

Les Aspin Memorial Lecture: Economic Security and the Middle East

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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

On March 8, 1999, Undersecretary of State Stuart Eizenstat delivered The Washington Institute's Third Les Aspin Memorial Lecture honoring the late chairman of the House Armed Services Committee, secretary of defense, and member of the Institute's Board of Advisors. The following is a rapporteur's summary of the forum's question-and-answer session. [Read his opening remarks. \(templateC07.php?CID=183\)](#)

Encouraging Economic Cooperation

Even with the current stall in the peace process, it would be wrong to say there is no economic cooperation between the peace process partners. Collaboration between Israeli-Jordanian and Israeli-Palestinian businesspeople is beginning. Those who have thought or suggested in the past that the solution to the problem is separating the two communities are mistaken. Israel and the Palestinian Authority (PA) are too economically integrated and too interdependent for this to be a real possibility.

The United States has taken concrete steps toward encouraging more investment in the region. Secretary of Commerce William Daley has been very active in setting up business missions to the region as well as reverse missions to bring businesspeople to the United States. Another major part of the investment program is the Qualified Industrial Zones (QIZ), such as the one in Irbid, Jordan. Any company that invests in one of these zones and has a minimum of eight percent Israeli content can ship the products to the United States duty-free. This makes the QIZs essentially a one-way free-trade agreement. The United States has high hopes for the QIZ being set up in Gaza; getting it up and running is a key issue for the Gaza economy.

The Palestinian Authority

Despite press reports to the contrary, the post-Wye U.S. supplemental assistance for the PA and Israel will be considered as a package "joined at the hip;" the aid to the PA will proceed only at the same time as the aid to Israel. On the larger issue of using implementation as a condition for this aid, it is important to recognize that the economic track of the peace process cannot get too far ahead of the political track.

The World Bank and the rest of the donor community are in fact having a real impact in Gaza. Prospects for

Palestinian exports in the future are even greater because of the opportunity provided by the Gaza airport. Issues which are similar to the airport, specifically the seaport and free-passage, are currently hamstrung by larger political issues and are unlikely to see movement any time soon. The United States is instead hoping for smaller steps. One such move would be to allow all the 27,000 Palestinian businessmen who are permitted to enter Israel for business to do the same between Gaza and the West Bank; currently less than 4,000 have permits for that route. Free-passage between Gaza and the West Bank -- essentially connecting two disconnected economies -- would do much to help the Palestinian economy.

Another key for the Palestinian economy is codifying a legal infrastructure. This is a must if the PA is to receive the kind of direct investment that is both wanted and needed. Fortunately, the Palestinian Legislative Council (PLC) is apparently close to passing laws on a variety of topics to facilitate investment -- including protection of intellectual property rights, transparency in government procurement, enforceable commercial codes, and "good government" procedures. The Palestinians are also doing a good job at holding their executive to a high standard and demanding transparency in government. The fact that criticism on these issues is being voiced by Palestinians -- not just foreign observers -- is a positive sign.

Iran

Senior levels of the U.S. government tried to deter the recently announced decisions by two French and Italian oil companies, Elf and ENI respectively, to invest in Iran's Daroud oil field. The United States will investigate these deals, as is its obligation under the Iran-Libya Sanctions Act (ILSA). The fact that the United States got something tangible from the May 1998 understanding with Europe -- a tighter export control system on technology flows to Iran -- created an expectation that sanctions would be waived in the future. Yet, it must be emphasized that each case will be investigated on an individual basis.

Iranian president Muhammad Khatami's attempts at internal reform have not had an impact on Iran's external actions, specifically its support for terrorism and its attempts at weapons of mass destruction (WMD) and missile proliferation. The United States has sanctioned -- and will continue to sanction where appropriate -- those entities, including Russian firms, that the United States believes is responsible for technology flows. This continues to be a real issue in U.S.-Russian relations.

Another issue which has received considerable attention is the possibility of U.S. grain exports to Iran. There are advantages and disadvantages to such exports. Although there have been a number of meetings on the topic, a decision has not yet been made.

U.S. Sanctions Policy

The administration of President Bill Clinton is currently working with the U.S. Senate on broad-based sanctions legislation. Although economic sanctions remain a legitimate foreign policy instrument for the United States, they should be used more carefully. The United States has to measure the costs against the gains of these sanctions. The degree of success must be particularly weighed in cases of unilateral U.S. sanctions imposed in a global market in which the United States does not have a monopoly.

Other important steps in improving sanctions policy include an annual review of the sanctions' effectiveness, presidential flexibility to account for contract sanctity, and a hierarchy with which to approach sanctions. The first option in this hierarchy would be to solve problems diplomatically. The next rung in the ladder would then be multilateral sanctions, which are by definition more effective and at the same time are less costly to U.S. companies. Lastly, if unilateral sanctions are imposed, the United States needs to conduct a thorough cost-benefit analysis of those sanctions.

With regard to the sanctions against Libya and Iraq, these are effective because of their multilateral nature. The

sanctions against Iran are less effective than they might be if they were multilateral, but they do still have an impact.

Jordan

Several steps have already been taken to decrease Jordanian dependence on Iraqi oil. The recently signed Jordanian-Iraqi protocol will decrease the amount of trade from \$255 million in 1998 to \$200 million in 1999. A crucial element to reducing this dependence is to deepen the rapprochement -- perhaps entailing debt forgiveness and concessional oil deals -- between Jordan and the Gulf States, especially Kuwait and Saudi Arabia.

Furthermore, Jordan needs to find new markets, again highlighting the importance of Israel. Although Israeli companies will lose some market share if appropriate steps are taken to increase intraregional trade and knock down trade barriers, Israel can afford the competition. And although it will not be an easy task, the combination of a progressive business community in favor of peace and a government committed to increasing Jordanian-Israeli trade (like the government of Israeli prime minister Binyamin Netanyahu) can help to breakdown some of the protectionist barriers against Jordanian imports into Israel.

Egypt

Egypt is an economic powerhouse in the Middle East whose role to date has been disappointing. In fact, it was Egypt's unwillingness to participate in the Middle East and North Africa economic conferences which prevented one from taking place last year. Progress on the Israel-Jordan-Palestinian front cannot wait for Egypt.

This Special Policy Forum Report was prepared by Adam Frey.

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