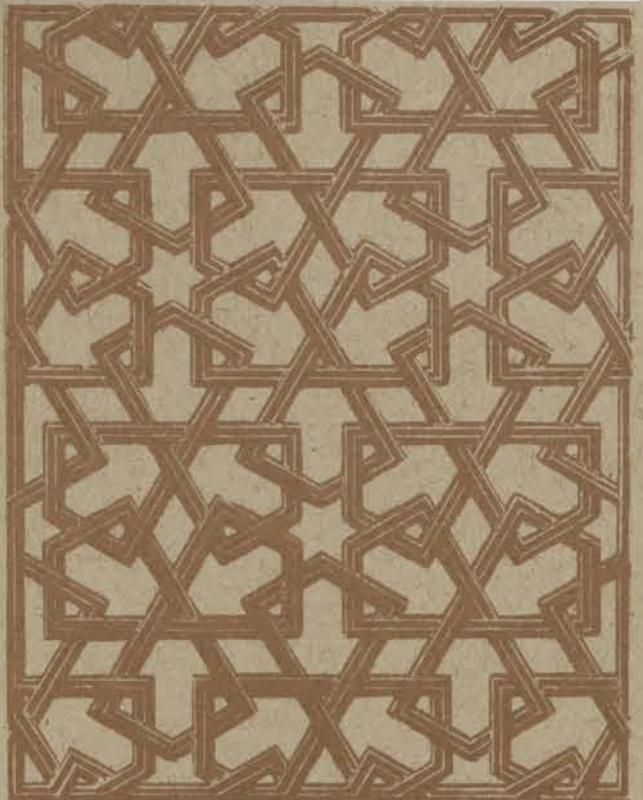


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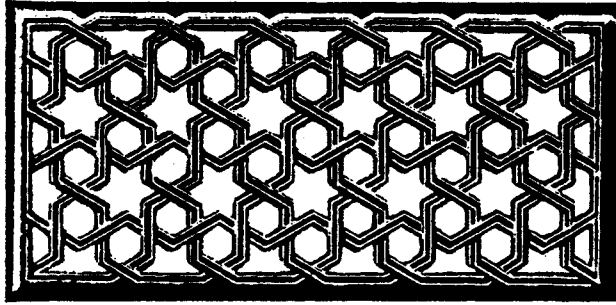
POLICY Focus

**PEACE THROUGH ENTREPRENEURSHIP:
PRACTICAL IDEAS FROM
MIDDLE EASTERN
BUSINESS LEADERS**

ERTURK DEGER
M. SHAFIK GABR
BENJAMIN GAON



THE WASHINGTON INSTITUTE



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The contributions in this Policy Focus are edited versions of presentations delivered at The Washington Institute's eighth annual policy conference, "Gaza-Jericho and Beyond: Building Peace, Security, and Prosperity in the Middle East," held October 15-17, 1993.

PREFACE

Even as the historic signing of the Israel-PLO Declaration of Principles on September 13, 1993 has raised hopes for an end to conflict, it has also created new challenges and opportunities for actually implementing peace in the Middle East.

All the parties acknowledge that the political success of the peace process is inextricably linked to delivering the dividends of peace to the people of the region. The beneficial results on the ground that will guarantee peace are achievable through intraregional economic cooperation in the form of joint investment projects, open markets, and an end to boycotts. Progress on this level will help build strategic partnerships among Middle Eastern governments, foster peaceful relations among businesses and people living in the region, and encourage others to join the peace train.

These developments carve out an important role for the United States in implementing and broadening peace in the Middle East—to encourage regional trade and economic development, as well as investment and assistance from the international community, to try and minimize risks, and help shape opportunities.

In order to examine the concrete realities and possibilities of building the economics of peace, The Washington Institute devoted a session of its annual policy conference of October 15-17, 1993 to this topic. At the conference, entrepreneurs from Israel, Egypt, and Turkey, who are actively engaged in joint business projects in the region, offered their insight and vision. Their presentations and the accompanying documents outline a variety of approaches for business endeavors in the region, and provide a guide to the opportunities, problems, and challenges that lie ahead.

Mike Stein
President

Barbi Weinberg
Chairman

TURKEY'S CONTRIBUTION TO MIDDLE EAST ECONOMIC DEVELOPMENT

Erturk Deger
Degere Enterprises

Business connections between peoples can make lasting reality out of the potential created by a positive political environment. As the architects of peace following World War II recognized, without real economic and commercial relationships between countries that create a sense of mutual interest, selfish, unilateral acts may proceed unrestrained, and the forces of extreme nationalism and conflict prevail.

Thinking and Acting Regionally

Five specific proposals demonstrate the contribution Turkey can make to helping Middle Eastern businessmen think and act regionally.

First, the Southeastern Anatolia Project of Turkey, which currently promises major new agricultural and economic development for the southeastern section of Turkey, ought to be recast as the Greater Mesopotamia Project. This project, which covers a region roughly the size of Ireland, consists of several major dams, the world's longest water tunnel, irrigation systems, and many other infrastructure projects for the region. The value of this project is approximately \$20 billion, financed primarily through the Turkish government. Upon full implementation, the project's increased agricultural output has the potential to feed a majority of the Middle East's population.

Rather than being concerned with how much water Turkey will control as a result of the project, the international community should focus on the best use of that water for the region, which was once the cradle of the great Mesopotamian civilization covering areas of present-day Syria, Iraq, and Turkey.

One cannot think of better technology and expertise than the irrigation techniques and equipment used by Israel. Building on that expertise, multilateral financial institutions, local governments, as well as businesses in the region, should work together to restore Mesopotamia to its earlier fertility and create modern agro-businesses, not only for Turkey, but for the entire region.

Second, the peace water pipeline project, originally proposed in 1986 by Turkey's then Prime Minister Turgut Ozal, should be pursued. According to a feasibility study by the American engineering firm Brown & Root, six million cubic meters of water per day could be conveyed from the Jahan and Sahar Rivers via two pipelines to eight Arab states, including Syria, Jordan, Saudi Arabia, and several Gulf States, as well as Israel.

Initial estimates were that the project would cost \$21 billion. At the time, the project was not fully supported by the U.S. government because it seemed premature, pending an Arab-Israeli peace. Today peace is at hand, and it is time to take up the project in earnest. Not only would such a project be a major

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intraregional cooperative effort, it would also create thousands of jobs, permit expanded production of food for the region, and ease the tensions and concerns that all people experience in the arid climates of the eastern Mediterranean.

Ending Regional Isolation

Third, Turkey should be recognized as a key to breaking the commercial and economic isolation of the Middle East. For decades the region has been inhibited from economic diversification and development by threats of war and a single product economy. But today the Middle East is on the threshold of a new era in which the markets of Russia, Central Europe, and Central Asia can become part of the Eurasian regional economy. Turkey, a secular, market-oriented nation, with its Muslim heritage and relatively long trading relationships with the former Soviet republics, can be the essential interlocutor between these formerly isolated markets. Of equal importance, Turkey and its Western-oriented businesses are also capable of helping U.S. and other Western businesses participate in economic development of the region on an intelligent basis, with minimized risk.

One good example of how Turkey can play this pivotal position is reflected in a project Degere Enterprises has recently sought to implement. In the summer of 1993, Degere's leadership was asked by Kazakhstan's Ministry of Foreign Economic Relations to visit Israel for the purpose of discussing potential projects with both Israeli enterprises and the government. One project proposed by Degere was to arrange the export of Israeli goods to Kazakhstan through a joint venture trading company that Degere had formed in Turkey in cooperation with the Ministry of Foreign Economic Relations of Kazakhstan.

These exports would be financed through a \$70 million short-term credit facility. The credit would be guaranteed by a consortium in which Degere would absorb 15 percent of the risk and Israel's Foreign Trade Risk Insurance Company would cover 50 percent. This would result in the seller only having to assume 35 percent of the risk. This is but one example of how multilateral business networking and innovation can facilitate business relations between the Middle East and the newly independent states.

It is time to combine the relative strengths in the region—Israeli technology and know-how, Arab capital resources, and Turkish entrepreneurial skills to open up new frontiers for Middle Eastern businesses. Of course, the American and European business communities can also have a great deal to offer in this equation. But it is important to emphasize the role of the regional participants if commercial relations are to be successful.

Expanding Education

The fourth proposal is the creation of a new American university in Istanbul. "American universities" have been located in Istanbul, Beirut and Cairo. Unfortunately, the university in Istanbul was nationalized in the 1970s; the Beirut campus has been closed due to the strife in Lebanon; and the Cairo-based university has not been able to flourish.

Istanbul offers a unique geographic and cultural venue that interconnects Europe, the Middle East, the Black Sea region, and Central Asia. From a geopolitical perspective, not to mention an historic one, Istanbul is the most

appropriate site for the training of future generations of Eurasian and Middle Eastern business and political leaders. In view of the many billions of dollars pledged by the United States to Russia, \$200 million for the creation of such a university would probably qualify as one of the most productive long-term investments.

For its part, Turkey has already granted scholarships to 10,000 students from the newly independent states to study in Turkish schools and universities. In this context, one is reminded of the Chinese proverb: "Give me a fish; I will be grateful to you all day. Teach me how to fish and I will be grateful my entire life."

An End to Boycotts and Embargoes

The fifth proposal is that it is incumbent upon the respective organizations and governments engaged in the region to remove remaining impediments to trade and economic relations, such as boycotts and embargoes, that block regional cooperation.

Today the net effect of the embargoes on Iraq and Iran is the creation of a generation of hard-line fundamentalists who harbor only resentment and distrust for the United States and other Western countries. These are the people who will be leading their countries into the next millennium. Such measures may have originally served a purpose, but continued resort to them will only harden disrespect and animosity among affected populations. It is time to coax these people and their governments back into the world community through trade and investment.

Similarly, the recent decision by the Arab League to continue the economic boycott of Israel is an unfortunate impediment to cooperative efforts. But the experience of serious regional business leaders is that the boycott can be and has been easily circumvented when the parties see an economic gain from doing so. The diplomatic and business communities must persist in seeing that this unrealistic and self-defeating policy is formally rescinded. Notwithstanding existing political constraints, it is imperative now for the region's business community to mobilize and emulate the cooperative attitude that has resulted in the recent Israel-PLO peace accord. It is up to us in the business community to make the new potential of peace into a reality.

PROMOTING REGIONAL ECONOMIC COOPERATION IN THE MIDDLE EAST: AN EGYPTIAN PERSPECTIVE

M. Shafik Gabr
Artoc Group

The negotiations between Israel and the PLO now underway are going to change the landscape of the Middle East forever. It remains to be seen, however, if the outcome of these developments will be dynamic and positive or static and negative. The key to success lies in the transformation of the peace agreement into an economic dividend.

Establishing Regional Economic Cooperation

To further that end, I propose the immediate establishment of a structure for intraregional trade and economic cooperation among the countries signatory to peace agreements. The main goal of this structure would be to bring economic betterment to the people of the region.

Establishing an intraregional economic structure in the Middle East does not mean that this regional group is to become self-sufficient or isolate itself from world markets. Rather, the parties to the agreements must demonstrate that they can reap the economic dividend of the peace that they have signed through trade and cooperation on a wide scale.

There is a precedent for this task. The present global economic trend can best be characterized as intraregional cooperation. We have witnessed the European Community and its development toward almost total economic union. NAFTA presages a new economic dynamic in North America. And when we look at the Pacific Rim, we see those nations working toward the same objective.

Unfortunately, this global trend has not yet spread to the Middle East. Excluding Israel, intraregional trade among nations of the Middle East in the late 1980s was less than 10 percent of their exports. By comparison, the figure for the European Community was 60 percent, and as an average of all developing countries, it was just over 30 percent.

There have been prior attempts to encourage economic cooperation among Arab countries. In the 1980s, three such regional efforts took place: the Arab Cooperation Council, which was dismantled after the Iraqi invasion of Kuwait; the Maghreb Economic Union, which is seen as a channel through which member countries maintain a political dialogue, and not as an economically-driven entity; and the Gulf Cooperation Council, which has had limited success in furthering economic cooperation, due to the fact that the Gulf states have very little indigenous production other than oil to trade amongst themselves.

Despite these small first steps, there remains tremendous potential for the intraregional trade and economic cooperation structure being proposed here. The ingredients to make it succeed are all there: human resources, a solid

investment base of over \$400 billion, and a relatively modern infrastructure. The region has a diversified industrial base, ranging from low-cost, labor intensive Egypt to high-tech Israel. Furthermore, the region enjoys close proximity to European, Asian and African markets, and has a sizable population and market potential.

Obstacles to Intraregional Trade

Yet there are several challenges and obstacles to intraregional trade and economic cooperation. These obstacles are formidable, and are to be found at both the national and regional levels.

On the national level, while each country in the region has its distinct economic characteristics, many face common problems. These include the maintenance of large and inefficient state-owned industries, tight government control of monetary systems, and complex bureaucracies, all of which lead to government intervention in (and distortion of) the marketplace. These negative aspects are the remaining legacies of the import substitution, inward-looking policies that governed the Middle East from the 1950s through the early 1970s.

On the regional level, the obstacles vary from political to ideological to economic, and sometimes even to the personal. There is competition for limited natural resources, such as water. Tariffs, customs, and other barriers prohibit free trade. Full and partial boycotts of other members of the region, as well as trade sanctions, are a further hindrance to economic cooperation.

Moreover, the region as a whole is marked by uneven growth and uneven distribution of wealth, territorial disputes, and a pervasive lack of trust, regularly engendering deep suspicion among potential trading partners.

These obstacles will no doubt make any attempt to develop an intraregional structure quite difficult. Three proposals might help overcome these obstacles and promote trade and economic cooperation in the Middle East.

As a preliminary matter, I want to emphasize the critical need for a common denominator: enhancing and reinforcing a stable political environment in the region through greater democratization, greater trust, and realistic expectations.

Overcoming Obstacles

The first proposal is the development of a Middle Eastern financial institution, coupled with a reformation of the banking sectors of the countries in the region. We must create a Middle Eastern financial institution modeled after the Asian Development Bank, which would identify and finance regional projects and emphasize and promote the intraregional concept. Ninety percent of the region's wealth is kept outside the region's banks, and these funds need to return home. For that to happen, governments must deregulate, liberalize, and reform their banking systems.

The second proposal is the creation of a Middle Eastern economic commission, which would be a mechanism for the promotion of intraregional trade and economic cooperation, as well as for the resolution of such disputes as will inevitably arise. Middle Eastern countries will be working together for the first time, and disputes must be solved rapidly, peacefully, and with a win-win philosophy that discourages zero-sum thinking.

The commission ought to be composed of both government and business representatives of the countries in the region that are at peace. The commission would deal with a number of structural issues, such as: the region's infrastructure;

assisting governments in reforming their economic structures; and issues of labor, investment, and technology and energy transfer. The commission would also work to reduce bureaucratic burdens on trade, as well as tariff and non-tariff impediments to trade in favor of a most-favored-nation approach. Most importantly, the commission would deal with the problem of limited natural resources, especially water, which is perhaps the most crucial issue facing the Middle East today after the basic issues of war and peace.

Developing Middle Eastern Business

The third proposal is the establishment of a Middle Eastern business development center, a nongovernment, non-profit organization, composed of businessmen and professionals drawn from the countries at peace.

Opening the business development center with branches in Israel, Egypt, Jordan, Turkey, and Palestine would foster open interaction among businessmen of the region with special emphasis on proposing opportunities for medium and small companies. Large companies will always be able to cross borders on their own, but small and medium-sized companies, the backbone of all economies, will need some help in gaining access to other markets.

The business development center will have three components: an information component, such as databanks, that would help facilitate opportunities for trade and investment; an investment advisory component, bringing together investors and entrepreneurs from different nations into joint ventures; and a research component, sponsoring economic, environmental, and scientific studies, as well as workshops that will further stimulate economic cooperation across peaceful borders.

The Special Roles of Israel and Egypt

Beyond these specific proposals, the larger catalysts and agents of growth for intraregional trade and economic cooperation are Egypt and Israel, acting with continued engagement, political support, and economic assistance from the U.S. For Egypt and Israel to succeed in fostering a peaceful, stable Middle East, they must develop economic confidence-building measures between themselves and among the other peace partners.

The economic reforms these two countries have implemented in the past few years have produced some positive results. In Egypt, the exchange rate was unified with a stable conversion rate; inflation was brought down from over 30 percent to about 10 percent; the budget deficit was reduced from approximately 30 percent to only 3 percent; and the Central Bank's reserves are up to \$15 billion from just \$1.2 billion in 1990. In Israel, the galloping inflation rates of the mid-1980s have been reduced, and some reforms were introduced into the banking sector. Notwithstanding these very positive developments, Egypt and Israel still need to initiate more internal economic reforms so as to remove the remaining impediments to their leadership roles.

For Egypt, the priorities must be to speed up the pace of privatization; keep a careful eye on employment growth; translate macroeconomic gains to the micro dimension; and reduce the state bureaucracy. On the other hand, Israel must work to liberalize its trade and investment policies, especially the protectionist elements of its agricultural policies. Inflation must be further reduced, and Israeli monetary policy must be liberalized.

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As Egypt and Israel continue their economic reforms, they must continually engage in bringing other nations of the region into the peace process, not only Syria and Lebanon, but also Iran, Iraq, Yemen, Libya, and eventually the rest of the nations of the Middle East.

Areas of Immediate Promise

Lastly, there are two areas of immediate promise in the region, one lying primarily in the private sector, and the other in the public.

The first is tourism. The Middle East is rich in history, culture, and natural wonders. These endowments make possible a regional tourism industry that would benefit everybody on two fronts. First, this industry will tremendously increase interaction among the people of the region even as the manifold service industry that follows from tourism creates jobs. Second, the potential revenue of this venture is tremendous and can help finance the creation of the intraregional economic cooperation zone sketched above.

A second area of immediate promise can be found in opportunities to link and develop the region's infrastructure. Modernizing the region's connective networks of communications, roads, and railways is imperative and must be initiated immediately.

The task ahead is complex. No one should underestimate the difficulties, but the potential rewards for the people of the region are tremendous. For generations, the people of the Middle East have been deprived of the advantages of comprehensive peace, a peace that not only brings stability, but offers the reward of economic betterment as well. Some may believe that the fortunes of the Middle East lie deep beneath its sands. Yet the true potential of the region can be found on its surface—in our youth, our culture, our history, and our determination to create a better future. The positive developments of the peace process offer us the unique opportunity to envision a peaceful and prosperous Middle East in which tomorrow's fruits of trust can be harvested by planting today's seeds of economic cooperation.

ISRAEL AND THE FUTURE OF MIDDLE EAST ECONOMIC DEVELOPMENT

Benjamin Gaon
Koor Industries

In the Middle East, as elsewhere, politics and economics are linked. Fifteen years ago the Camp David Accords with Egypt were accompanied by expectations of economic growth. To be sure, a number of economic and trade agreements were signed, but no lasting economic ties were achieved. This was not due to lack of effort, but rather to political issues, specifically, to the unwillingness of many Arab firms to do business with Israel. Hopefully, that situation will not repeat itself today, and the economic possibilities of peace will be realized. Yet any realization of economic opportunities must proceed on the basis of sober, cool-headed analysis.

Israel: The Economic Setting

In order to understand what is happening in Israel, a few key economic statistics are in order. In the face of a worldwide recession, Israel's gross domestic product (GDP) has nonetheless increased 5-6 percent every year between 1990 and 1993. Israel has a \$14.7 billion external debt, 23 percent of its GDP, down from 80 percent in 1985. Israel's GDP per capita is 45 percent that of the United States.

Israel's defense burden is 8.5 percent of GDP; its trade deficit is \$6.13 billion. The budget deficit declined by 15 percent in 1985; and inflation is now at single digits, quite an achievement considering that just a few years ago Israel was running 1 percent inflation per day, second only to Argentina.

In contrast to its predecessor, which left economic matters in abeyance, the present Labor government regards economic policy as a genuine priority and is registering real accomplishments in that arena. A privatization initiative, aimed at Israel's major companies, is underway, as is an initiative aimed at the privatization of banks owned by the government.

Ultimately though, it is with regard to the national labor federation, the Histadrut—which was for many years a government of its own—that privatization is most clearly in evidence. The experience of Koor Industries is highly illustrative in this regard: By 1988 the Histadrut's holdings in Koor had declined to 22 percent, and to 3 percent in Israel's major bank, Bank Hapoalim.

Today Israel's economy offers a highly educated local work force, declining inflation and interest rates, invigorated domestic capital markets, and free trade agreements with several of the world's greatest markets—indeed Israel is unique in that it has trade agreements with both the United States and the European community.

Israel: New Sources of Capital

Israel's business sector has discovered world capital markets. This major change in Israel's economy is directly linked to the Israeli business sector's likely course in the coming future, not only in Israel but in the Middle East as a whole.

For many years Israel's banks have controlled the country's economy. Today Israel is moving towards a liberal economy: more than 450 Israeli companies are traded on the Tel Aviv Stock Exchange, with an aggregate value of \$40 billion. Put somewhat differently, the fact that these 450 companies have to issue public reports every quarter is in turn a real spur to greater productivity and profitability.

As a result, when thinking about economic development in Israel's near future, one can look well beyond simply creating jobs for new immigrants or investing in the region for ideological purposes. To the extent that one can envision a sound economic basis for joint investment, there is an Israeli private sector ready to capitalize on it.

Similarly hopeful developments are at work in the money markets of Israeli stocks in the United States. More than fifty Israeli companies are traded today on American stock exchanges, with an aggregate of \$10 billion. Many private Israeli businessmen and investors are also actively engaged in financial markets. Thus, taken together, some \$50 billion of Israeli stock are currently being traded. In other words, this is not a socialist economy anymore.

The world market has discovered Israel. The Madrid peace process has weakened the Arab boycott. Several Japanese, Korean, and American investment banks have shown interest in participating in Israel's economic development.

The reason for the world capital markets having discovered Israel is that it offers investors the potential for high profits. Yet, we in the Israeli business community are not looking for money as such. We are looking for ideas for new projects, vision for joint ventures with potential investors, and most importantly, we are looking for potential markets. This is because the domestic market for Israeli industry is simply saturated. We need further areas in which to develop, either in our neighboring countries, or the countries of the former Soviet Union. Western Europe and some Eastern European countries are quite saturated, as they are already part of, or in the process of joining, the Common Market. Thus we are looking primarily toward neighboring countries and to the former Soviet Union.

The Example of Koor

Koor Industries' recent past and future plans well illustrate these trends. Koor Industries is Israel's largest and most profitable company, with total annual sales in 1992 of approximately \$2.5 billion, exports of roughly \$850 million a year, and a net income of \$135 million.

Five years ago, faced with a debt of \$1.3 billion, Koor undertook a very demanding turnaround. This turnaround was of comparable magnitude to the Chrysler bailout, but in Israel, unlike the United States, the government would not bail Koor out. Koor's shareholders at that time, the Histadrut labor federation, had no money to offer. So in order to finance the turnaround, Koor sold assets worth \$500 million, the first step toward its leading profitable position.

Today Koor has thirty subsidiaries and is deeply engaged in international trade in a number of areas. Koor produces around 10 percent of Israel's food; it

also holds 100 percent of Israeli telecommunications activity through two subsidiaries, Tadiran and Telrad.

Koor produces various electronic consumer goods—refrigerators, air conditioners, and non-lithium and lithium batteries. Koor is Israel's biggest manufacturer of agro-chemicals, insecticides, and pesticides. It owns Israel's steel mills, and in tandem with a sister company, Klal, also controls 100 percent of some Israeli cement plants, with a production capacity of 5.2 million tons a year.

Koor is by far the largest producer of military communication equipment, specifically ground-to-ground systems, outside of the United States. Koor has a U.S. subsidiary, which produces the Singrass ground-to-ground communication equipment for the American army on a fifty-fifty basis with General Dynamics.

In total, Koor's 18,000 employees account for 7 percent of the Israeli industrial output and 8 percent of Israeli exports today. It is thus no surprise that Koor is considered a major economic force in international as well as Middle Eastern markets.

Joint Venture for Peace

A year ago, Koor reached the conclusion that the peace process had gathered a momentum that cannot be stopped by any government of any political stripe, and that Koor should position itself accordingly. As a first step, Koor retained Professor Shlomo Ben-Ami, previously Israel's ambassador to Spain, for special consulting on the many political intricacies involved. More generally, Koor embarked on a program of research on the economies of the region. This research is necessary because Israel's business sector is Western-oriented, educated largely at American universities. Not many Israelis are familiar with the legal or financial systems of Arab countries. Our young businessmen have been trained for the environment of Wall Street, not the Middle East. Yet we are part of the Middle East, and must become better attuned to what is happening there for the most practical of reasons. The 200 million people of the neighboring countries represent a tremendous potential market. The aggregate imports of the Arab countries total roughly \$150 billion. While not huge, it is nevertheless a quite promising market for a small country like Israel.

In order for the Middle East to become an attractive market for Israeli exports, higher and more diversified levels of consumption will be necessary. Yet we do not envision limiting our exports to neighboring countries to high-tech products. They also need low-tech products and no-tech products as well.

Israel cannot expect to build trade relations with its neighbors while practicing protectionism *vis-à-vis* those products in which our neighbors enjoy a competitive edge. There is no alternative to open economies, and trading on an equal footing. Moreover, infrastructural trade in the Middle East must be strengthened to support the region's development.

As long as Israel maintains its ability to innovate and lead in technology, it need not fear competition. It should not erect trade barriers against Palestinian light industries; they ought to be supported to bolster the peace process. The opening of Israeli markets to Palestinian products may be compensated for through joint ventures and the export of high and low-tech products.

Governments and politicians must be responsible for defense and for allocating resources for public investment and infrastructure. It is up to Israel's business community to work closely with its Palestinian counterparts to turn the formal peace into a profitable reality. To the extent that both sides perceive an economic interest in peace, one that augurs genuine profitability, the peace process will stay on track.

It is, moreover, up to the region's entrepreneurs to generate capital. The West will not in all likelihood generate a Middle East Marshall Plan. To be sure, monies have been pledged; but many conferences similar to the recent donors conference in Washington were held for the purpose of assisting the Soviet Union, with disappointing results. Despite the best intentions, the reach of donors is limited.

The Task Ahead

For the peace process to truly succeed, the gap between the Israeli and the Palestinian economies must be narrowed, standards of living in the West Bank and Gaza must be raised, and more generally, a climate of cooperation must arise.

There is a widespread consensus in Israel's business community that military and political colonialism cannot be replaced by economic colonialism. It is, in other words, up to the Palestinians to decide their own economic future.

Decades of confrontation have created barriers of mistrust and hostility that must be removed. This cannot be done overnight. Israel must not patronize its business partners; to do so would be a nearly irreparable mistake. We are equals with Palestinian businessmen; they have to decide what they want, arrive at their own decisions, and formulate their own ideas. We would be glad to take part in their development to the extent that they choose to be partners with us.

We do not expect fast and easy profits; rather, we will develop strategic partnership patiently and with perseverance. Though the West is eager for rapid results, without patience nothing will be achieved.

Salaam 2000

Koor is committed to long-term strategic partnerships aimed at developing trade and industrial projects in existing and new markets. In an effort to bring nascent ideas of cooperation to fruition, Koor has initiated a business venture for peace. This venture, called "Salaam 2000," will take the form of industrial infrastructure ventures in the Palestinian autonomous region.

Salaam 2000 is structured as an investment company, with four partners, each holding 25 percent, or \$15 million. Koor will not hold more than 25 percent in any company under Salaam 2000's auspices. This is meant to reflect the idea that we are not trying to patronize our joint venturers. Twenty-five percent is held by a Palestinian group headed by Jawid Abu Hussain, 25 percent by the Banesta Bank of Spain, and 25 percent by Moroccan investors. This \$60 million investment company will be dedicated to developing Palestinian autonomous regions.

While we may suggest priorities and ideas for projects, we intend to leave the final decision to the Palestinian investors, who know what is best for them and where to start. The first area is cement, which is a key material when developing a region. Also under discussion are telecommunications infrastructure, which is

badly in need of attention; agro-chemicals, specifically materials for agro-industrial products; and light food industry. One idea that has been suggested is to give the Palestinians access to Koor's commercial network abroad—more than twenty offices around the world—in order to promote Palestinian industry to Third World countries, and assist them in landing the crucial first export contracts that they so desperately need.

Now is the time to invest in the Middle East and in Israel. These investments will reap not only the fruits of peace, but its dividends as well.

APPENDIX

SECTION A: Selected Statements on the Arab Boycott by Current and Former U.S. Officials

President Bill Clinton, September 13, 1993; November 12, 1993

Vice President Al Gore, October 1, 1993

Secretary of State Warren Christopher, September 20, 1993

Ambassador Edward Djerejian, October 21, 1993; October 21, 1993

Ambassador Dennis Ross, November 8, 1993; October 29, 1993

President George Bush, July 26, 1991

Secretary of State James Baker, June 12, 1991

SECTION B: Concurrent Resolution Passed by the U.S. Congress Concerning the Arab Boycott

SECTION C: Regional Economic and Demographic Statistics

SECTION D: Development Aid Pledged to the Palestinian Interim Authority

SECTION A

Selected Statements on the Arab Boycott by Current and Former U.S. Officials

All the entrepreneurs featured in this Policy Focus underscored the importance of lifting the Arab boycott of Israel as a step toward building regional economic growth and cooperation. The following is a compilation of statements on the Arab boycott by current and former U.S. officials.

President Bill Clinton, Signing ceremony of the Israel-PLO Agreement, White House South Lawn, September 13, 1993

"Mr. Prime Minister, Mr. Chairman, I pledge the active support of the United States of America to the difficult work that lies ahead. The United States is committed to ensuring that the people who are affected by this agreement will be made more secure by it, and to leading the world in marshaling the resources necessary to implement the difficult details that will make real the principles to which you commit yourselves today.

"Together, let us imagine what can be accomplished if all the energy and ability the Israelis and the Palestinians have invested into your struggle can now be channeled into cultivating the land and freshening the waters, into ending the boycotts and creating new industry, into building a land as bountiful and peaceful as it is holy."¹

President Bill Clinton, Joint news conference with Israeli Prime Minister Yitzhak Rabin, White House East Room, November 12, 1993

"We discussed how the United States and Israel working together can achieve a peace agreement with Jordan and Israel in the near future. Morocco, Tunisia, Indonesia, and other Arab and Muslim states have also taken encouraging steps to respond to Israel's peace commitments. I told the prime minister that I believe that even more needs to be done to reinforce the progress already made by the PLO and Jordan. In particular, I think the time has come to end the Arab boycott of Israel, a relic of past animosity that simply has no place in the architecture of peaceful relations we are all working to build in the Middle East."²

¹ *Mideast Mirror*, September 14, 1993.

² As transcribed by Federal News Service [hereinafter cited as FNS], November 12, 1993.

Vice President Al Gore, Conference to Support Middle East Peace, U.S. Department of State, October 1, 1993

"In order to realize the promise of the future, it is necessary to shed the vestiges of what has been our past. There are many things, including the boycott of Israel, that have no place in a world seeking peace. The decision to take the first steps toward peace required exceptional courage. It does take courage to compromise. It takes courage to surrender some of yesterday's demands in exchange for the promise of a much brighter tomorrow."³

Secretary of State Warren Christopher, Columbia University speech announcing the convening of the Middle East Donor Conference, September 20, 1993

"Now that the Israelis and Palestinians have agreed to work together to promote their economic well-being, it is certainly illogical for Arab nations (to) continue their boycott of Israel...Every moment that the boycott remains in force, those responsible are punishing Palestinians as well as Israelis. The boycott is a relic of the past. It should be relegated to history right now."⁴

Ambassador Edward Djerejian, Assistant Secretary of State for Near East and South Asian Affairs, Hearing of the Europe and Middle East Subcommittee of the House Foreign Affairs Committee, October 21, 1993

"Another challenge is to broaden the scope of economic interaction in the region. The countries of the Middle East share many problems and advantages. All would gain from economic cooperation. The first step toward this must be an end to the Arab economic boycott. In the past month, the President, the Vice President, and the Secretary have publicly called for an end to the boycott. This is our message to boycotting countries, publicly and in diplomatic channels, that the boycott is an anachronism, completely out of step with recent developments in the peace process. We also continue to remind our Arab counterparts that the secondary and tertiary aspects of the boycott hurt us directly. These aspects discriminate against the United States and other firms that wish to do business in the Middle East.

"We are urging our trading partners to join us in our efforts to persuade the Arab states to begin dismantling the boycott, but our aim is not just to remove barriers to trade. We would like to see economic cooperation across all political barricades. In light of last month's breakthrough, we are already seeing reports of contacts between Arab and Israeli businessmen and [business]women, and even the establishment of joint ventures. We expect and encourage more of this. Regional entrepreneurs understand the business opportunities that will accompany the achievement of peace."⁵

³ As transcribed by FNS, October 1, 1993.

⁴ *Mideast Mirror*, September 21, 1993.

⁵ As transcribed by FNS, October 21, 1993.

Ambassador Edward Djerejian, Senate Foreign Relations Committee confirmation hearing as his nomination to be ambassador to Israel, October 21, 1993

“As ambassador to Israel, I would pledge my full efforts and urge the international community to establish relations with Israel and to end anti-Israeli resolutions in the United Nations. A top priority is the ending of the anachronistic and harmful Arab boycott in bringing down the other economic and trade barriers that exist between Arabs and Israelis.”⁶

Ambassador Dennis Ross, Special Middle East Coordinator, Address to the American Zionist Movement Conference, November 8, 1993

“And one of the things that we have continually emphasized, publicly and privately, is that it’s time to end the Arab boycott. It’s a relic of the past. It’s not consistent with an era of peacemaking. It’s hardly consistent with Palestinian interests if they’re going to be engaging in cooperative steps and projects with the Israelis, as Jordan begins to consider possible economic steps with the Israelis as well, the kind of steps that were again announced by the president when he met [Foreign Minister Peres and Crown Prince Hassan]. The boycott is simply inconsistent with all of that.

“So, from an American standpoint, as we look to ways that the Arab states can begin to reach out towards Israel, we look not only to the kinds of overt contacts and practical forms of cooperation, but we also want to see the Arab boycott ended. And that’s going to be a consistent element of what we do, both publicly and privately.”⁷

Ambassador Dennis Ross, Address to the Conference of the National Association of Arab Americans, October 29, 1993

“To nurture and develop peace on all fronts, we are currently pursuing three objectives, all inextricably bound up with the objective of promoting a comprehensive peace: supporting the implementation of the Israel-PLO Declaration of Principles, promoting progress on all other tracks, and helping create an environment for peace throughout the region, an environment in which Arab-Israeli contacts are the norm and relics of the past, such as the Arab Boycott and unhelpful UN resolutions, factors that isolate Israel and deny its very existence, have no place...

“The boycott, in its secondary and tertiary forms, is a potential drag on the U.S. economy and an insult to American businessmen like many of you. In its primary form, it represents a continuing rebuff to Israel, seemingly a symbolic statement that Israel is not welcome in the region. Following Israel’s bold step in recognizing the PLO, it deserves better.

“Ending the boycott will pay numerous dividends. Regional prosperity will be enhanced by Arab-Israeli trade and joint economic ventures. International businessmen will find the Middle East, including the West Bank and Gaza, a more attractive place to invest. American businessmen will no longer have to face discrimination.

⁶ *Mideast Mirror*, November 10, 1993.

⁷ *Mideast Mirror*, November 10, 1993.

"Many of you, I'm sure, will seek to contribute to reconstruction in Gaza and the West Bank; the last thing you should have to deal with is the legal limitations imposed by the boycott.

"In an era of peace, the boycott is an anachronism. As Secretary Christopher has said, it is 'a relic of the past.' And that's where it belongs: strictly in the past."⁸

President George Bush, Letter to Congressman Charles E. Schumer, July 26, 1991

"...I wholeheartedly agree with you that the elimination of the boycott is highly desirable. We have been determined in making this case with the Arab states. On his trips to the region, Secretary Baker repeatedly has told the Arab governments that they should end the boycott...

"The boycott represents the symbol and substance of Arab rejection and isolation of Israel; a readiness to drop it constitutes a readiness to accept and deal with Israel."⁹

Secretary of State James Baker, Hearing of the Commerce, Justice, and State Subcommittee of the Senate Appropriations Committee, June 12, 1991

"...We are totally opposed to the concept of an Arab boycott and we've been trying to do what we can to see that abolished or at least suspended during the pendency of any peace discussions."¹⁰

⁸ Prepared text for the Conference of the National Association of Arab Americans, October 29, 1993.

⁹ Letter from Former President George Bush to Congressman Charles E. Schumer, July 26, 1991.

¹⁰ As transcribed by FNS, June 12, 1991.

SECTION B

Concurrent Resolution Passed by the U.S. Congress Concerning the Arab Boycott

The following concurrent resolution was passed by unanimous consent in the Senate as S. Con. Res. 50 on November 20, 1993 and in the House of Representatives by a vote of 425 to 1 as H. Con. Res. 175 on November 21, 1993.

Whereas the signing on September 13, 1993, of the Declaration of Principles between the Palestine Liberation Organization and the Government of Israel signals a new era of cooperation in the Middle East,

Whereas a true peace in the Middle East can only be established and remain in effect if there is economic stability and cooperation in the region;

Whereas adherence to the Arab League boycott of Israel is a source of economic stability in the Middle East;

Whereas the members of the Arab League instituted a primary boycott against Israel in 1948;

Whereas in the early 1950's the Arab nations instituted a secondary and tertiary boycott against United States and other firms because of their commercial ties to Israel;

Whereas the boycott attempts to use economic blackmail to force United States firms to comply with boycott regulation;

Whereas the boycott was cited by the United States Trade Representative in the 1992 National Trade Estimate Report on Foreign Trade Barriers as an "additional legal restraint to U.S. trade in the region;"

Whereas hundreds of United States firms have been blacklisted and barred from doing business with members of the Arab League under the secondary and tertiary boycott;

Whereas the total damage caused by the boycott is unknown because the number of United States firms that conduct business with Israel [and] have not attempted commercial transactions with members of the Arab League due to the boycott is uncertain; and

Whereas the United States has a policy of prohibiting United States firms from providing Arab nations with the requested information about compliance to boycott regulation:

Now, therefore be it

Resolved by the Senate (the House of Representatives concurring),

Section 1. Short Title

This resolution may be cited as the "Anti-Boycott Resolution of 1993."

Section 2. Expression of Congressional Views

The Congress

1) believes the continuation of the Arab League boycott of Israel will be a severe impediment to the economic prosperity of all participating nations and to the establishment of a lasting peace and prosperity in the Middle East;

2) believes the secondary and tertiary boycott cause substantial economic losses to United States firms;

3) welcomes the actions by those members of the Arab League that have begun dismantling the secondary and tertiary boycott, and urges them to continue their efforts until a complete dissolution of the primary, secondary, and tertiary boycott is achieved;

4) hopes that the indefinite postponement of the October 24, 1993, meeting of the Central Boycott Committee signals an end to the placement of more United States firms on the boycott list and a willingness to dismantle the boycott in its entirety;

5) urges those nations that have begun to or are considering dismantling all forms of the boycott to proceed promptly with such dismantlement;

6) urges those states that are still enforcing the boycott to dismantle the boycott in all its forms and to issue the necessary laws, rules, and regulations to ensure that United States firms have free and open access to Arab markets regardless of their business relationship with Israel;

7) urges those nations, in addition, to cease enforcing and requiring participation in the boycott in its primary, secondary, and tertiary forms;

8) urges the United States Government to continue to raise the boycott as an unfair trade forum; and

9) expresses the sense of the Congress that the end of the Arab League boycott of Israel is of great urgency to the United States Government and will continue to be a priority issue in all bilateral relations with participating states until its complete dissolution.

SECTION C

REGIONAL ECONOMIC STATISTICS

Country	GDP Total (billion \$)	GDP Per Capita (\$)	Real Growth Rate (%)	Inflation Rate (%)	Unemployment Rate (%)
Egypt	39.2	720	2	17	15
Gaza	.38 (GNP)*	590 (GNP)*	-30	9	20
Israel	54.6	12,000	5	18	11
Jordan	3.6	1,100	3	9	40
Lebanon	4.8	1,400	NA	30	35
Saudi Arabia	104	5,800	1.5	3	0
Syria	30	2,300	11	25	NA
Turkey	198	3,400	1.5	71.1	11.1
West Bank	1.3 (GNP)*	1,200 (GNP)*	-10	11	15

Source: Central Intelligence Agency, *The World Factbook 1992*.

* For Gaza and the West Bank, only figures for total and per capita GNP are available.

Country	Budget Revenues (billion \$)	Budget Expenditures (billion \$)	Exports (billion \$)	Imports (billion \$)	External Debt (billion \$)	Industrial Production Growth Rate (%)
Egypt	9.4	15.9	4.5	11.7	38	7.3
Gaza	.0338	.0333	.03	.255	NA	10
Israel	41.7	47.6	12.1	18.1	24	-7
Jordan	1.7	1.9	1	2.3	9	1
Lebanon	.533	1.3	.7	1.8	.9	NA
Saudi Arabia	40.3	48.3	44.3	21.5	18.9	-1.1
Syria	5.4	7.5	3.6	2.7	5.2	6
Turkey	41.9	49.7	13	22.3	49	10
West Bank	.031	.0361	.15	.41	NA	1

Source: Central Intelligence Agency, *The World Factbook 1992*.

Country	Exported Products	Export Partners	Imported Products	Import Partners	Industries
Egypt	crude oil and petroleum products, cotton yarn, raw cotton, textiles, metal products, chemicals	EC, Eastern Europe, US, Japan	machinery and equipment, foods, fertilizers, wood products, durable consumer goods, capital goods	EC, US, Japan, Eastern Europe	textiles, food processing, tourism, chemicals, petroleum, construction, cement, metals
Gaza	citrus	Israel, Egypt	food, consumer goods, construction materials	Israel, Egypt	small family businesses producing textiles, soap, olive-wood carvings, and mother-of-pearl souvenirs; the Israelis have established some small-scale modern industries in an industrial center
Israel	polished diamonds, citrus and other fruits, textiles and clothing, processed foods, fertilizer and chemical products, military hardware, electronics	US, EC, Japan, Hong Kong, Switzerland	military equipment, rough diamonds, oil, chemicals, machinery, iron and steel, cereals, textiles, vehicles, ships, aircraft	US, EC, Switzerland, Japan, South Africa, Canada, Hong Kong	food processing, diamond cutting and polishing, textiles, clothing, chemicals, metal products, military equipment, transport equipment, electrical equipment, miscellaneous machinery, potash mining, high-technology electronics, tourism
Jordan	phosphates, fertilizers, potash, agricultural products, manufactures	India, Iraq, Saudi Arabia, Indonesia, Ethiopia, UAE, China	crude oil, machinery, transport equipment, food, live animals, manufactured goods	EC, US, Iraq, Saudi Arabia, Japan, Turkey	phosphate mining, petroleum refining, cement, potash, light manufacturing
Lebanon	agricultural products, chemicals, textiles, precious and semiprecious metals and jewelry, metals and metal products	Saudi Arabia, Switzerland, Jordan, Kuwait, US	NA	Italy, France, US, Turkey, Saudi Arabia	banking, food processing, textiles, cement, oil refining, chemicals, jewelry, some metal fabricating
Saudi Arabia	petroleum and petroleum products	US, Japan, Singapore, France	manufactured goods, transportation equipment, construction materials, processed food products	US, UK, Japan, Germany	crude oil production, petroleum refining, basic petrochemicals, cement, small steel-rolling mill, construction, fertilizer, plastic

Country	Exported Products	Export Partners	Imported Products	Import Partners	Industries
Syria	petroleum, farm products, textiles, phosphates	former USSR, Eastern Europe, EC, Arab countries, US, Canada	foodstuffs and beverages, metal and metal products, machinery, textiles, petroleum products	EC, former USSR, Eastern Europe, Western Europe, US, Canada, Arab countries	textiles, food processing, beverages, tobacco, phosphate rock mining, petroleum
Turkey	industrial products (steel, chemicals), fruits, vegetables, tobacco and meat products	EC, US, Iran	crude oil, machinery, transport equipment, metals, chemicals, pharmaceuticals, dyes, plastics, rubber, fertilizers, grain	EC, US, Iran	textile, food processing, mining (coal, chromite, copper, boron minerals), steel, petroleum, construction, lumber, paper
West Bank	NA	Jordan, Israel	NA	Jordan, Israel	generally small family businesses that produce cement, textiles, soap, olive-wood carvings, and mother-of-pearl souvenirs; the Israelis have established some small-scale modern industries in the settlements and industrial centers

Source: Central Intelligence Agency, *The World Factbook 1992*.

REGIONAL DEMOGRAPHIC STATISTICS

Country	Population	Population Growth Rate (%)	Male Life Expectancy (years)	Female Life Expectancy (years)	Literacy (%)	Labor Force	Organized Labor (% of labor force)
Egypt	56,368,950	2.3	58	62	48	15,000,000	17
Gaza	681,026	3.6	66	68	NA	NA	NA
Israel	4,748,059	4.0	76	80	92	1,400,000	90
Jordan	3,557,304	4.1	70	73	80	572,000	10
Lebanon	3,439,115	1.6	66	71	80	650,000	38
Saudi Arabia	17,050,934	3.3	65	68	62	5,000,000	trade unions are illegal
Syria	13,730,436	3.8	65	67	64	2,400,000	5
Turkey	59,640,143	2.1	68	72	81	20,700,000	10
West Bank	1,362,464	3.1	68	71	NA	NA	NA

Source: Central Intelligence Agency, *The World Factbook 1992*.

SECTION D

Development Aid Pledged to the Palestinian Interim Authority

DONOR	AMOUNT PLEDGED (million \$)
European Commission and European Investment Bank	560
European states	200
United States	500
Japan	200
Arab states	125
Israel	75
World Bank	85
UN Agencies	250
<hr/> Total	1,995

Source: Conference to Support Middle East Peace, Washington, D.C., October 1, 1993, as reprinted in *Middle East Economic Digest*, December 17, 1993

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