperation throughout the region that may eventually have an impact onto the political level.

In this regard, past activities are a strong indicator: the business communities played a relatively important role during the Middle East and North Africa Conferences in the 1990s. The first held in Casablanca in 1994 was attended by 61 states and 1,114 businessmen, among them some 130 from Israel. Although few concrete deals were concluded, the fact that "Israeli and Arab politicians and businessmen openly and publicly mingled in Casablanca was seen as a clear signal to foreign companies that a new era had, in fact, begun."[7] More than the Cairo gathering in 1996 the Doha Conference a year later took place in the context of the stalemate of the peace process. While official delegations from Arab core countries had refused to participate, representatives from those states nevertheless were among the 800 businessmen in Doha.

In sum, the business communities have been prominent, and to a certain extent promising agents for change due to their 'commercial mentality' that may spill over into the security realm. They can – and should – use their potential that may eventually lead to more peaceful solutions in the region.

Economic Cooperation and the Middle East Conference

The Helsinki Conference seeks to develop and establish a cooperative security concept in the region in contrast to the current one characterized by the security dilemma, including a self-help system, unilateral arms build-ups, and zero-sum thinking. We are well aware that economic cooperation is no panacea to creating such an environment in the Middle East. The same holds true for an endeavor to free the region from weapons of mass destruction and their delivery vehicles. However, increasing economic cooperation can make a difference: any negotiations on disarmament could be flanked by economic

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measures, which could result in intensified dialogue and decreased misunderstandings. Hence, economic cooperation could represent a valid incentive for political compromises – similar to the peace initiative of U.S. Secretary of State John Kerry, who offered in August 2013 a $4 billion investment to expand the Palestinian economy by up to 50 percent in the next three years in exchange for constructive peace negotiations.[8]

Israel and Palestine: Coping Jointly with Security Concerns on the Way to Peace in the Context of a Two-state Solution

The basis of economic cooperation between Israel and Palestine is the so-called Paris Protocol to the Declaration of Principles (DoP) of 1993, i.e. Annex IV signed in Paris on April 29, 1994. The DoP highlights "the mutual benefit of cooperation in promoting the development of the West Bank, the Gaza Strip and Israel," and the Paris Protocol details it "in the context of the multilateral peace efforts."[9] In economic terms the Paris Protocol recognizes the extremely close integration between both economies. From a political standpoint Annex IV allows the parties to set aside the critical issue of political Palestinian sovereignty with its dimensions of statehood, borders, the status of Jerusalem, the withdrawal from the occupied territories, and the removal of settlements. This interim agreement stipulates that goods shall move freely, no custom duties are imposed, and no customs checks take place on goods circulating between the partners.

The Paris Protocol contains Lists A1 and A2 for a limited number of products such as sugar, rice, meat, and cements from Egypt, Jordan, and other Arab countries. In these cases the PA is allowed to determine its own tariffs and standards independent of the Israeli import policy, but in mutually agreed quantities. List B includes imports on which the PA cannot only set its own custom duties, but is further not bound to any specific quantitative limitations. These imports are vital for the Palestinian economy and include equipment for building and sand work, for textile and stone industry.[10]

The Paris Protocol and Its Implementation: Assessments from International Organizations, Israel, and Palestine

Overall, the Palestinian economy lacks sustainable growth. The economic fragility has among others been attributed to a number of factors by the World Bank and the International Monetary Fund (IMF). As summarized by the 'Aix Group', an Israeli-Palestinian-international economic study group, these include: underdeveloped economic infrastructure, acute demographic and labor-market challenges, political weaknesses, special development challenges such as the rehabilitation and economic recovery of Gaza, and the absorption of Palestinian returnees.[11] The extreme Palestinian dependence on Israel, due to the predominant political asymmetry, has always been named as a major hurdle to Palestinian economic development. In the 2000s, Israel accounted for about 90 percent of all Palestinian exports and 74 percent of all imports. Without ignoring the "deteriorating security situation,"[12] the studies and assessments by the 'Aix Group', the World Bank, and the IMF underscore the negative impact of constraints and restrictions imposed by Israel on the movement of goods and services in the West Bank. Those restrictions in the form of commercial crossing points, the Separation Barrier, checkpoints, and the hundreds of road blocks increase transportation costs, reduce trade volumes, and prevent Palestinian companies from entering the international market (see Box on p. 6).[13]

Future growth depends upon Palestinian enterprises being able to reach beyond Israel, the main trading partner for the Palestinians in the time to come. Yet, the agreements signed by the PA that provide preferential entry into other markets can only help the Palestinian economy to grow if trade logistics improve. While the World Bank acknowledged in its Economic Monitoring Report of September 2009 that the Israeli government had relaxed some internal West Bank restrictions, "such incremental steps are not likely, by themselves, to lead to any sustainable improvement. This is because these incremental steps lack permanence and certainty and can be easily withdrawn or replaced by other restrictions." The World Bank, therefore, recommends that the relaxation of movement and access restrictions within the West Bank must be supplemented by further opening that allows vigorous revival of Palestinian trade with "the rest of the world."[14] While the Palestinian economy went through a crisis from 2000-2006, the Israeli economy mostly experienced considerable annual growth rates in that period. For Palestine these trends are in principle confirmed by more recent studies for the last years. They conclude that the "economic prospects for Palestine under these [status quo] conditions look rather gloomy."[15]

The mentioned studies of external organizations are mostly similar in their assessments, but Israeli and Palestinian views on the current economic cooperation vary widely, and the issue has become subject of intense controversies. The Israeli government is bound to manage economic cooperation in the existing Paris Protocol-based framework. In its semi-annual reports to the Ad Hoc Liaison Committee (AHLC), the Israeli government keeps emphasizing that it regards the "bilateral track with the Palestinians as the only way to reach a sustainable solution, based on two states for two peoples," and that it wishes "to maintain the existing legal framework, as long as circumstances allow."[16]

The crucial point of reference for Israel is military security to which economic cooperation is clearly subordinated. To be sure, the security coordination between both sides and the "continuous relative security created have provided the necessary environment for business development and economic growth," but the official Israeli report cites a number of cases as "disturbing reminder[s] of *just how distant real security remains*."[17] Adequate security seems to be considered as a distant objective to be reached after a long-cumbersome process. The shelling in the south of Israel through Hamas and djihadi fighters active in Gaza hampers Israel's perspective to change dramatically. Economic cooperation is thus mainly seen as a way to open security holes and not to foster peace.

Compared to the World Bank report to the AHLC covering the same period, the official Israeli position is all in all one-sided. This is especially due to two major points: first, the World Bank highlights the "major progress" of the PA much more "in bringing safety and security to the West Bank in recent years." Second, it underscores Israel's restrictive policy as a negative factor by repeating its earlier position that "remaining Israeli restrictions must be lifted."[18] In addition, business people and some think tanks on both sides such as the Palestinian Trade Center and the Peres Center for Peace state that the Paris Protocol has not led to more integration, but due to a variety of factors, among them a high degree of non-implementation on the Israeli side, to the "progressive disruption of economic cooperation."[19]

Israeli and Palestinian Economic Initiatives

Over the last years, both sides proposed economic initiatives and Israeli Prime Minister Benjamin Netanyahu's 'Economic Peace' plan and Palestinian then-Prime Minister Salam Fayyad's 'Program of the 13th Government' of August 2009 argue strongly with peace in mind. For Netanyahu "economic peace relies on two forces: Israeli security and market forces"[20] – without clarifying the link of economic peace to the necessity of a political peace process. The Prime Minister noted at the 2008 Herzliya Conference that the economic reality of the West Bank "is liable to lead people to think that they have nothing to lose, and the road from there to terrorism is short."[21] In fact, Netanyahu referred to cases where the promotion of economic issues paved the way for political peace between two adversaries. His proposal nevertheless drew criticism on the Palestinian side, since it was widely seen as a substitute for a political solution of the Israeli-Palestinian conflict.[22]

For the Palestinians the main goal remains statehood. Nevertheless, Fayyad's 'Program of the 13th Government' embraces in principle Netanyahu's credo of the basically constructive relationship between economic cooperation and the political peace: "A solid

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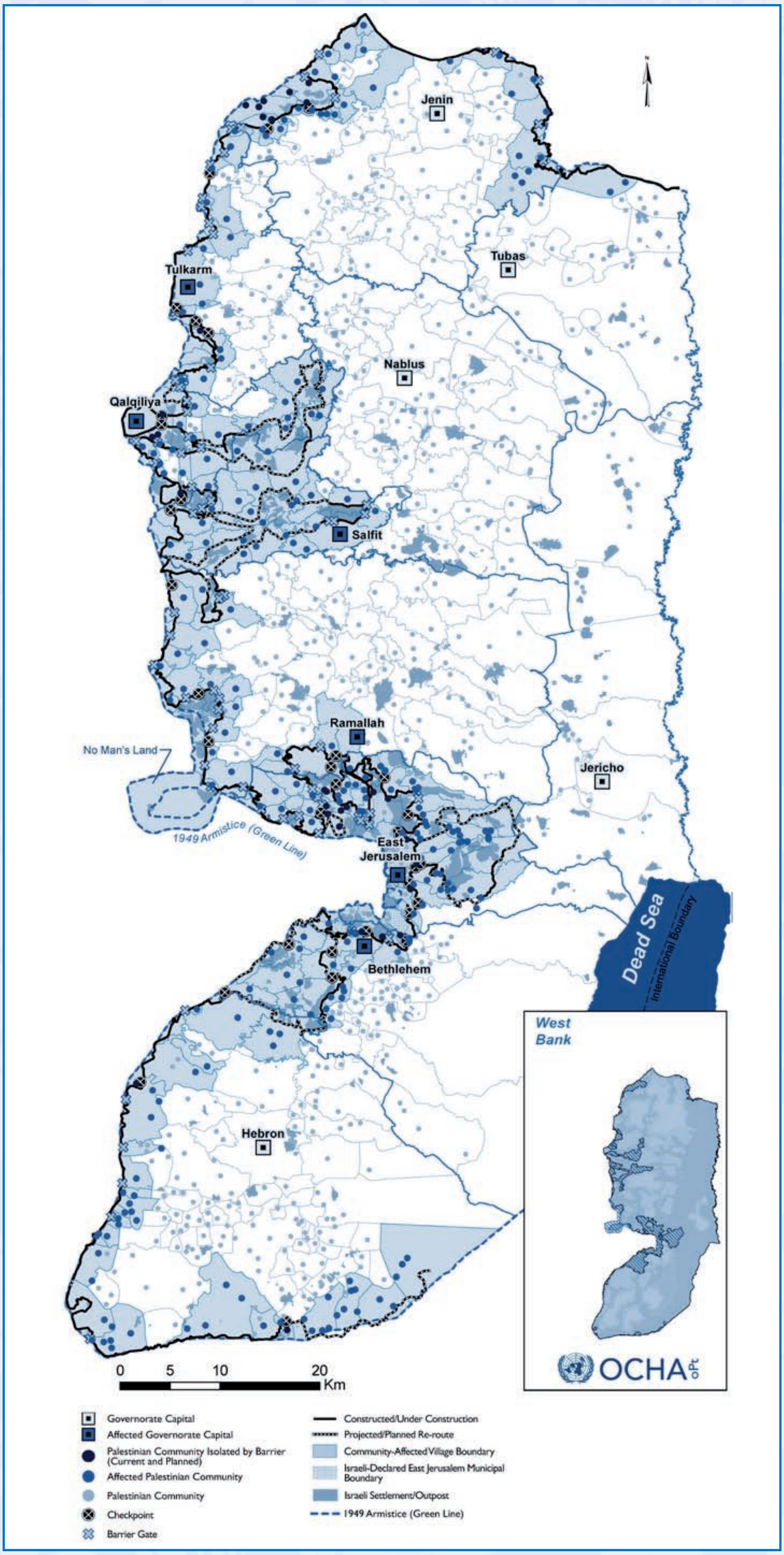
Box: Overview of Palestinian Communities Affected By the Barrier



Source: http://www.ochaopt.org/documents/ochaopt_atlas_barrier_affecting_palestinians_december2012.pdf.

economic foundation will be the basis of our people's prosperity and social welfare" and the "establishment of an independent, sovereign, and viable Palestinian state is fundamental for peace, security and stability in our region."[23]

The crucial difference is that the Israeli government considers economic prosperity in the West Bank as a surrogate for the political peace process (or at least as a means that would create conditions for political negotiations to mature).[24] The PA, however, sees a direct link between the economic dimension and the primary political goal – a Palestinian state – as the basis for peace. This has been echoed in the private sector especially on the Palestinian side. Both programs show that, in principle, Palestinians and Israelis have hailed economic cooperation as an indispensable tool for regional stability and peace, a valuable starting point for future cooperation. Critics, however, argue that such cooperation was used to normalize Israel's relations with its neighbors and foster the existing regional asymmetry of political and economic power rather than building economic benefits that pave the ground for genuine economic interdependency.

Private Sector Positions: The Need for Real Economic Cooperation and Peace

It is not surprising that there have only been a few cooperative endeavors initiated in this discouraging environment. However, the two sides reached an understanding on four critical issues:

1. The Israeli Ministry of Finance will share information on the Palestinian payments of value added tax and customs in Israel.
2. Israel agreed in principle to allow the PA to establish a bonded area (dry port) in the West Bank to cut the cost and time for the Palestinian imports from international markets.
3. Israel agreed to look at supplying oil derivatives via a pipeline instead of costly truck transportation.
4. Israel is ready to improve the facilitation of access of the Palestinian imports from Israel via the trade passages to the West Bank.

The understanding reached between then-Prime Minster Salam Fayyad and the Israeli Minister of Finance in 2012 has not yet been realized, despite the agreement that Israel will start the implementation at the beginning of 2013.

Despite the realistic undertones and gradual approach, the emphasis within the business communities is clearly on a new framework. It aims at the establishment of business- and trade-friendly border measures "in conjunction with maintaining the highest standards of security […] that would satisfy Israeli security concerns on one hand, and not disrupt movement and trade inside the West Bank on the other hand."[25] While taking Israeli security concerns seriously, the future trade regime is based on the state solution, i.e. Palestinian statehood combined with a sustained economy. In this vision they are linked through a quasi-customs union with mutually agreed-upon interim policies and border-crossing arrangements that facilitate bilateral trade. The envisaged regime is seen as optimizing the Israeli-Palestinian economic relations in the greater international framework of rights, obligations, and opportunities. Palestine's new status within the United Nations can be considered an important step in this direction. Needless to say that these future elements amount to removing the major trade obstacles while incorporating the necessary new regional and international opportunities in the area of economic cooperation.

Based on the premise that trade is crucial for the "prosperity of our companies and our citizens from both communities" the Palestinian-Israeli businessmen stated: "As private sector representatives we do believe that trade is not only good for business. Good economic relations are key tools for building peace. As economic actors we need to do our best to make it happen. As economic actors we are ready to cooperate in a series of different projects that are both highly beneficial to both sides and of strategic relevance, in the fields of agriculture, tourism, […] based on partnership initiatives."[26] The potential gains for both sides by increased economic cooperation in those sectors are high. However, any positive scenario depends on the existence of a sovereign Palestinian state and the business communities with their specific interests can work as a catalyst towards a bright economic future based on a two-state solution. Nevertheless, the political solution to the Israeli-Palestinian conflict remains paramount for economic endeavors to succeed.

The resumption of peace talks under the auspices of the United States in August 2013 were welcomed by many businessmen. The negotiations facilitated by Secretary of State John Kerry were endorsed by an initiative of 200 key Israeli and Palestinian business leaders at the 2013 World Economic Forum in Jordan. Under the slogan "Breaking the Impasse", the most influential economic figures of both sides have stepped up and sent a clear message to their respective political leaderships: "peace is an urgent imperative" and it is the time to "make the painful compromises to bring peace, security, and prosperity."[27]

Initiatives like this will, however, only succeed if they manage to coalesce with crucial allies in the governments on both sides – showing that economic benefits and sufficient security can be implemented. Balancing these elements in the context of a two-state solution will be essential as will be a 'cooperative spirit' for inducing mental and conceptual shifts in the security area, but also encouraging signals for diplomatic events such as a successful and sustainable conference process in Helsinki.

Economic Cooperation between Israel and Egypt

Among Israel's relationships with its Arab neighbors its ties with Egypt clearly stand out. A political framework for peaceful relations has been in place far longer than in any other dyad. It would seem expectable that this political state of affairs is reflected by the level of economic interaction between the two countries. The Israeli-Egyptian peace concluded in the landmark Camp David Accords of 1979 has, however, remained 'cold' and no broad-based normalization of economic and social relations has occurred. The 1990s, in particular, were a decade of lost opportunities and stagnation in Egyptian-Israeli relations. Nonetheless, economic factors have occasionally had a – though rather limited – positive impact on the bilateral ties.

Economics and the Political Framework for Peace

In fact, there might not have been a peace treaty, had Egypt not gone through a severe economic crisis in the aftermath of its 1973 October War with Israel. It was the crumbling of the economy and the concomitant threat to the survival of his autocratic regime that forced the regime of Anwar al-Sadat to contemplate what was, at the time, a radical step bearing considerable political risk.[28] Only after the economic cost of continued conflict had become prohibitive peace was viewed as an acceptable alternative.

While the conflict with Egypt continued to impose an economic burden on its population, Israel's motivation in pursuing peace was overwhelmingly political and geared towards increased legitimacy and international standing as well as the expected strategic benefits of closer cooperation with the United States.[29] In the wake of Camp David, Israel and Egypt entered into negotiations about a series of normalization agreements spanning the entire spectrum of interstate exchanges, including economic, cultural, and social aspects. Once the basic framework for peace was in place, the Egyptian political elites had few incentives for deepening the relationship. All of the major benefits that were expected to accrue from Sadat's peace making – lower military spending, the return of Sinai oil fields, and massive U.S. aid – were a direct result of the peace agreement itself; their realization did not necessitate any further efforts or expenditure of political capital from the regime.[30] Sustained, large-scale exchanges with Israel's more advanced economy were not seen as a potential source of long-term growth and development.

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Trade under Conditions of Political and Economic Asymmetries

While the Peace Treaty led to an impressive spike in trade in the early 1980s, the Agreement on Trade and Commerce signed in 1980 did not increase economic transactions between the two countries and, in practice, the import of Israeli products remained under a political taboo.[31] Trade flows between the former arch-enemies were rather marginal until the Israeli-Palestinian peace process gathered momentum in the mid-1990s. The situation improved somewhat after 1994, but trade balances remained highly asymmetrical even afterwards, with Egypt accepting Israeli commodities in modest quantities. When the United States in 1996 first presented the concept of Qualified Industrial Zones (QIZs), which would grant preferential access to the American market for products combining Israeli and Egyptian or Jordanian inputs, the Egyptian government showed little interest.[32]

As a result of the Second Intifada in 2000, the bilateral trade relationship once again collapsed with Egyptian imports of Israeli goods falling to the lowest levels since 1994.[33] Tourism for the most part remained a one-way affair, with Israelis traveling to the shore of Sinai in significant numbers. Following a series of attacks on a tourist camp and the Hilton Taba in 2004, this form of trade in services faced a dramatic decline. However, beginning in late 2004, the downward trend in trade induced by the Intifada was overcome and, after a quarter-century lull in economic integration, Israeli-Egyptian cooperation finally began to take off, resulting in an unprecedented surge in bilateral commerce. The volume of Israeli exports to Egypt rose steeply from $29 million in 2004 to $153 million in 2007. In recent years, they have climbed even further, reaching an all-time high of $236 million in 2011, despite the massive political changes under way in Egypt. Exports of non-fossil fuel commodities to Israel saw a modest increase from the very low level of $10 million in 2004 to $67 million in 2010. In 2011, Egypt's exports dropped to $56 million and slightly increased in 2012 to $58 million.

It is important to note, however, that the export of natural gas and petroleum products, which have traditionally made up the bulk of Egyptian exports to Israel, are not recorded in official trade statistics (most probably for political reasons). In 2010, the total value of commodities imported from Egypt, including fossil fuels, was in fact reported at a much more robust $355 million by the Israeli government. Two developments were mainly responsible for this boom in bilateral commerce: first, Egypt's accession to the U.S.-brokered QIZ scheme in December 2004; and second, its conclusion of a major natural gas deal with Israel in 2005.

The Export Boom and the Role of Business Communities

The QIZ concept is best understood as an attempt at leveraging the attractiveness of the U.S. domestic market to foster economic integration between Israel and its neighbors. Under a QIZ agreement, Washington provides duty-free access to the American market for goods produced in specified industrial areas in an Arab host country, provided that they include Israeli as well as host country inputs. The Egyptian government changed its policy towards QIZ in 2004, when it became apparent that World Trade Organization (WTO) regulations soon to-be-enacted would put Egypt's domestically important but globally uncompetitive textile industry out to pasture. The politically well-connected business community began to put significant pressure on the autocratic government to offset the damage and avert major job losses by securing preferential access to U.S. markets.[34]

Thus, the QIZ agreement was seen mainly as an opportunity to secure closer economic ties with the United States in the form of a full-scale Preferential Trade Agreement (PTA). It appears that greater cooperation with Israel was not, in itself, a major goal of the Egyptian leadership. The Israeli government, on the contrary, was interested mainly in the political benefits of being publicly recognized as a major trading partner by an Arab neighbor, as the supply of textile precursors to a much less developed economy could not be expected to provide a significant boost to its increasingly knowledge-based industries.[35] However, businessmen played an instrumental role in preparing the agreement, as was the case in Egypt.

Despite its limitations, the QIZ agreement did in fact lead to an unprecedented hike in demand for Israeli commodities, which is clearly reflected in recent trade statistics. Since the number of Egyptian companies that profited from the agreement grew from 397 in 2004 to more than 700 in 2012, the two economies have in fact been drawn closer together, large numbers of businessmen and workers on both sides now having a significant stake in the continuation of bilateral transactions. While Egypt has requested that the minimum Israeli contribution required for duty-free export to the U.S. be lowered from 10.5 percent to 8 percent of product components, the full-scale PTA Egypt has been seeking now seems an increasingly distant prospect.[36] It would hence appear likely that the QIZs will retain their significance, and will bind Egyptian producers to their current Israeli suppliers for some time to come.

The natural gas deal, which raised the long-standing bilateral trade relationship in fossil fuels to a new level, was also brought on track by exchanges between Israeli and Egyptian business actors, and inaugurated in 2005. The intended contract period was 15 years with an option for a five-year extension. The total value of the deal was reported at $2.5 billion, for an annual volume of 1.7 billion cubic meters. In the following years, the deal made a very robust contribution to the steady rise in Egypt's exports to Israel. However, after political unrest began in Egypt in 2011, the main pipeline to Israel was repeatedly attacked by extremist factions and transit volumes began to fall. In the spring of 2012, the deal – which was perceived as a remnant of the old regime and as economically unfavorable – was cancelled outright by Cairo's then-new, Islamist-led government, effectively putting an end to the reciprocal export boom of 2005-2011.[37]

The Post-Arab Spring Setting and the Change in Power in July 2013: What Role for Economic Interaction?

As was demonstrated by the termination of the gas deal, the Egyptian revolution of 2011 has undoubtedly injected a strong element of uncertainty into the country's fledgling trade relationship with Israel. There have been clear parallels between the post-1973 situation of the Sadat regime and the challenges the Muslim Brotherhood government was facing: the need to improve the economic lot of the population. The same holds true for any new government which will emerge out of the overthrow of President Mohamed Morsi by the Egyptian military in July 2013. As long as the government's support is directly linked to Egypt's economic performance, it is unlikely that the ties to Israel that keep the QIZ agreement alive will be cut completely. In fact, economic imperatives might even force a partial rapprochement with Israel and an expansion of trade, as has been the case in the past. However, it must be noted that any such outcome would not result from a desire to cooperate more closely with Israel, but would be owed to U.S. incentives in the form of preferential access for QIZ products. Against this backdrop, it would seem safe to say that the positive influence of external actors remains important in advancing future economic cooperation in the Israeli-Egyptian dyad.

Private initiatives involving both Israeli and Egyptian business actors have also been instrumental in furthering trade. Also business communities on both sides of the border have a vital role to play if the remaining ties are to endure, and future opportunities are to be grasped. On the Israeli side, however, it is highly likely that the economic relationship will be dominated by security concerns to an even greater degree than has been the case in the past. Given the new regional setting, security may very well trump private special interests and the desire to improve Israel's regional standing.

Overall, one must conclude that economic incentives – among which Egypt's dependence on U.S. aid and market access is probably the most important – have so far been insufficient to effect a further normalization of bilateral ties. Nevertheless, they have imparted the peace agreement with a stability it might not otherwise have possessed. As for the future potential of economic cooperation, it is not clear whether limited transactions in the areas of textile production and fossil fuels can form a stable basis. It is therefore likely that the political impact of future economic relations along the lines of the boom of 2005-2011 will be modest. Unless Egypt's economic situation were to change completely, these ties will most probably endure and could be built upon if both sides find it in their interest to do so, and external actors and domestic special interests continue to play a positive role.

»Unless Egypt's economic situation were to change completely, some of these ties will most probably endure and could be built upon if both sides find it in their interest to do so, and external actors and domestic special interests continue to play a positive role in this regard.«

Israel and Jordan: The Need to Deepen Economic Ties

In 1994, Jordan concluded a Peace Treaty with Israel, providing the possibility of commerce and civilian relationships between the two countries for the first time since 1948 as well as ending the Jordanian economic boycott against Israel. Within the accord, both parties agreed that "economic development and prosperity" are the "pillars of peace, security and harmonious relations between states, peoples and individual human beings."[38] It also laid out practical steps like establishing direct telephone links, opening border crossings, and a linkage of power grids. Although some areas of this cooperation came to fruition during the 1990s, much of it was short-lived.[39]

Bilateral Trade

In 1995, Israel and Jordan signed an Economic and Trade Cooperation Agreement and reciprocally reduced customs and tariffs on im- and exports. Israel granted preference to Jordanian industrial products and vice-versa. At that time, it was Jordanian Industry and Trade Minister, Mohammad Halaykeh, who said: "There are two tracks – politics and economics […]. We hope that economic relations will help ease political tensions."[40]

The best example for economic cooperation between Jordan and Israel is seen by the two countries in the establishment of Qualified Industrial Zones, which have been created between Israel, Jordan, and the United States, encouraging regional economic integration. Exports from Jordan to the United States grew from $15 million to over $1 billion in 2007. Both Jordan and Israel consider the joint endeavor to be one of the major fruits of peace between the two countries, including the interest in continuing these relations and expanding them.[41] Nevertheless, most of the trade and economic dealings between Israel and Jordan are discreet and remain at a low level. Although the bilateral volume of trade has increased ten-fold since the mid-1990s, reaching $400 million in 2008, the general pattern was that Israel's exports to Jordan grew continuously while its trade with Israel failed to increase. Since 2011, however, Israel's exports to its neighbor declined while Jordanian transfers of goods have shot up, reaching $200 million in 2011.[42] The complete picture reveals, however, that Israel accounts for only 0.8 percent of the kingdom's exports, and imports from Jordan account for a negligible 0.3 percent of Israel's imports.

Small Steps Forward

The sectors of potential economic cooperation between Jordan and Israel are many: infrastructure, energy, water, tourism, agriculture, protection of the environment, human resource development, industrial zones, and health care. In some of these areas cooperation has been more successful. Jordan is able to use Israel's Mediterranean harbor of Haifa, and Israeli as well as Jordanian companies have widened their joint efforts in strategically important areas of the economy. However, much interaction is not sustainable and it largely remains a matter of few businesses, which trade in the dark.

In the Peace Treaty, the two countries agreed on joint water-related regulations because both states face a permanent shortage of water. Since these days, there have been several initiatives to explore the mutual water problems and look for possible solutions to wider cooperation. So far, Jordan and Israel work well together in this area by resolving differences bilaterally without escalation of problems. Mutual tourism was also believed to be an important aspect of the Peace Treaty, providing an economic boost and increased people-to-people contact. The number of tourists Israel received from Jordan dropped from 77,900 in 2000 to 11,500 in 2007, representing about 0.05 percent of Israel's total for that year. The number of Israeli visitors to its neighboring country has increased for a certain period. In 2007 and 2008, the kingdom received between 275,000 and 280,000 Israeli tourists, compared to 152,000 in 2002. It is mainly the political situation that has kept tourism from being a major contributor to better relations.

In contrast, many joint infrastructure projects such as the envisaged airport in the Aqaba-Eilat region, as outlined in the Peace Treaty under the term 'Peace Airport', have not been realized. Although this facility to-be-operated jointly by Jordanian and Israeli authorities implies severe organizational and infrastructural challenges, the idea pops up from time to time as "an excellent example for the international community of what we can do once we put our heads together."[43] The plans for the airport were part of the Jordan Rift Valley development policy. Specific efforts for the area also covered new transport links and joint promotion of tourist destinations on both sides of the valley.[44] However, most of these have not been implemented. Another often mentioned project is the 'Red Sea-Dead Sea Water Conveyance Concept', or Red-Dead-Canal, designed to save the shrinking Dead

Sea using water from the Red Sea. Additional potential areas of cooperation include the construction of road networks and railway systems, like the Haifa-Amman railway link, as well as communication systems.

Due to recent regional events, economic co-operation between Israel and Jordan gained some momentum. Israel has helped the kingdom to continue trading with Iraq and Turkey by allowing goods to be transported by truck via its own territory. Once the goods, which usually have been transported via Syria, arrive at the Jordan River Crossing near Beit Shean, they are re-packed on Israeli trucks and are taken to Haifa and shipped from there to Iraq and Turkey.[45] Another important aspect of cooperation is expected to be energy supply. It is reported that Jordan has been holding talks with Israel in order to buy natural gas from it, which it recently discovered beneath the Mediterranean Sea. After two years of supply shortages from Egypt's pipeline to Jordan, a gas deal would relieve the country from a painful energy crisis and could mark a major tightening of Israeli-Jordanian relations two decades after they signed the Peace Treaty.[46]

Structural Obstacles to Increased Cooperation

Structural barriers, like the back-to-back transport of goods, inhibit increased bilateral trade. When Jordanian goods reach the Israeli border crossing at the Sheikh Hussein Bridge, they are unloaded from Jordanian trucks and inspected for security reasons and then re-loaded onto Israeli trucks to be transported to the final destination, resulting in limited flow of goods, increased costs, and significant delays. In addition, traveling between Israel and Jordan is still uneasy. While Israelis could easily obtain visas to enter Jordan, it is unequally difficult the other way round: the Israeli embassy in Amman issues visas with ease to males under 16 and over 60 and to females under 18 and over 50; others must be approved by Israel's security apparatus, a process that can take one to two months or longer. Addressing these structural obstacles for direct trade and business interaction could help to maximize the potential of deepening economic ties.

Even if these structural impasses were resolved, the potential for trade is not currently realized because of political- and security-related constraints on both sides. A mutual lack of trust and the continued Israeli occupation of the Westbank are the major reasons why a 'warm peace' between Israel and Jordan has not been realized. It is mostly this mistrust that hinders each side to enter economic joint ventures. Another equally important factor is the deep connection of Jordanians to the Palestinian question. Today, most Jordanians do not believe that there is any hope for a just resolution to the Israeli-Palestinian conflict. Popular sentiments have also translated into business and marketing problems, limiting sales in each country: it is almost impossible for Israel to export finished products to Jordan for the consumer market due to the hostile attitude of the clientele, which opposes economic relations with Israel.

Jordan's Business Community: Between Anti-normalization and Cooperation

The negative popular sentiments in Jordan constitute an important factor constraining economic interaction with Israel. Nevertheless, there have been Jordanians who took the political risk of building relations with Israel after the signing of the Peace Treaty. However, these businessmen are disappointed with the outcome and it is highly questionable whether individuals will take the same risks again. They fear of being labeled economic collaborators. The professional associations, dominated by the anti-normalization movement, threaten disciplinary action (including expulsion) against members who deal with Israelis, effectively blocking deepened cross-border activities.

However, there are 'agents of change', trying to influence the bilateral relationship through the economic realm. The Jordan-Israel Business Forum convened several times in the last decade aiming at developing transnational business opportunities under the motto 'from trade to peace'. Furthermore, regular meetings of Jordanian and Israeli businessmen take place in Amman, recently with a special focus on alternative energy sources. However, all these initiatives operate more or less without appearing before the public.

The Need to Deepen the Economic Ties

A 'peace dividend' has not materialized to the extent it could have been between the economically unequally strong partners. King Abdullah II of Jordan has complained in a Wall Street Journal interview that the "golden period of the wonderful relationship" has gone and that the relationship with Israel is "at an all bottom low." While describing himself as "one of the more optimistic people you will meet in this part of the world," his assessment about the bilateral economic relationship is clear-cut: "economically we were better off

»Although direct trade between Israel and Jordan has increased since the signing of the Peace Treaty, it remains at a low level and many opportunities of economic cooperation are missed.«

in trade and in movement before my father signed the peace treaty.'"[47] Although direct trade between Israel and Jordan has increased since the signing of the accord, it remains at a low level and many opportunities of economic cooperation are missed. Hence, the judgment by King Abdullah II should be alarming. Efforts to deepen economic ties between the two countries are more urgent than ever before.

Turkey and Israel: Business as Usual Despite Political Conflicts

Turkey was the first Muslim-majority country which recognized Israel and established diplomatic ties with it after March 1949. While at the beginning the relations were more symbolic, the two countries developed a strategic partnership, manifesting itself in political, diplomatic, military, intelligence, and economic cooperation. As Turkey and Israel are the most economically productive and militarily powerful states in the Middle East, they share an interest in regional stability: "The political, economic, and strategic compatibilities between the two states make them natural partners in an unpredictable region."[48]

Nevertheless, the relations between the two countries have always been affected by political circumstances. They severely deteriorated after the 2008/09 Gaza War and the 2010 Mavi Marmara flotilla incident. As a response to the death of nine Turkish citizens that were on the ship heading for Gaza, Ankara took political measures against Israel, including downgrading diplomatic relations to the level of second secretary, boycotting Israel's national day reception held by its embassy in Ankara, and suspending all military agreements.[49] Turkey also barred Israel from any military exercises. In contrasts to these political sanctions, concrete economic measures were not taken by the Recip Tayyip Erdogan government. In March 2013, Israel's Prime Minister Netanyahu apologized for the Mavi Marmara incident during a phone call with Turkey's Prime Minister Erdogan, expressing regret over deterioration in bilateral relations and described the incident as unintentional.[50] Erdogan later issued a statement, where he accepted the apology on behalf of the Turkish people. Israel also vowed to compensate the victims' families in order to restore normal diplomatic relations.

Bilateral Trade and Tourism

Turkey and Israel signed a free-trade agreement in 1996 which proved to be increasingly functional to boost economic relations between the two countries. The agreement was followed by a double-taxation prevention treaty in 1997 and a bilateral investment treaty in 1998.[51] While trade relations between Israel and Turkey in general had remained under capacity until 1996, these measures of economic cooperation, like the lifting of customs duties, resulted in a growth of the bilateral trade volume by 658 percent from $446 million in 1996 to $3.4 billion in 2008.

Besides the exchange of traditional goods, the nature of Israeli and Turkish trade displays sophistication to include a range of products from optical equipments to transport vehicles, and from medical supplies to electronic office products. In addition to steadily increasing trade despite political tensions between the two countries especially since 2010, Israel and Turkey used to engage in sectoral cooperation especially in the fields of military technology and exercises, as well as tourism, which have been the main areas badly affected by the deterioration of the Turkish-Israeli relations. Following the flotilla incident, Turkey froze at least a dozen defense projects with Israel, including a $5 billion deal for tanks, an $800 million sale for patrol aircraft and an early-warning radar plane.

Despite the political circumstances, trade between Turkey and Israel has been continuously growing. The trade volume reached nearly $2 billion in the period from January to May 2013. Turkey's exports to Israel totaled over $1 billion, while imports from Israel were at around $1 billion. Even before the apology was made by Netanyahu, economic relations were improving. The Turkish-Israeli trade volume, which was $3.4 billion in 2008, reached $4.4 billion in 2011 and exceeded $4 billion in 2012. Data from the Turkish Statistics Institute suggest there was an increase of 56 percent in exports to Israel in May 2013 compared to the same month of the previous year. Imports from Israel show an increase of 22 percent in May 2013 compared to the figures of that month in 2012.[52]

The clearest indication of the political deterioration could be witnessed in the number of Israeli tourists to Turkey. While the number of Turks visiting Israel has always been small, the peak of Israeli tourism to Turkey was in 2008 with nearly 600,000 visitors. In 2010, the amount of Israeli tourists dropped to 110,000; in 2011 to 79,000; and in 2012 it slightly rebounded to 84,000. After Netanyahu's excuse, however, tourism figures are skyrocketing again – also because the Israeli government no longer regards Turkey as a potential 'danger zone' for its citizens. In the first half of 2013 the number of Israeli tourists increased by around 80 percent to 57,000 compared to the same period of the previous year.[53]

The Stronghold of Economic Cooperation: The Business Community

The Turkish business community, which profits from Israeli technology and other products, has indicated that it wants to avoid the 'politicization of trade'. Even during times of political disintegration, the well-integrated network of private interests constitutes "the strongest bond between the two countries and societies."[54] Business ties "are long-term and in private sector hands. Those are continuing without any change," states Menashe Carmon, President of the Israel-Turkey Business Council.[55] According to this agency, which promotes commercial ties between Israeli companies seeking opportunities in Turkey, about 900 Israeli firms work in or with Turkey. Their investments in the country amount to approximately $300 million. On the other hand, Turkish construction firms have projects worth of $583 million in Israel.

In addition, the Turkish business community sees advantages of coupling Turkey's land and labor with Israel's innovative economy. Just to name a few examples: in Bursa, the center of the Turkish automobile industry, manufacturers are assembling electric cars as part of a venture with an Israeli company. Thanks to this joint undertaking, Turkey is now producing its first electric car with the help of Israeli technology. In 2007, the Israeli company Teva, the world's largest producer of generic pharmaceuticals, acquired Turkey's Med Ilac, entering the Turkish market in this area, which is believed to be a billion dollar market.

Business as Usual, but Missed Opportunities

Despite the positive direction in the Israeli-Turkish political relations, the controversial joint-venture of Israel and the Republic of Cyprus on the natural gas exploration and drilling in the East Mediterranean, strongly objected by Turkey, is a good example of how Turkey and Israel miss opportunities for cooperation on a sub-regional level. Although both countries agreed to re-normalize relations, a period of cautious tranquility may be imminent. However, it is important to stress that even the diplomatic crisis has not translated into the economic field. Below the surface of political conflict, business pragmatism has been trumping political tensions. Economics and politics are largely decoupled in the Israeli-Turkish relationship and many analysts remain confident that mutual pragmatic interests will, for the most part, be instrumental in overcoming possible future differences.

Conclusions and Recommendations

Certainly, the Middle East would benefit from the promotion of economic cooperation. Increased ties in this area can have spill-over effects onto the political level. Thus, cooperation through trading goods and exchanging services can principally play a positive role for regional peace. While economic cooperation matters, its importance varies in the four Israel-centered dyads selected with the political and economic (a)symmetries as the crucial differentiating factor. The same holds true for the other aspects that have structured this Policy Brief: the specific obstacles and opportunities as well as the role of the business communities.

The *relationship between Israel and Palestine* is characterized not only by a stark political asymmetry, but also by the fact that the Palestinians are almost entirely economically dependent on Israel. As long as Palestine has not reached statehood, the bilateral economic dimension remains relevant, yet subordinate to different paramount political objectives. On the Israeli side it is the crucial standard of military security which finds expression in a policy that despite some relaxing measures severely restrains the access of the Palestinians to resources and markets. This, in turn, hampers economic trade and growth. On the Palestinian side the removal of those restrictions is considered to be vital, and in the context of establishing a sovereign Palestinian state it is believed to be the best basis for regional stability and peace. These views are supported by international organizations like to the IMF and the World Bank. The foundations of bilateral economic cooperation will need a renewal if Israel and Palestine want to achieve their respective goals. However, Palestinian economic prosperity may only be reached in accordance with a two-state solution. The recent peace talks have been flanked and endorsed by an initiative of Israeli and Palestinian business leaders – emphasizing by the slogan "Breaking the Impasse" that

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the business communities on both sides favor peace, stability, and prosperity.

In the *Israeli-Egyptian relationship*, increased economic cooperation would need a political framework ensuring a minimum level of stability. Yet, the existence of such a framework is not, in itself, a sufficient basis for economic transactions. The business communities and economically influential external actors like the United States can have a significantly positive impact on the level of economic cooperation. In 'cold peace' constellations, their role in initiating economic exchanges may be essential. It needs to be seen how things develop in Egypt after the toppling of President Morsi in July 2013. As long as economic prosperity remains the core challenge to Egypt's government, economic ties to Israel may not be completely cut-off. The same holds true for the Peace Treaty, which is the prerequisite for preferential tariffs for goods produced in the QIZ and, perhaps more importantly, for American military aid to Egypt.

Endnotes

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In the *Israeli-Jordanian case*, the Peace Treaty's economic benefits have not really materialized. Despite a politically symmetric constellation, the economic asymmetry defines the economic relationship. Regardless of an increasing bilateral trade volume, negative popular sentiments on the Jordanian side and security concerns on the Israeli side remain the most important constraining factors for deepened economic cooperation. Many opportunities in the bilateral economic relationship are missed and already existing interaction, especially by the business communities, is kept outside the public eye.

Economic relations between *Israel and Turkey* are mostly decoupled from politics. While in a politically symmetric situation, both countries also enjoy rough symmetry in various economic sectors. Bilateral trade keeps increasing and economic cooperation can be witnessed in many ways. The Turkish and Israeli business communities remain the stronghold of economic cooperation in times of political conflict. Although some

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cooperation opportunities are missed or postponed due to the interim tensions, the situation between the two countries can be described best as 'business as usual'.

The Value of Increasing Economic Cooperation in the Middle East

Exploring additional opportunities in each relationship could provide incentives for building on current achievements, accelerating economic interactions, and expanding the areas of cooperation as factors that transcend the current reality towards a brighter future for the entire region. Old and new proposals include regional infrastructure projects in virtually all areas: production and marketing, trade, water management, electrical power grids, networks of gas and petroleum pipelines, tourism, and transportation.[56] Additional suggestions concern the establishment of new institutions in the banking and financing/investment sector, but also as bodies to oversee and manage regional infrastructure projects.

We believe that economic cooperation can principally play a positive role with respect to stabilization and peace – and finally to arms control and disarmament initiatives like the envisaged Helsinki process on the establishment of a WMD/DVs Free Zone in the Middle East. Increased cooperation can make a difference to the currently deplorable situation in the region: it can contribute to intensifying dialogue, decreasing misunderstandings, and building confidence, since trade and other economic activities involve direct human contacts which offer the chance of learning and correcting prejudices. As far as the business communities are concerned, we hold that these 'actors of change' despite all limitations remain essential. Their commercial, cooperative, and bargaining spirit of 'give a little, take a little' will hopefully help increasing economic relations by replacing the 'balance of terror' with a 'balance of prosperity'.[57]

We are well aware that increased economic cooperation cannot easily be achieved due to the asymmetrical political and economic conditions present in the Middle East. However, economic interaction even among actors in the most asymmetrical relationship imaginable remains paramount, as Cordell Hull, one of the chief architects of the post-World War Two order, once concluded: "If goods can't cross borders, soldiers will."[58] ■

Further Reading

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About the Academic Peace Orchestra Middle East (APOME)

The Orchestra is the follow-up project of the "Multilateral Study Group on the Establishment of a Missile Free Zone in the Middle East". The Academic Peace Orchestra Middle East is a classical Track II initiative: it consists of some 100 experts – mainly from the Middle East/Gulf, one of the most conflict-ridden areas of the world. The Orchestra is meeting regularly in working groups (Chamber Orchestra Units) on specific topics in the context of a workshop cycle from 2011-2014. The main goal of this initiative is to shape the prospective Middle East Conference on the establishment of a zone free of weapons of mass destruction and their delivery vehicles agreed upon by the international community in May 2010.

For this reason, these experts develop ideas, concepts, and background information in a series of Policy Briefs which are the results of intense discussions within the Chamber Orchestra Units. In this framework, the broader normative Cooperative Security Concept will be further developed, embedded, and institutionalized in the region. At the same time, the Orchestra meetings serve as venues for confidence building among the experts. The networking activities of PRIF's Project Group are documented by the Atlas on Track II research activities in or about the Middle East/Gulf region.

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