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The Role of Economy in US Efforts to Promote Israeli-Arab Peacemaking

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The Trump Peace Plan follows a familiar American pattern of using economic tools to promote regional peace in the Middle East. This paper puts the recent plan in its appropriate context. More specifically, earlier American strategies of economic peacemaking built on three intellectual approaches: The notion of "commercial peace", which promises peace by way of economic interdependence; the notion of "capitalist peace", which focuses on the central and primary role of building market economies within individual states in the region; and the notion of "economic statecraft", which focuses on the direct use of economic carrots and sticks to push regional actors to make certain policy concessions. The paper explores how these policies have played out over time in US policy in the Middle East, and points to the limits of using economic statecraft to coerce actors into peace.

The detailed peace plan of the Trump administration (the "deal of the century"), was presented as a once in a lifetime economic deal. It was preceded by the economic workshop that took place at the end of June 2019 in Bahrain. A central component of the peace plan, or vision for peace, was indeed the economic component, as the title of the document indicated: "Peace to Prosperity". While the plan was presented with the typical flamboyant and spectacular style of President Trump, in practice it encapsulated several pre-existing patterns of US use of economic tools to promote regional peace in the Middle East. Consequently, it is important to view the current initiative in a broader conceptual and historical context.

The economic tools used by the US to promote Middle East peace- from the peace treaty between Israel and Egypt to the peace treaty between Israel and Jordan to the current use of economics to promote conflict resolution between Israel and the Palestinians- reflect different conceptual approaches to the mechanisms through which economics can be used to promote peace. Among International Relations scholars these approaches are usually referred to as "commercial peace", "capitalist peace" and "economic statecraft". The Trump plan is the ultimate example of blunt economic statecraft that perhaps leans towards an economic coercion strategy. This essay seeks to put the current "deal of the century" in perspective by exploring these three approaches, how they were used in the past by the US within the Middle East peace process, and how they found their way into the current plan. These different approaches, and their limitations as reflected in past experiences, all point to the difficulty of buying peace with money.

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A. Dreams of Interdependence and Peace

The Commercial peace argument builds upon the historical model of European economic integration and the transition to peace in post-WWII Western Europe. It suggests that high levels of trade and economic interdependence will lead to peace, or more accurately- to a reduction of violence. High economic interdependence will generate mutual high cost of violence, leading both parties to practice restraint during crises and work in the direction of conflict management and resolution. This motivation may be driven by leaders (top-down) or by the business communities within the states (bottom-up). In more positive terms, high levels of economic interaction, across states and societies, will add real substantive content to an otherwise official peace agreement on paper. This approach was dominant in the 1990s, as both Israel on its own and the US tried to promote greater economic cooperation between Israel and its Arab neighbors. Most prominent in this respect were the US attempts to encourage direct economic interaction between Israel and its Arab neighbors through the signing of the two Qualified Industrial Zones (QIZ) agreements- with Jordan in 1996 and with Egypt in 2003. These agreements enabled the free entry to the lucrative US market of goods produced in cooperation between these states and Israel, within the qualified zones. The US also played a role in the multilateral regional economic summits that followed the Oslo agreement, with the 1994 Casablanca conference being the most famous one. In these summits attempts were made to promote regional trade opportunities and to promote a regional development bank.

The commercial peace approach failed to deliver in terms of its ability to generate extensive and sustainable economic cooperation as such and even less so in its ability to generate a sincere interest among the trading parties in promoting also political cooperation. Analyzing this relative failure leads to several conclusions. First, the potential of commercial peace depends on the pre-existence of a functioning market economy on both sides- a market economy that could both serve as a driver of and a beneficiary of mutual trade relations. As long as leaders do not fully understand the benefits of trade and openness, the potential leverage of offering economic cooperation is small. Second, when the economic power disparities between the parties are wide, and especially when at least one of them is not a market economy, the economic potential of cooperation is not symmetrical, nor is the anticipated economic interdependence. While in purely economic terms this is not crucial, as everyone stands to gain, in the world of international politics, and especially in conflictual relations, this asymmetry is a huge source of sensitivity. Thus for example, when Israel sent a large mission of both government officials and businessmen to the first multilateral economic conference in Casablanca, the Arab world reacted with anxiety, viewing this as a neo-colonial Israeli move to conquer the region through economic rather than military means.

Consequently, instead of interdependence producing cooperation, it produces anxiety about the development of economic dependence and its potential associated negative political risks. Adding to this, when a market economy does not exist and when leaders do not adopt an economically liberal development strategy, it is also harder for leaders to grasp the potential of economic cooperation compared to the political risks it might involve. In the Middle East all these problems have been very apparent. A high level of economic interaction with the Palestinians (which was one of dependence rather than interdependence) did not prevent the outbreak of the first Intifada. Jordan and later Egypt agreed to cooperate with Israel via the QIZ agreements, but this cooperation was only the outcome of the US conditions, it remained very limited, and it never developed a life of its own. One of the reasons for this, besides the Egyptian insistence to minimize normalization as much as possible until a resolution of the Palestinian problem, was that the wide gaps in levels of economic development between Egypt and Israel meant that there were relatively few goods that could be jointly produced in the QIZs that would have reasonable economic sense. Economic cooperation with Israel was clearly the price to be paid for entry into the American market, and it failed to develop a life of its own because its economic rationale was limited. Similar problems existed in the QIZ with Jordan. Indeed, the US clearly understood these limitations with regard to the QIZ with Jordan, as it signed a bilateral free trade agreement with Jordan in 2001 (came into full effect only in 2010), which to a large extent served a death blow to the QIZ agreement.

A key problem of the commercial peace approach lay in its obvious political nature. Politics were driving economic deals. Politics designed largely by extra-regional powers like the US or the EU. This, in turn, meant that peace could be bought. However, since the signing of the historic peace treaty between Egypt and Israel and Sadat's commitment not to pursue any “normalization” with Israel until the Palestinian issue is resolved, any attempt to promote economic cooperation with Israel was tainted with the derogatory concept of “normalization”. So even on its best terms, the economic potential of trade with Israel was always tainted and especially so when it was framed as part of an economic peace process. In other words, instead of trade promoting peace we see trade potential that can materialize only if detached from any substantial talk of “peace”. This insight is to some extent acknowledged in the current administration’s economic propositions to its Arab partners, but completely ignored in the economic plan offered to the Palestinians themselves.

Indeed, on the eve of the Bahrain workshop in June 2019 the US team stressed that Israel was not a vital player in the proposed economic plan, and that therefore it was unnecessary and perhaps undesirable that Israeli officials would participate in that first meeting. And indeed a large part of the initiatives discussed in Bahrain were unrelated to direct cooperation with Israel, and more so to the development of infrastructure and economic interaction among Arab states, the Palestinian Authority (in the West Bank), and Gaza. This lack of insistence on direct economic cooperation with Israel is a product of the failed attempts in the past, but because the economic “deal of the century” is also clearly and bluntly conditioned upon the adoption and application of the political peace plan, this does not detach the economic benefits from the harsh political costs. Just like in the past, the direct tying of the economic carrot to a (clearly pro-Israeli) political agreement generates a daunting political challenge for Arab rulers, and even more so to the Palestinian Authority.

The unique geopolitical constellation of recent years, in view of the rising Iranian threat, has indeed generated shared strategic interests for several Gulf States, first and foremost Saudi Arabia, and Israel. This, together with the economic carrots, may reduce the costs of peacemaking with Israel for Gulf leaders. However, they are unlikely neither to bring their Arab publics on board nor to offer any broad legitimacy to such a move as long as there is not direct progress in the peace process involving Israel and the Palestinians Therefore the notion of regional (inter-state) cooperation as a panacea to, or a way to circumvent, the bilateral Israeli-Palestinian conflict, is largely a politically convenient myth.

In the case of the Israeli-Palestinian conflict, another element kicks in, namely the asymmetric nature of the conflict. Arguments about commercial peace assume interaction between two sovereign states. In an asymmetric conflict where one side is fighting to reach statehood, the commercial peace logic becomes almost irrelevant. In order to develop interdependence, the actor aspiring to statehood first wants to achieve independence and build an independent and sovereign economy that could in the future interact with others on an equal legal basis. The political and strong symbolic logic for building an independent economy is likely to prevail, even at a high cost. Indeed, the current plan puts much more emphasis on building a national Palestinian economy than on building trade with Israel, as discussed in the next section. The problem though is that this comes at a political cost of foregoing key components of the statehood dream.

B. Promoting the Capitalist Peace

Most practitioners working on economics and peace indeed concluded that given the political and economic realities of the region, as described before, a strategy of promoting a commercial peace was extremely problematic. Instead, the focus has shifted to another strategy, whose roots appear way back in the writings of Schumpeter, which focused on the development of a capitalist market economy within Arab states and within the Palestinian Authority. This strategy also meant the temporary de-coupling of the direct link between economics and peace. This approach, often called by academics “Capitalist peace”, suggests that the development of a market economy helps to moderate aggressive chauvinist attitudes, produces citizens that are motivated to continue making money, increase the understanding of the potential that exists in the global economy, and generate the domestic institutional infrastructure that would enable such integration into the global economy. Furthermore, it suggests that before mutual economic interdependence can evolve, national functioning market economies need to be developed.

This approach is sound as it helps create the conditions that may generate in the future the rationale for a commercial peace. However, it is politically less attractive for American decision-makers. This is because whereas commercial peace strategies involve the signing of trade agreements that appear as visible signs of 'promoting peace', a capitalist peace logic involves investing in long term development process, building and reforming domestic institutions and perceptions. The US signed a series of bilateral investment and trade agreements (Trade and Investment Framework Agreements-TIFAs; and Bilateral Investment Treaties-BITs) with various Arab states such as Egypt, Algeria, Iraq, Lebanon, Libya, Saudi Arabia, the UAE, Qatar, Bahrain and the GCC. This move began during the Bush administration in 2003, as part of the long-term plan to create a regional Middle Eastern Free trade area (i.e., MEFTA). The regional realities of the past fifteen years point to the limited success of this vision, but this long-term strategy of building the domestic base for future economic cooperation may prove very important when other conditions change. The Bush Jr. administration MEFTA plan did not involve any direct link between the US commitment to regional economic development and an US demand of the Arab world to recognize the state of Israel. It reflected an understanding that in order to enable the future unleashing of the economic rationale for cooperation, basic economic conditions need to be developed that are independent of any other political goals.

The logic of the Capitalist peace is very evident in the economic part of Trump's “deal of the century”, which puts much more focus on building the Palestinian domestic infrastructure than on promoting trade. Indeed, the most elaborate part of the Trump economic plan centers on three initiatives – developing property rights, rule of law, capital markets, strategic infrastructure investment and stimulation of private business; Data-driven investment in education, healthcare and culture; and Strengthening and reforming the public sector. Taken together, these are all about building a stable, independent and thriving Palestinian capitalist market economy. These appear much more central than the various other initiatives in the plan, which refer to the continuation of trade agreements with the US or regarding regional economic partnerships. Unlike the MEFTA plan, however, the Trump deal is clearly conditioning the advancement of the economic plan upon full compliance with the peace agreement. As such, it forces Arab and Palestinian leaders to tackle heads on the dilemma of promoting prosperity and foregoing their ideological and political principles and goals as subservient to reaching peace with Israel (under US and Israeli draconian conditions). This direct political conditionality leads us to the third approach of connecting economics and peace through traditional economic statecraft.

C. Economic Statecraft in the Service of Peacemaking

Both the commercial peace and the capitalist peace approaches focus on the expected impact of economic cooperation/development on the motivation of actors to use violence or promote peace, based on a cost-benefit analysis. That is, they focus on the independent impact that economic interaction in itself is likely to generate over time. However, in the transition from the academic realm to the policy-making realm, these become intertwined with the different logics of economic statecraft, namely in the policy of using economic incentives as a political leverage tool in order to change the cost/benefit balance of the parties in the conflict regarding a shift to peace. Economic statecraft has been used by powerful actors long before concepts like commercial peace emerged.

The generous economic aid package that the US offered both Egypt and Israel played a crucial role in the decision of the late president Sadat to sign the peace treaty with Israel, and it has played as a strong incentive to keep the peace between the two countries since 1979. King Hussein's decision to sign a peace treaty with Israel was also directly linked to the expected economic benefits- debt relief, opening US markets, investment and aid- all critical to the Jordanian economy and hence to regime security. The two QIZ agreements that the US signed reflected the logic of the commercial peace, but in fact were an expression of a sophisticated economic statecraft attempt to condition the main economic incentive- entry to the US market-upon direct cooperation with Israel.

While not as dramatic, these attempts were nested in the enduring powerful narrative of American economic statecraft that promoted the pacification of Western Europe through the Marshall Plan, which provided huge sums of money for the recuperation of Western European states after WWII. That aid was conditioned upon cooperation among European states in forging their aid request from the US and upon a multilateral rather than bilateral form of aid. In the case of the Peace to Prosperity plan, while there is a section discussing the role of regional frame of investment and trade and economic stabilization, the emphasis is not on this multilateral element. In fact, in a way turning the Marshall Plan on its head, the current plan calls for a shared international effort in financing the plan, rather than in managing it.

These examples point to the important role that an economically powerful actor has to generate meaningful incentives for cooperation. This is clearly that the Trump team perceives for the US. At the same time though, they also demonstrate the limitations of such a strategy. In the context of Israeli-Egyptian relations the vast US aid indeed proved crucial for the signing of the treaty, but failed to promote direct Egyptian-Israeli cooperation that was to deepen their bilateral relations. Similarly the QIZ agreements also failed to generate broader bilateral cooperation between Jordan, Egypt and Israel, independent of the US market access incentive. As noted before, the fate of the Jordan QIZ following the signing of the bilateral FTA with the US is a case in point. Put differently, the US economic leverage could not have generated meaningful regional cooperation as long as the expected gains were in the relations with the US rather than in relations within the region itself. The often-misplaced comparison to the Marshall Plan serves to stress this point, as its success to a large extent was built on the large pre-existing potential of regional cooperation among the European states (e.g., the European Coal and Steel Community, which was crucial for France and Germany), which was unleashed also with the help of the American incentives. This is not the case when it comes to cooperation between Israel and its Arab neighbors, nor between Israel and the Palestinian Authority.

How can the Trump "deal of the century" be viewed through the lens of economic statecraft? Clearly previous initiatives like the QIZ or the TIFAs, BITs and FTAs (with Israel and with Jordan to date) were also part of a planned strategy of economic statecraft aimed at promoting US goals in the regions and rewarding USs regional allies. However, Trump's initiative is a clear, spectacular, and blunt performance of economic statecraft. It also clearly reflects Trump's own economic/business-like view of international politics. Not surprisingly this peace plan has been promoted as a "deal" rather than as a "plan". Furthermore, when discussing the use of economic statecraft as part of a peace promotion strategy we tend to focus largely on the use of positive sanctions. This contrasts with the discussion of the use of economic statecraft in the context of conflict, such as the use of economic sanctions against Iran. In its extreme version, the use of negative economic sanctions can also be viewed as a form of coercive diplomacy. Trump's deal appears to be all about positive sanctions. However, it is clearly and explicitly bound to dramatic political concessions and moves on part of the Palestinians and other Arab states. The political conditionality that underline the detailed economic plans suggests that waving the fat carrot in fact turns it into a stick.

A second question related to this strategy has to do with the sheer expected sum of investments that is promised should the peace plan be fully implemented. Could it be that previous attempts failed simply because the expected benefits were not dramatic enough? The plan envisions the flow of huge amounts of capital to the West Bank and later Gaza, that would be raised through an international effort and will be placed in a new fund administered by an established multilateral development bank. At least in the case of the Palestinian Authority, this conclusion is tentative at best. As noted above, buying a national economy at the cost of full political sovereignty is not a likely option. One should also keep in mind that of the 50 billion $ that are to flow into the economic program over a ten year period, about 23 billion $ are planned for economic programs in Jordan, Egypt and Lebanon.

Finally, whereas the published peace plan focuses largely on the economic benefits for the Palestinians, the preceding workshop in Bahrain, as well as the presence of Gulf representatives during the declaration of the program, suggest a different economic statecraft strategy- one of using economic leverage not directly vis-a-vis the Palestinian Authority but rather to generate enough economic interest among Arab states that would, in turn, exert pressure on the Palestinian Authority. The economic plan as well emphasizes the importance of the regional umbrella. This again reflects a desire that we have seen before, both among US and Israeli decision-makers, to advance the regional cooperation agenda. The big question is whether this would be used as a platform to circumvent the Palestinian issue or as a platform to advance its resolution.

The current plan seems to be pushing for the latter option, although the changing geopolitical circumstances actually are generating unprecedented real mutual interests between Israel and the Sunni states of the region. This interplay between cooperating with Arab states and cooperating with the Palestinians was very much apparent in the lack of any Palestinian involvement neither in the workshop in Bahrain nor in the grand announcement of the plan in late January 2020. This implies that while the Trump administration is using positive economic statecraft vis-à-vis its Arab counterparts, it appears to be trying to apply economic coercion vis-à-vis the Palestinian Authority. The fact that the Palestinian Authority outright rejected the plan, and that the plan was presented only with the presence of the Israeli prime minister Netanyahu, suggest that this is more of one-sided coercive element here than a plan for dialogue.

D. The Plan Cannot Buy Me Love (or Peace)

The (literally) fantastic economic benefits promised in the “deal of the century” are all contingent upon the full compliance of the Palestinians with the proposed peace agreement. As such, they appear at this point to be a pie in the sky. The logic of commercial peace arguments, which may have merit in relations between sovereign states, is extremely problematic to apply to situations of asymmetric conflicts like the Israeli-Palestinian one. As elaborated before, since the goal of statehood necessarily entails also the desire to build an independent national economy, the promise of fostering lucrative interdependence is less attractive in the first place. The proposed detailed economic plan that is elaborated in the Trump peace plan, following the capitalist peace logic, offers all the crucial steps for developing such a national economy, like building a country that has been destroyed in a war (hence, the analogy to the Marshall Plan).

However, this promise becomes void when made under the condition of full acceptance of a political resolution imposed upon the Palestinian Authority. The suggestion in the plan (p. 21) that Israel should have overall security responsibility and that this is actually beneficial for the Palestinians because it would reduce the economic costs for the State of Palestine may remind us of how the US sponsored Japan's security expenses in the post-WWII years, allowing it to invest its resources in economic development, but reflects a fundamental lack of understanding of the economic rationale of state-building, as well as a plain disrespect (or ignorance) of the Palestinian national narrative.

This being said, the US is playing two separate though related games- One vis-à-vis the Arab world and one, more reluctant game, vis-à-vis the Palestinian Authority. Whereas the logic of the game vis-à-vis the Palestinians is deeply flawed, the logic of the game vis-à-vis the Arab world carries more potential. The combination of the long-term US investment in internal economic development in the Arab world, beginning from the Bush administration, with the current proposals of the Trump administration, and the changing geopolitical circumstances that push for strategic cooperation with Israel may carry some real potential. The Israeli government seems keen to pursue this regional option, but it is important for US decision makers to keep in mind that playing only the regional inter-state game is bound to be very tentative and fragile without playing properly the more complex game vis-à-vis the Palestinians, offering conditions that might fall within the bargaining range of the Palestinians in issues such as Jerusalem, the territorial borders of the future Palestinian state, security, settlements, and refugees.

The deep, long-term potential of economic incentives to promote enduring peace builds on the Liberal logic of the existence of an independent, strong economic incentive to overcome political follies and enable the triumph of shared economic interests. This is what happened in Western Europe in the aftermath of WWII, indeed with the political conditions provided by the US and by key European leaders like Monnet and Schuman who established the basis for the European integration as a way of preserving peace and 'embracing' Germany so it will not disrupt the international order again. In contrast, the 'Peace to Prosperity' plan, as its name clearly indicates, turns this logic on its head, focusing on how a political settlement, which actually translates into a unilateral resolution of the conflict and the political capitulation of the Palestinians regarding their minimum demands, will ultimately lead to economic benefits. In the cases of the peace agreements between Israel and Egypt and Israel and Jordan the promise of such economic benefits indeed played an important role in leading to a historical agreement based on political conditions that were considered fair by all parties involved.

However, in those cases the economic carrots played a supportive role to difficult political negotiations between the parties that involved compromise and mutual concessions between two sovereign states. In the case of the Israeli-Palestinian conflict, none of these conditions exist, since we are referring to an asymmetric conflict between a state (Israel) and a political entity that strives to statehood. (the Palestinian Authority and/or the PLO). Indeed, the detailed plan for building a thriving Palestinian economy is impressive and well-thought-through, but its ultimate conditioning upon a prior full implementation of a peace agreement completely undermines its economic potential. Peace cannot be imposed through coercion. The cases of postwar economic reconstruction of Japan and Germany in the aftermath of complete surrender following the war devastation cannot be compared to the possibility of coercing peace upon the Palestinians. Indeed, more recent attempts to use economic incentives to force, such as and the attempt to design a Marshall Plan for Afghanistan in 2002, has also proved how daunting a task this is. Economic coercion is unlikely to succeed in this case. Therefore, in the best case the "Peace to prosperity" will remain as a "vision", not as a realistic or feasible plan, or perhaps as an initial blueprint to be negotiated by the parties on a voluntary basis sometime in a distant future.