

Run-Up to the Cairo Economic Summit:

A U.S. View

by [Stuart Eizenstat \(/experts/stuart-eizenstat\)](/experts/stuart-eizenstat)

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ABOUT THE AUTHORS



[Stuart Eizenstat \(/experts/stuart-eizenstat\)](/experts/stuart-eizenstat)

Stuart Eizenstat held high positions in the White House and the Treasury, State, and Commerce Departments during forty-plus years of public service.



Brief Analysis

The Cairo Economic Summit comes at an exciting time for Middle East regional cooperation. Regional countries have made substantial progress toward economic reform, including steps toward privatization and structural reform. Unfortunately, although all states in the region have a strong interest in promoting regional cooperation, only 7 percent of regional trade is internal. Apparently, the hurdles to regional cooperation are not only Arab-Israeli issues but also Arab-Arab issues. The peace process is proving durable in spite of its stumbling but it will not remain durable unless all parties in the region enjoy the economic dividends of peace. And they can only enjoy these dividends by means of regional cooperation. The Clinton Administration is committed to building a lasting peace via regional economic cooperation.

The Cairo Economic Summit will provide a venue in which to build on past progress (at the previous Casablanca and Amman summits) toward the goal of regional cooperation. And in spite of the tenuous political situation, Israel and Arab states have shown a remarkably positive approach in their preparations for the conference. The United States sees the opportunity for four major achievements in Cairo: 1) for the United States and others to encourage regional economic cooperation, 2) for regional countries to showcase their substantial economic reforms and their business-friendly environments, 3) for business people to reach actual "deals," and 4) for the peace process to take root in a solid economic foundation. The United States is sending a strong delegation of approximately 250 business leaders, demonstrating our belief that the Middle East can truly become "the next Asia" in terms of economic growth. Washington is convinced that every state in the region (including "rogue regimes," if they choose to change their behavior) will have the opportunity to participate in eventual regional prosperity.

The political and economic futures of Middle Eastern countries are inextricably linked. Nevertheless, regional peace and economic prosperity depend to some extent on the necessary separation of politics and economics. The tendency has always been to forgo economic cooperation in the absence of total political conciliation. In actuality, regional economic cooperation could establish an environment in which political integration can progress more rapidly. The peace process has matured enough that political hurdles should not deter economic cooperation.

Ultimately, the Cairo Economic Summit, and the process it represents, should be institutionalized. Currently, several

regional economic bodies are operating and could provide the nucleus and framework for an all-encompassing economic cooperative body, meeting more frequently. These include the Taba Trade Leaders Conference and the Middle East Tourism and Travel Association. Others, such as the Regional Business Council and the Middle East Development Bank, have not yet gotten off the ground but could also lend structure and coherence to regional economic integration.

Israel's Economy and U.S.-Israel Economic Relations

Although 56 percent of Israel's GDP still comes from state enterprises, in the last several years, Israel has enjoyed single-digit inflation, unprecedented foreign investment, and one of the highest growth rates (7 percent) in the industrial world. These trends have helped Israel absorb massive immigration and enjoy great economic prosperity. Israel's prosperity can be attributed to four variables: macroeconomic discipline, structural reform, the peace process, and regional integration. To its credit, the new Israeli government has continued with important macroeconomic and structural reforms, taking crucial steps to reduce Israel's budget deficit as well as to de-regulate and privatize its economy. However, much of Israel's prosperity has been a result of the peace process and stronger regional cooperation, and Israel should not take this for granted; rather, it should seek to secure greater economic and political cooperation regionally.

In terms of U.S.-Israeli relations, the time has come to give the economic dimension of the relationship due weight, alongside the political and security dimensions. With over 200 U.S. companies currently operating in Israel and \$12 billion in trade, our economic relationship has matured far from the days when our economists and aid helped Israel overcome triple-digit inflation in the 1980s. The U.S. would like this relationship to progress even further. For example, the U.S. share of Israeli imports stands at only 20 percent while Europe's share hovers around 50 percent. The U.S. wants increased procurement of our products and the reduction of non-tariff barriers and restrictions that decrease our competitiveness in Israel vis-à-vis Europe. The U.S.-Israel relationship has taken on a new economic dimension conducive to discussion in purely economic terms and should be untainted by political concerns.

The Palestinian Situation

Economic despair in the territories is putting extreme pressure on the political and social atmosphere there. With due consideration to security requirements, both Israel and the Palestinians need to work to alleviate these dire economic straits as a way to bolster the prospects for peace.

When addressing the closure issue, Israel's security must be paramount; regional stability is contingent on it. Nevertheless, many Israeli restrictions on Palestinian goods and workers appear to have little bearing on security considerations, and these constraints are stifling Palestinian economic development. Like Israel, the Palestinian community needs to reap the economic dividends of peace, if the peace process is to succeed. Therefore, Israel must eliminate those restrictions that are not security-related to help alleviate the dire situation in the territories. Economically, maintaining protectionist barriers for entrenched Israeli domestic interests is not a wise policy. Hopefully, these barriers will yield to the free flow of goods, services, and people that is essential to Palestinian prosperity and a secure peace.

The Palestinians must also put their economic house in order. They cannot only blame the closure or other external economic prohibitions such as the failure of promised donor funds to arrive (e.g., the U.S.'s \$10 million dollars currently held up in Congress). The Palestinians must also recognize that their internal policies are stifling economic growth, and they need to introduce more transparency, efficiency, and openness to their economy. As well, they must eliminate monopolies and encourage private investment through better investment regulations.

The United States is engaged in several projects to help the Palestinian economy. Congress has granted duty-free status to all Palestinian goods, which will not only help indigenous Palestinian business but also encourage foreign

investment into the West Bank and Gaza. As well, with Israel, the United States has worked to lay the groundwork for an industrial zone at the Karni crossing. And finally, we will soon open a trade information center in Gaza to provide state-of-the-art information services to Palestinian companies and entrepreneurs.

In spite of Palestinian skepticism about the upcoming summit and their reservations about attending it, nothing could be worse for the Palestinians than boycotting the conference. Skipping the conference would be self-defeating. There will be 1,000 participants there, ready and willing to do business. And the summit will provide a perfect opportunity for Palestinians not only to voice their economic concerns but also to advertise opportunities in the territories and facilitate much-needed investment there.

This Special Policy Forum Report was prepared by Greg Saiontz.

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