

U.S. Economic Initiatives and the Peace Process

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Brief Analysis

On November 3, 1998, Patrick Clawson, director for research at The Washington Institute, and Zoe Danon Gedal, a Soref research fellow at the Institute, addressed the Institute's Special Policy Forum on the topic of their forthcoming book [Dollars and Diplomacy: The Impact of U.S. Economic Initiatives on Arab-Israeli Negotiations. \(templateC04.php?CID=13\)](#) The following is a rapporteur's summary of their remarks.

PATRICK CLAWSON

One of the most important reasons the United States provides aid to Levant countries is to promote Arab-Israeli peace. Yet, the U.S. economic aid program is administered based on the same development objectives pursued elsewhere in the world. The results can therefore be problematic. For instance, one of the objectives of U.S. aid to the Palestinians is democracy promotion, but the peace process could be held back if opposition groups like Hamas grow stronger.

The large sums of aid provided to Egypt and Israel after the Camp David Accords did make a difference in public attitudes toward and acceptance of the new political realities. By contrast, the Jordanian case should serve as a warning. In the first two years after its peace treaty with Israel, Jordan received relatively little assistance aside from debt relief. Even after the increase starting in 1997, U.S. aid to Jordan reached only half the level of what Egypt received after Camp David (In 1997 dollars, \$35 per person per capita in contrast to \$70, and 3.5 percent of Jordan's gross national product in contrast to 7 percent of Egypt's GNP). More aid could have made a difference in reversing the limited enthusiasm the peace treaty has enjoyed among Jordanians.

The amount of aid to the Palestinian areas has been extraordinarily high. A 1993 World Bank study assessed that these areas needed \$1.44 billion in aid committed over the following five years; in fact, the amount committed over that period, according to Palestinian Authority (PA) figures, was \$3.5 billion, of which \$2.5 billion was disbursed. Aid to the Palestinians in 1997 amounted to \$200 per person; India, according to the World Bank, received \$2 per person in 1997. The impression that the aid given to the PA has been insufficient is largely the product of excessive expectations, especially about how quickly aid would arrive. Aid could not offset the other problems affecting the Palestinian economy, such as inappropriate PA policies and closures imposed by Israel.

U.S. aid for the Palestinians goes to nongovernmental organizations or is spent directly by the U.S. Agency for

International Development (USAID). The U.S. interest in the peace process is best served when Arafat is most willing to compromise, and aid that bypasses his offices is not a good way to achieve this result. The political impact of the aid would be greater if it went directly to the PA. Indeed, there is a strong argument for cash aid to the PA, if the United States could formulate a strict set of conditions that the PA would have to meet to receive that aid. Those conditions should be principally about the peace process, not about accounting procedures. The difficulty will be in identifying the most important peace process problems that Arafat needs to address and formulating specific quantified targets to monitor progress. Such a program would be similar to the U.S. aid program in Andean countries, where cash aid has been tied to fulfillment of drug-eradication objectives.

Aid has proven to be most useful for consolidating agreements already arrived at. It is not very successful at promoting agreements by being used as an incentive or as a pressure point to make compromises on political issues. With the notable exception of the 1991-1992 loan guarantee dispute with Israel, Middle Easterners are unlikely to change their positions on political issues based on economic prospects or threats.

ZOE DANON GEDAL

In recent years, interest in regionwide economic initiatives like the Middle East and North Africa (MENA) summits has diminished. The American assumption that people are always enthusiastic about trade with their neighbors because it will benefit them economically does not hold true in the Middle East. Political hostilities, economic protectionism, and a zero-sum-game approach hamper multilateral cooperation. Whereas most Americans and many Israelis see such economic initiatives as beneficial to both sides, many Arabs think of them as a reward to Israel. According to that latter logic, regional initiatives should only proceed when there is progress on the bilateral tracks.

The first two MENA summits, held in Casablanca and Amman in 1994 and 1995, were well-attended and filled political euphoria and hopes for a "new Middle East." The conferences in Cairo and Doha in 1996 and 1997 were held at a downgraded level and went forward only with strong U.S. persuasion. Political difficulties have led to a cessation of the summits. Many in the region still support these meetings in theory, but believe the focus should be on business as opposed to politics.

The MENABANK was the first initiative supported by the four core parties (Egypt, Israel, Jordan, and the PA). Although the United States played a major role in encouraging this project, Congress has not approved the crucial funding of the U.S. share, and the bank therefore cannot begin operations. To revitalize the proposal, MENABANK should be promoted as a peace initiative that will finance Israeli-Arab (and even inter-Arab) cooperation, rather than simply as another regional development bank.

To promote trade, the United States has been willing to provide privileged trade status in exports from joint Arab-Israeli projects. The Qualifying Industrial Zone (QIZ) in Irbid, Jordan, which currently employs 1,200 people, is the most successful example to date. The Gaza Industrial Estate at Karni, which should start operations soon, hopes to employ 20,000 people. U.S. officials have also been active in trying to promote trade among regional parties by encouraging communication on trade policies and the reduction of non-tariff barriers. The best prospects for success here seem to be low profile expert-level meetings, rather than highly publicized events like the Taba Initiative.

The United States is also active in promoting outside investment in the region, especially that which fosters Arab-Israeli cooperation. Yet, the United States has failed to fulfill certain high-profile promises; only \$6 million out of the \$125 million pledged by the Overseas Private Investment Corporation (OPIC) for the Palestinian territories was actually awarded, which particularly hurt the now-closed Builders for Peace program. More important problems have been political factors like closures imposed by Israel and corruption of Palestinian officials, which have made

investment in the West Bank and Gaza problematic.

The United States has also been involved in overcoming security concerns that hold back economic development. Highly sensitive issues like closures, inspection of goods crossing Palestinian borders, and safe passage between the West Bank and Gaza are extremely important for the Palestinian economy. U.S. officials have been in a precarious position, trying to mitigate damage to the Palestinian economy without second-guessing Israel on its security concerns. Regional leaders have praised Americans for their efforts to ease some of these concerns, and some Palestinians interpreted these efforts as a sign of American good faith as honest brokers. Behind-the-scenes and less-publicized efforts often have had the biggest payoff.

Conclusion. In the Middle East, politics comes before business, but business can help to reinforce politics. Economic efforts can be useful in supporting and consolidating progress toward peace, but they will rarely be forceful enough to pave a path from hostility to peace.

This Special Policy Forum Report was prepared by Assaf Moghadam.

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