Stability in the Middle East Through Economic Development: An Analysis of the Peace Process, Increased Agricultural Trade, Joint Ventures, and Free Trade Agreements

by

Roni N. Halabi

Originally published in DRAKE JOURNAL OF AGRICULTURAL LAW
2 DRAKE J. AGRIC. L. 275 (1997)

STABILITY IN THE MIDDLE EAST THROUGH ECONOMIC DEVELOPMENT: AN ANALYSIS OF THE PEACE PROCESS, INCREASED AGRICULTURAL TRADE, JOINT VENTURES, AND FREE TRADE AGREEMENTS

Roni N. Halabi

I. INTRODUCTION

For the Middle East peace process to have significant meaning to the Israelis—where there is a just, durable, and comprehensive peace in which the parties become mutually interdependent so as to prevent future conflicts—the Arab participants must begin to normalize relations with Israel and not just recognize Israel's existence.[1] However, ideological differences about the concept of normalization persist between Arabs and Israelis.[2] Because of these differences, a dynamic cycle exists in the Middle East: Arabs are wary to normalize relations because they perceive Israel as aggressive; in turn, Israel has to rise up to its military reputation.[3] Thus, Israel is seen as overly aggressive; therefore, there is an increased reluctance to normalize.[4]

Economic interdependence is the most effective means of maintaining peace and increasing normalization, thereby breaking the "cycle of mistrust,

1. *See* Asher Susser, Class Lecture, *The Middle East Peace Process - A Window of Opportunity*, Temple University School of Law in cooperation with Tel Aviv University Faculty of Law 1996 Summer Session at Tel Aviv University, Israel (July 12, 1996) (class lecture in Legal Aspects of the Middle East Peace Process) (class notes on file with the *Drake Journal of Agricultural Law*).

2. *See id.* According to Susser, some Jordanians have commented to him that "to recognize Israel would be a historical feat, but to normalize relations would mean the Arabs would have to enjoy it." *Id.*

3. *See id.*

4. *See id.*

violence, and instability" that plagues the Middle East.[5] One commentator effectively describes the benefits of economic interdependence as follows:

> A positive cycle of peace and economic expansion could be set in motion in the Middle East: strong economic relations would enhance political stability; political stability, in turn, may create more certainty and safety in the market; market stability would then foster economic growth because investor confidence would be bolstered.[6]

Many economic opportunities exist in the Middle East. As the risks of war and terrorism diminish, U.S. investors will be more willing to take advantage of opportunities that exist as a result of the varying comparative advantages in the countries of the Middle East.[7] Business incentives in the United States, created by existing federal programs, also will encourage investment in the Middle East.[8]

Economic interdependence and cooperation is so vital to the stability in the region that the Israelis and Arabs have taken a number of steps to foster an environment conducive to these goals. For instance, Articles XI and XVI and Annexes III and IV of the Declaration of Principles between Israel and the Palestine Liberation Organization (PLO) pertain specifically to recognizing the mutual benefit of economic development and cooperation in the region.[9] Israelis and Palestinians signed the Gaza-Jericho Economic Accord to set out the terms for economic relations between the two parties.[10] Israelis and Arabs have met at Mideast Economic Summits for the past two years and agreed to the creation of a Middle East Development Bank.[11] Finally, the Gulf Cooperation Council (made up of the six wealthy countries of the Middle East—Saudi Arabia, Kuwait, Oman, Bahrain, Qatar, and the United Arab Emirates) formally ended parts of the Israeli

---

5. Daniel Lubetzky, *Incentives for Peace and Profits: Federal Legislation to Encourage U.S. Enterprises to Invest in Arab-Israeli Joint Ventures*, 15 MICH. J. INT'L L. 405, 410 (1994). Lubetzky states that "[u]nder ideal conditions, economic interaction also brings down cultural barriers and dampens long-running animosities. As Arabs and Israelis interact with one another and learn to work together, the enemy will be humanized and stereotypes will be debunked. Economic interaction thus cements coexistence." *Id.* at 409.

6. *Id.* at 410.

7. *See id.*

8. *See id.*

9. *See* Declaration of Principles on Interim Self-Government Arrangements, Sept. 13, 1993, Isr.-PLO, arts. XI & XVI, annexes III & IV, 32 I.L.M. 1525, 1526, 1532, 1534, 1537-41 [hereinafter Declaration of Principles]; Lubetzky, *supra* note 5, at 410.

10. *See* Marlise Simons, *Gaza-Jericho Economic Accord Signed by Israel and Palestinians*, N.Y. TIMES, Apr. 30, 1994, at 1. This article discusses the terms under which the Palestinians in the West Bank town of Jericho and the Gaza Strip will be allowed to open their own banks, collect their own taxes, and conduct their own exporting and importing. *See id.*

11. *See* Gisela Dachs, *A Mideast Economic Summit*, WORLD PRESS REV., Feb. 1996, at 20, 20. The ideology for the Middle East, as "Jordan's King Hussein has formulated it, is simply improved standard of living, on the theory that the people must see some profit from peace to support it." *Id.* There was even mention, at the summit in Jordan, "of a new economic community that would include Israel, Egypt, and the autonomous Palestinian areas, and could later expand to bring in Lebanon, Syria, and Iraq." *Id.* For a brief discussion on the creation of the Mideast Development Bank, see Youssef M. Ibrahim, *Arab-Israeli Conference Agrees on Mideast Development Bank*, N.Y. TIMES, Nov. 1, 1995, at A7.

boycott—"the blacklisting of American and other foreign companies that trade with Israel"—and "pledged to urge the rest of the Arab world to drop all trade restrictions involving" Israel.[12] These measures are just a few examples of how the prospects of economic growth and development have created greater incentives toward forging a stronger and more durable peace.[13] If the incentives for creating a stronger and more durable peace are not promoted, the negative social and economic cycles will persist throughout the region:

> Nations at war that have no economic relations with each other have few concrete shared interests that will push them toward peace. Mistrust and bad will outweigh the potential benefits of social and economic interaction. The state of war makes it impossible for opposing sides to enter into economic relations with each other. The risk of war alone discourages even internal investment and growth.[14]

The obvious partner for peace to aid in encouraging economic development and mutual economic interdependence is the United States.[15] It has been suggested that "the United States could be the catalyst for peace, helping Arabs and Israelis work together."[16] The Middle East has benefited, and will continue to do so, by having the United States act as a "catalyst" for peace in the following ways: U.S. companies through joint ventures "would be . . . ideal intermediar[ies] between two adversaries"; a U.S. company "could be a key third party, serving as mediator, counselor, arbitrator, and friend" to the parties involved; furthermore, a U.S. company could serve "[a]s a bridge between Arabs

---

12. *See* Elaine Sciolino, *Saudis and 5 Other Gulf Nations Will Ease Their Boycott of Israel*, N.Y. TIMES, Oct. 1, 1994, at 1. The twenty-two member nations of the Arab League continue to link the lifting of the boycott on Israel to "'assurances of progress on the Syrian and Lebanese tracks'" of the peace process. *Id.* at 1 (quoting Esmat Abdel Meguid, head of the Arab League at the time).

13. *See* Dachs, *supra* note 11, at 20. Many Arab countries are now scrambling to reach economic plans with Israel to avoid being left out of the economic gains resulting from the peace process. For example:

> The Egyptians, who were the first to make peace with the Israelis in 1979, are now worried about maintaining their dominant position in the region. After they tried to slow down the other[] [Arab countries'] efforts to normalize relations, they ended up taking the initiative and made an unofficial proposal to Israel for a free-trade pact.

Id. Israel also has reached an agreement to purchase liquefied natural gas from Qatar. *See id.* Israelis also see increased economic interdependence as a means of reducing Israeli military spending and "thus allow Israel's economic resources to shift to investment to increase productivity." Peter Passell, *Israelis Expect Peace in Mideast Would Bring Big Dividends*, N.Y. TIMES, Sept. 15, 1993, at A17. Israeli economists and business analysts agree that the most important peace dividends will be a collapse of the Arab boycott against Israel and closer trade and investment ties with advanced industrial powers, notably Europe and Japan. *See id.* The Arab countries also need to realize the benefits of shifting their economic resources from military spending to investment to increase productivity.

14. Lubetzky, *supra* note 5, at 410-11.

15. *See id.* at 411-13.

16. *Id.* at 411.

and Israelis, . . . provid[ing] . . . capital, labor, . . . technology, . . . [and] valuable interactive skills."[17]

Not only does the Middle East benefit from having the United States as the catalyst for peace, but the United States also stands to benefit in many ways.[18] By bringing Arabs and Israelis together through economic means (*i.e.*, joint ventures), the United States can "create a climate more conducive to lasting peace . . . . This would enable the United States to maintain good relations with both Arabs and Israelis and to reap strategic and political benefits from those relations. The United States would thus also retain its title as the 'leader' in the Middle East."[19] Additional benefits include the following: U.S. companies, through the aid of the U.S. government, can tap vast markets which subsidized European companies already have penetrated;[20] "U.S. corporations would be used as a diplomatic tool to advance U.S. economic and strategic goals";[21] and "[t]he United States would also benefit economically from investment [and trade] in the Middle East."[22]

At the same time, there are many reasons for the United States to invest in the Middle East.[23] Israel has a "highly educated," "relatively inexpensive," "skilled labor pool," and its laws "encourage foreign direct investment and provide special incentives to attract it, including tax breaks, grants for investments in 'developmental zones' and in fixed assets, research and development grants, guidance by government agencies, investment guarantees, and other subsidies."[24] Arab countries, with a combined population of more than 280 million, also have much to offer for private foreign investment. Arab countries boast a huge, low cost labor pool, high spending power in the oil-rich nations, and "scarce natural resources, including oil, gas, and water."[25] Many Arab countries, which are starving for foreign investment and imports, have instituted positive economic reform programs for investment and imports.[26] Foreign investors, however, face significant problems in the Middle East. Investors must deal with the "risk of war," "exchange rate volatility, currency inconvertibility," inflation, bloated bureaucracies, "the absence of an impartial judicial branch and a developed legal system," and "government instability."[27]

This Note analyzes various economic measures that have been and should be implemented with the aid of the U.S. government to create long-lasting peace and stability in the Middle East. The United States, through these economic

---

17. *Id.*

18. *See id.*

19. *Id.*

20. *See id.*

21. *Id.* at 412.

22. *Id.* According to Lubetzky, "[i]n 1992, the United States exported over $365 billion, 40% ($146 billion) of which went to developing nations and created one million U.S. jobs." *Id.* at 412-13.

23. *See id.* at 413.

24. *Id.* at 413-14.

25. *See id.* at 414-15.

26. *See id.* at 414.

27. *See id.* at 415-16. One major problem that afflicts many governments in the Middle East is the lack of democracy; this means peaceful transitions from one leader (or government) cannot be ensured, thus creating greater instability whenever a leader dies or political oppositions lack the proper democratic channels to peacefully voice their concerns. *See id.* at 416.

measures, can enhance its own strategic and national interests in the region and improve the competitiveness of U.S. companies willing to do business in the region.[28] The United States and Middle Eastern countries should continue to build upon the current peace process, show the benefits of peace to those who are put at risk by entering into it, and create political and economic stability in the region. This can be done by making certain economic and political conditions conducive to the following: (1) increased agricultural trade to the Middle East to provide sufficient and relatively inexpensive food in terms of comparative advantage for the ever increasing population;[29] (2) increased foreign private investment in the form of joint ventures;[30] and (3) increased free trade agreements (FTAs) between the United States and Middle Eastern countries, which could serve as a basis or the groundwork for a Middle Eastern common market in the future.[31] Part II of this Note discusses the economic aspects of the peace process.[32] Part III discusses the concept of increasing agricultural trade to the Middle East.[33] Part IV examines joint ventures.[34] Part V proposes increasing free trade agreements (FTAs) between the United States and Middle Eastern countries.[35] This Note concludes by arguing that greater political and economic stability can be created in the Middle East if the United States and Middle Eastern countries make certain political and economic conditions conducive to the above mentioned economic measures.

II. ECONOMIC ASPECTS OF THE PEACE PROCESS

The Declaration of Principles, signed on September 13, 1993, in Washington, D.C., between Israel and the PLO, recognized the importance of economic development and cooperation in the Palestinian Territories (the collective areas of the West Bank and Gaza Strip under the control of the Palestinian Council) by devoting two articles and two annexes to economic development and cooperation between Israel and the Palestinians.[36] In 1994 and 1995 respectively, the Israel-PLO Agreement on the Gaza Strip and Jericho Area (Cairo Agreement)[37] and the Interim Agreement between Israel and the PLO on

---

28. *See id.* at 406.

29. *See* Alan Richards, *Economic Roots of Instability in the Middle East*, MIDDLE EAST POL'Y, Sept. 1995, at 175.

30. *See* Lubetzky, *supra* note 5, at 406; David P. Fidler, *Foreign Private Investment in Palestine: An Analysis of the Law on the Encouragement of Investment in Palestine*, 19 FORDHAM INT'L L.J. 529 (1995).

31. *See* Allan S. Galper, Note, *Restructuring Rules of Origin in the U.S.-Israel Free Trade Agreement: Does the EC-Israel Association Agreement Offer an Effective Model?*, 19 FORDHAM INT'L L.J. 2028 (1996); Avraham Azrieli, *Improving Arbitration Under the U.S. Israel Free Trade Agreement: A Framework for a Middle-East Free Trade Zone*, 67 ST. JOHN'S L. REV. 187 (1993).

32. *See* discussion *infra* Part II.

33. *See* discussion *infra* Part III.

34. *See* discussion *infra* Part IV.

35. *See* discussion *infra* Part V.

36. *See* Declaration of Principles, *supra* note 9.

37. Israel-PLO Agreement on the Gaza Strip and Jericho Area, May 4, 1994, Isr.-PLO, 33 I.L.M. 622 [hereinafter Cairo Agreement].

the West Bank and Gaza Strip (Interim Agreement)[38] dealt primarily with "what the economic relations between the two sides would be after Israel transferred authority to the PLO."[39] The Protocol on Economic Relations between Israel and the PLO (Economic Protocol), which emerged out of Annex IV of the Cairo Agreement[40] and Annex V of the Interim Agreement,[41] "established the political and procedural framework within which Israel and the PLO would work on actual economic development and, pursuant to Article XXIV of the Interim Agreement, applies to all the Palestinian Territories."[42]

The Economic Protocol defines the treatment under which the Israelis and Palestinians move "goods, labor, and capital between Israel and the Palestinian Territories."[43] Furthermore, Article VIII(1) and Article IX(1) of the Economic Protocol, "which allow industrial goods and agricultural produce [with some exceptions to agricultural produce] of both sides to move freely without customs, import taxes, or other restrictions," ensure that manufactured goods and agriculture produce originating in the Palestinian Territories have access to the Israeli market.[44] The Economic Protocol is evidence of the significance the Israelis and Palestinians place on economic development and cooperation to show the immediate benefits of the peace process to the people, thereby creating greater stability in the region.[45] According to one commentator, the Economic Protocol, while mixing elements of a free trade agreement and a customs union, is different "from a traditional free trade agreement in that the Israeli import regulations and customs tariffs shall apply both in Israel and the Palestinian Territories, with a few exceptions where the . . . [Palestinian Council] has the power to set import

38. Israel-Palestinian Interim Agreement on the West Bank and the Gaza Strip, Sept. 28, 1995, Isr.-PLO [hereinafter Interim Agreement] (on file with the *Drake Journal of Agricultural Law*). According to Fidler, Article XXXI(2) of the Interim Agreement supersedes the Cairo Agreement. *See* Fidler, *supra* note 30, at 536 n.21. Because the Interim Agreement has not been published as an official source to this date, however, Fidler cites to the Cairo Agreement and the Interim Agreement where possible based on the unofficial source on file with the *Fordham International Law Journal*. *See id.* For purposes of this Note, the author also will cite to the Cairo Agreement and the Interim Agreement based on the source printed by the State of Israel, Ministry of Foreign Affairs, on file with the *Drake Journal of Agricultural Law*. However, the text of the Interim Agreement without the annexes, letters, and maps can be found on the Internet. *See* Full Text of the Oslo II Interim Accord (visited Apr. 13, 1997) <http://www.ajpac.org/hot/oslotext.htm>. The author of this Note will not cite to the Interim Agreement on the Internet because the annexes are not attached to the text.

39. Fidler, *supra* note 30, at 536. For a brief synopsis of the delegation of authority from Israel to the Palestinian Council, see *id.* at 536 n.22.

40. Cairo Agreement, *supra* note 37, annex IV, 33 I.L.M. at 696.

41. Interim Agreement, *supra* note 38, annex V. Fidler recommends the reader see Ephraim Kleiman, *The Economic Provisions of the Agreement Between Israel and the PLO*, 28 ISRAEL L. REV. 347 (1994), for an analysis of the Economic Protocol. *See* Fidler, *supra* note 30, at 536 n.23.

42. Fidler, *supra* note 30, at 536 (citing Interim Agreement, *supra* note 38, art. XXIV).

43. Fidler, *supra* note 30, at 536-37.

44. *See id.* at 537 & n.25; Cairo Agreement, *supra* note 37, annex IV, arts. VIII(1), IX(1), 33 I.L.M. at 711, 715; Interim Agreement, *supra* note 38, annex V, arts. VIII(1), IX(1). The exceptions to certain agricultural goods and produce can be found in Articles VIII(2)-(10) of the Economic Protocol. *See* Fidler, *supra* note 30, at 537 n.25 (citing Cairo Agreement, *supra* note 37, annex IV, arts. VIII(2)-(10), 33 I.L.M. at 711-14; Interim Agreement, *supra* note 38, annex V, arts. VIII(2)-(10)).

45. *See* Fidler, *supra* note 30, at 537.

policy."[46] The Economic Protocol, furthermore, is different from a common market in that "there will not be free movement of labor between" the two sides.[47] The Economic Protocol and its supplements also discuss the divided powers and authorities between Israel and the Palestinian Council on issues of direct and indirect taxation, and monetary and financial issues such as banking and currency convertibility.[48]

In addition to economic cooperation between Israelis and Palestinians, international aid is another means of enticing the parties to maintain the course of peace. After the signing of the Declaration of Principles, members from the wealthier nations of the world realized that the economies of the Gaza Strip and the West Bank were in shambles after approximately forty years of occupation. In October 1993, at the Conference to Support Middle East Peace in Washington, D.C., these nations met to pledge approximately US$2 billion in aid over a five-year period to help the Palestinians rebuild their economy and infrastructure in their transition to self rule.[49] While there have been delays in the flow of international aid promised by donor countries, primarily because the donor countries believed the PLO failed to establish "institutions and procedures to manage and account for the expenditure of international aid,"[50] the World Bank and donor countries have released funds to help Palestinians in times of crisis.[51]

The donor countries, the World Bank, commentators, and even the Palestinians have recognized that international aid is only a temporary measure to alleviate the economic problems in the Palestinian Territories and other countries of the Middle East.[52] The impetus for a lasting and durable peace as recognized

---

46. *Id.* at 537 & n.27 (citing Cairo Agreement, *supra* note 37, annex IV, art. III(5), (10), 33 I.L.M. at 699-700; Interim Agreement, *supra* note 38, annex V, art. III(5), (10)). According to Fidler, "the exceptions to the common customs policy are found in Article III(2)" of the Economic Protocol. *Id.* at 537 n.27 (citing Cairo Agreement, *supra* note 37, annex IV, art. III(2), 33 I.L.M. at 698; Interim Agreement, *supra* note 38, annex V, art. III(2)).

47. *See* Fidler, *supra* note 30, at 537-38 & n.27; Cairo Agreement, *supra* note 37, annex IV, art. VII, 33 I.L.M. at 709; Interim Agreement, *supra* note 38, annex V, art. VII.

48. *See* Fidler, *supra* note 30, at 538-40.

49. *See id.* at 533-34. "The United States, for example, pledged a total of US$500 million over the five-year period to assist the transformation of the economy in the Palestinian Territories." *Id.* at 534.

50. *Id.* at 540. For example, "Yasser Arafat, Chairman of the PLO, established the Palestine Economic Council for Development and Reconstruction . . . by decree on October 31, 1993, to act as the link between the . . . [Palestinian Council] and the international donor community, but the PLO took six months to staff and organize it." *Id.* at 540-41.

51. *See id.* at 542. For example, in May 1994, the World Bank created a three-year emergency aid plan worth US$1.2 billion for the West Bank and Gaza. *See id.* "In December 1994, donor countries and the World Bank agreed to give the . . . [Palestinian Council] US$200 million to pay public workers, create construction jobs, and begin infrastructure improvement projects" to ease the political unrest in Gaza due to rising unemployment caused by border closings. *Id.* at 542-43 & n.59. "In March 1995, the United States pledged US$65 million in grants to the . . . [Palestinian Council]." *Id.* at 543.

52. *See generally* Lubetzky, *supra* note 5, at 406 (encouraging U.S. enterprises to invest in Arab-Israeli joint ventures); Fidler, *supra* note 30, at 531, 543 (commenting that the Palestinians, in April 1995, adopted the Law on the Encouragement of Investment as a result of "recognizing the importance of foreign private investment") (further stating that the key dynamic of economic development for Gaza and the West Bank, as identified by the World Bank and the donor countries, is the "interdependence between public aid and private investment").

by the parties is foreign private investment.[53] Foreign private investment is critical to the stability in the region, not only because it creates jobs, but it also creates a stronger tax base, increases trade, and thereby raises the overall standard of living of the inhabitants of the region. In fact, it has been recognized that:

> The economic development and cooperation provisions of the Declaration [of Principles] "indicate recognition by the two sides that the success of their peace deal depends in large part on bringing about an immediate tangible improvement in living standards for Palestinians under occupation as well as mutually satisfactory economic relations between Israel and the future Palestinian authority."[54]

The United States, therefore, must not only provide international aid to the Palestinians and other Arab countries, but also must ensure a political and economic climate conducive to allowing U.S. companies to invest in the Middle East.[55] At the same time, Middle Eastern countries must continue to forge through the peace process and enter into economic programs similar to the Israeli-Palestinian Economic Protocol to link their economies together in an effort to stabilize the region and set the stage for a possible common market in the future.

III. INCREASED AGRICULTURAL TRADE TO THE MIDDLE EAST

The main source of political destabilization in the Middle East is mounting economic problems.[56] The Middle East is "increasingly falling behind" not only the industrialized countries of the world but also developing regions such as East Asia and Latin America.[57] The Middle Eastern governments' (with the exception of Morocco, Tunisia, and Turkey) inability to overcome past economic policy mistakes and mismanagement has crippled their ability over the past three decades to control the population growth, thereby alienating the increasing numbers of young job seekers.[58] "Political leaders'

---

53. *See* Fidler, *supra* note 30, at 532-34. Fidler states that "[a]lthough the World Bank recognized the need for public assistance from the international community, it emphasized that the long-term economic viability of the Palestinian Territories would depend on the success of the private sector, including foreign private investment." *Id.* at 532-33.

54. *Id.* at 533 (quoting *Country Report: Occupied Territories: Economic Policy and Economy*, Economist Intelligence Unit, Dec. 10, 1993, *available in* LEXIS, Mdeafr Library, Allmde File). Fidler further comments that "[m]any believe that Palestinians who see no improvement in their standard of living or find no economic opportunities as a result of the peace process will question the wisdom of making deals with Israel and perhaps support forces that oppose the peace process." *Id.* at 531.

55. *See* Lubetzky, *supra* note 5, at 408. Lubetzky, arguing why the United States should enact legislation to encourage foreign private investment in the Middle East, states that "[c]loser relations of the United States with both sides of the conflict would increase regional security, decrease defense expenditures, expand trade opportunities, increase the quality of life, and aid in the fight against destabilizing forces, such as Islamic fundamentalists that seek to overthrow U.S. allies in the Middle East." *Id.*

56. *See* Richards, *supra* note 29, at 175.

57. *See id.*

58. *See id.*

failure to overcome vested interests and arbitrary political rule has discouraged private investment, even as governments could no longer honor their populist promises."[59] The region's youth is most susceptible to the influences of Islamic fundamentalism when unemployment rises and real wages decline.[60] Indeed, "[t]he employment problem constitutes the most politically destabilizing economic challenge in the region."[61]

The unemployment problem, however, is not the only difficulty facing the region. The region is facing an ever "increasing challenge to acquire adequate food."[62] As food dependency grows in the immediate future and water resources become more scarce, the region will be unable to feed itself.[63] "Rising water scarcity dooms autarchic food-security strategies: a rising share of water must be used for domestic and industrial use, leaving less for agriculture."[64] The governments of the Middle East must adopt export-led growth strategies to increase their balance of payments to absorb the payments for importing food and creating jobs for their youth.[65] "The money needed for job creation, industrial expansion, and export promotion must come largely from the private sector."[66] Private investment, therefore, is vital to creating stability in the region. How the various governments of the Middle East deal with the pressures of jobs, food, water, and money will dictate the outcome of stability (or lack thereof) in the region. Parts IV and V will deal with the problems of unemployment and job creation, and capital investment respectfully in the context of joint ventures and free trade agreements. This section will analyze and discuss the challenges of food dependency and water scarcity in the context of increasing agricultural trade.

One of the major sources of instability in the Middle East "is that of food security and water scarcity."[67] Water scarcity in the region "is fundamentally driven by agricultural use, which consumes over 4 out of 5 gallons of water everywhere outside of the Gulf. The water constraint suggests that food-import dependency will probably increase in the years ahead. The regional obsession with 'food self-sufficiency' does much to create water shortages."[68] Food security is defined as an insurance concept; "[e]nsuring food security means guaranteeing that consumers are reasonably certain of being able to eat properly."[69] Most countries in the region, however, confuse "food security" with "food self-sufficiency" in their analysis of their dependency on the West.[70] "Food self-sufficiency for most countries in the region is impossible, and this is no bad thing."[71]

59. *Id.*
60. *See id.*
61. *Id.*
62. *Id.*
63. *See id.* at 175-76.
64. *Id.* at 176.
65. *See id.*
66. *Id.*
67. *Id.* at 179.
68. *Id.* at 179-80.
69. *Id.* at 180.
70. *See id.*
71. *Id.*

During the oil-boom decade of the 1970s in the Middle East, the rapidly growing population and increase in per capita incomes created an increase in demand for food.[72] Domestic response to the increased demand was slow because of domestic policies, "which excessively taxed the agricultural sector," and the lack of "investment in the agricultural sector."[73] At the same time, production in staple foods such as cereal was low, while "production of higher-value crops like fruits, vegetables, and livestock did much better."[74] Despite the domestic shortfalls, "the food gap [in many of the Middle Eastern countries] could be plugged with imports: abundant foreign exchange and improving terms of trade permitted a dramatic increase in food (and especially cereal) imports."[75]

By the early 1980s, as the percentage of food consumption by Arab consumers of imported food increased, the policy makers "feared that reliance on foreign supplies was risky, whether economically or politically."[76] Governments, therefore, began looking inward, and began subsidizing inputs, easing taxation of output through price policies, and increasing investments in the agricultural sector.[77] Many of these governmental policies failed because of the confusion between food self-sufficiency and food security: "food self-sufficiency is neither necessary nor sufficient for food security."[78] The concept of food security is explained as follows:

> The food security idea recognizes that we all live in a risky world and seeks to devise public policies to minimize the risk that consumption of food will fall below some minimally acceptable level. A country (or a household) can attain such security in three ways: by producing the food, by trading for it or by having it given to them.[79]

The Arab countries' policies and "pursuit of food self-sufficiency" has failed because the Arab countries are not better off today in terms of "food self-sufficiency" than when they began such policies more than a decade ago, while their "food-security positions" are worse off.[80]

During the 1980s, while the population growth for the Arab world was just under three percent per year, an increase of more than fifty million new people,[81]

---

72. *See id.*
73. *Id.*
74. *Id.*
75. *Id.*
76. *Id.*
77. *See id.* For example, "[m]uch hope was placed on the development of Sudan as the 'bread basket' of the Arab world, and Arab bilateral and multilateral aid flowed into projects in Central Sudan . . . ." *Id.*
78. *Id.*
79. *Id.*
80. *See id.*
81. *See id.* at 180-81. Richards estimates that at the three percent per year population growth rate, the Arab population will double to approximately 415 million by the year 2015. *See id.* at 181. Richards further explains:

> Although total fertility rates (approximately "the number of children which an average woman will have") have fallen in nearly all countries, even under optimistic scenarios Arab countries' populations will not stabilize for at least another generation. There will continue to be many more mouths to feed. On the

"[m]ost Arab countries' agricultural sectors managed to keep up with population growth . . . , but only in Egypt and Morocco did farm production outstrip population increases."[82] One commentator explains that "[f]or most Arab countries, population grew, cereal production stagnated, and cereal self-sufficiency remained unchanged. It follows that per capita consumption of cereals declined in most Arab countries. Cereal self-sufficiency of most Arab countries remained unchanged, while 'cereal security' declined for many Arabs."[83] While most Arab countries' agricultural sectors were able to keep up with population growth, they had to use "more land, more water, more fertilizer, more machines, and more labor—all just to keep up with population growth."[84]

The reality is that "it is simply false to equate food security with food self-sufficiency in the Arab world: relying on 'own production' is highly risky."[85] Water scarcity in the region is the main reason why Arab countries cannot maintain self-sufficiency in food and agriculture.[86] As long as water is needed for agriculture, "there will be serious barriers to the achievement of 'self-sufficiency' in food and agriculture anywhere outside of Turkey or (potentially) Sudan."[87] In the words of one commentator, "[f]ood self-sufficiency is an expensive, wasteful, and ultimately doomed food-security strategy."[88]

"Food security," however, can be achieved through international trade.[89] Middle Eastern countries must develop export-led growth strategies that encourage private investments in industries that have a comparative advantage in trade. The private sectors must begin looking at producing goods and services geared toward exporting.[90] An export-led growth strategy, driven primarily by private investment, "reduces the burden of debt [because money is coming into the country], creates jobs and buys food" that is imported, thereby reducing the demand for "scarce water resources."[91] "Increasingly, Middle Eastern nations must export in order to eat."[92]

> other hand, in sharp contrast to the decade of the oil boom, per capita incomes stagnated in most of the region.

Id. (quote unattributed).

82. *Id.*

83. *Id.*

84. *Id.* "[O]nly because per capita incomes stagnated" were Arab countries able to maintain their self-sufficiency; that is domestic supply was able to keep up with domestic demand, which has been reduced to population growth only. *Id.* Additionally, "the decline in the apparent per capita consumption of cereals," coupled with the "expansion of luxury foods like fruits and vegetables," may cause increasing inequality of income distribution. *Id.* at 181-82. Such equations do not equal "food security at the household level." *Id.* at 182.

85. Richards, *supra* note 29, at 182. "The common conflation of food security with self-reliance tacitly assumes that own production is a less risky mode of satisfying domestic demand than is dependence upon international trade. Evidence suggests otherwise." *Id.*

86. *See id.*

87. *Id.*

88. *Id.*

89. *See id.* Richards argues that "Middle Eastern political economies will have to emulate other economically successful but agricultural-resource-poor nations [such as Singapore or Korea] to achieve food security in the years ahead." *Id.*

90. *Id.* at 183.

91. *Id.*

92. *Id.* at 182.

While Middle Eastern countries are encouraged to adopt export-led growth strategies to create increased stability in the region, the United States, a major backer of the peace process, must strive to increase agricultural trade to the Middle East. This is one method of creating greater economic interdependence in the region, which enhances political stability, thereby creating greater economic stability to bolster economic growth through private investment. The U.S. government has enacted various legislation and export programs, such as the Export Enhancement Program (EEP), Public Law 480 (Food for Peace), and general sales manager (GSM) programs, to encourage trade to the Middle East.[93] Despite "intense competition" from the European Community, Canada, Southeast Asia, and Turkey, such export programs have had a significant impact on increasing agricultural exports to the region.[94]

The United States established the EEP to help U.S. companies "compete with subsidized exports from the European Community."[95] As a result, the Department of Agriculture (USDA) in 1994 presented a package of initiatives for one year under the EEP to promote sales of 55 million dozen table eggs of which six Middle Eastern countries—United Arab Emirates, Bahrain, Kuwait, Oman, Qatar, and the Republic of Yemen—were eligible to purchase 25 million dozen eggs.[96] In addition, to encourage increased trade to the region, the USDA provided bonuses to U.S. exporters of eggs for participating in the program.[97] Such programs by the United States are beneficial to increasing agricultural trade to the region. Not only do they meet the demand for food, but they also are vital to promoting stability in the Middle East and good business for U.S. exporters.[98]

---

93. *See U.S. Agricultural Exports Dominate in the 20 Countries*, 10 Int'l Trade Rep. (BNA) 1099 (June 30, 1993) [hereinafter *Exports Dominate*].

94. *See id.* According to a June 17, 1993 report from the United States Department of Agriculture's (USDA) Economic Research Service, U.S. agricultural exports dominated in twenty countries of North Africa and the Middle East. *See id.* The exports accounted for US$3.2 billion out of the US$29 billion in agricultural products imported into the region during 1992. *See id.*

95. *Sales of U.S. Whole Chickens Under the Export*, 10 Int'l Trade Rep. (BNA) 2073 (Dec. 8, 1993) [hereinafter *Whole Chickens*]. The United States, in the first ten months of 1993, exported 18.4 million pounds in total EEP sales, about 1 percent of total estimated broiler exports. *See id.* "France, a major U.S. competitor in the Middle East, has increased its whole bird exports, sending 75 percent to the Middle East, aided by subsidies and devaluation of the franc." *Id.* The USDA reported record exports of 1.9 billion pounds of U.S. chicken were expected in 1994, with a percentage of that going to the Middle East, because U.S. whole chickens were placed under the EEP. *See id.*

96. *See Secretary of Agriculture Mike Espy*, 11 Int'l Trade Rep. (BNA) 195 (Feb. 2, 1994) [hereinafter *Mike Espy*].

97. *See id.*

98. *See The United States and the European Union*, 12 Int'l Trade Rep. (BNA) 42 (Oct. 25, 1995) [hereinafter *U.S. & E.U.*]. Competition between the United States and the European Union for markets in the Middle East and North Africa increased greatly in 1995. *See id.* The twenty countries from the region purchased US$27.3 billion worth of agricultural products in 1993, with the European Union capturing 25% of the market, nearly double that of the United States. *See id.* The United States has battled back as exports for the first seven months of 1995 reached approximately US$4.3 billion. *See id.* U.S. exporters have realized the significant economic benefits of tapping into the market of the Middle East, as shown by the significant increase in the export figures of US$3.2 billion in 1992 to US$4.3 billion for the first seven months of 1995. *See id.*; *Exports Dominate*, *supra* note 93.

While the United States is increasing its agricultural trade to the region in the face of increased competition,[99] the United States must continue to do so to improve its reputation in the Middle East as the major supporter and partner of peace, and to show the benefits of peace to those who are put at risk by entering into it. Increased competition in agricultural products in the Middle East is good for Arab consumers, the people who must see the benefits of peace to support the peace process.[100] Preventing instability through increased agricultural trade is more beneficial to the United States and Middle Eastern countries than increasing military expenditures to combat instability.

IV. INCREASED FOREIGN PRIVATE INVESTMENT THROUGH JOINT VENTURES

According to one commentator, "[j]oint ventures are an ideal medium of investment in the Middle East because they make it possible to minimize the . . . risks and disadvantages, while maximizing the positive attributes of an investment."[101] As stated above, many risks and disadvantages exist in the Middle East.[102] Such risks include the possibility of war, "exchange rate volatility, currency inconvertibility," inflation, bloated bureaucracies, "the absence of an impartial judicial branch and a developed legal system," and "government instability."[103] At the same time, however, the Middle East has many advantages to offer investors.[104] Israel has a highly educated, skilled, and relatively inexpensive labor force.[105] Israel also instituted an economic reform and privatization program in the late 1980s, and currently has laws and incentives to "encourage foreign direct investment."[106] Arab countries, on the other hand, boast a huge low cost labor pool, high spending power in the oil-rich nations, and "scarce natural resources, including oil, gas, and water."[107] In addition, some Arab countries, such as Egypt, Lebanon, and Syria, which are starving for foreign investment and imports, also have instituted some positive economic reform programs for investment and imports.[108]

Joint ventures between Arabs, Israelis, and the United States, as promoted by one commentator,[109] are another economic measure that promotes and

---

99. *See U.S. & E.U., supra* note 98.

100. *See International Agreements: U.S., Arab Countries Agree to Work to Lift Regional Barriers to Trade*, 12 Int'l Trade Rep. (BNA) 7 (Feb. 15, 1995). Senior trade officials from the United States, Egypt, Israel, Jordan, and the Palestinian Authority agreed in a joint declaration to work toward lifting existing barriers to trade and investment among their countries, expressed their commitment to work towards economic cooperation and bilateral trade consistent with the General Agreement on Tariffs and Trade and World Trade Organization principles, and to establish laws and regulations that promote regional investment and minimize restrictions on capital or ownership. *See id.*

101. Lubetzky, *supra* note 5, at 416.

102. *See id.* at 415-16.

103. *Id.*

104. *See id.* at 413-15.

105. *See id.* at 413.

106. *Id.* at 413-14; *see supra* discussion Part I. Israel has the strongest economy in the Middle East with its US$80 billion gross national product. *See* Dachs, *supra* note 11, at 20.

107. Lubetzky, *supra* note 5, at 414-15.

108. *See id.*

109. *See id.* at 406.

increases foreign investment in the region, thereby aiding economic stability. By cooperating in joint ventures, Arabs and Israelis gain by having U.S. companies as third parties or intermediaries, as the United States government has been in the peace process, to bridge the gaps between the two parties and provide "valuable interactive skills."[110] The U.S. companies or investors, furthermore, also can provide their "share of capital, labor, or technology."[111] In addition the United States also stands to benefit by cooperating in Arab-Israeli joint ventures.[112] Such benefits include the following:

> [B]y bringing Arabs and Israelis together in a neutral work environment, the United States would . . . bridge the gap between them and create a climate more conducive to lasting peace; the joint venture program would accelerate the positive effects of economic interaction on political conditions. This would enable the United States to maintain good relations with both Arabs and Israelis and to reap strategic and political benefits from those relations. The United States would thus also retain its title as the "leader" in the Middle East.[113]

Additionally, the U.S. government, by encouraging U.S. companies to enter into Arab-Israeli joint ventures through legislation and economic incentives, would help U.S. companies open up vast markets that already have been targeted by subsidized European companies;[114] "U.S. corporations would be used as a diplomatic tool to advance U.S. economic and strategic goals."[115] As discussed above, "[t]he United States would also benefit economically from investment in the Middle East."[116] This part of the Note will analyze the reasons and need for private investment and job creation in the Middle East.[117] This part will then outline the four measures, as proposed by one commentator, the United States could pursue to encourage U.S. companies to invest in Arab-Israeli joint ventures.[118] These joint ventures would help Arab governments meet their need for private investment and job creation.

A. *Private Investment and Job Creation*

According to one commentator, "the employment problem constitutes the most politically destabilizing economic challenge in the [Middle East] region."[119] This same commentator makes four generalizations about the employment problem plaguing the region: "[u]rban unemployment exceeds

110. *Id.* at 411.
111. *Id.*
112. *See id.*
113. *Id.*
114. *See id.*
115. *Id.* at 412.
116. *Id.*
117. *See* Richards, *supra* note 29, at 176-79 (analyzing the problem of unemployment and its impact on the instability in the region, and the need for job creation through private investment).
118. *See* Lubetzky, *supra* note 5, at 406-07 (outlining his four measures which could be pursued by the United States to encourage U.S. companies to invest in Arab-Israeli joint ventures).
119. Richards, *supra* note 29, at 175.

rural; [u]nemployment among the young is much higher than for older workers; [w]omen's measured unemployment rates exceed men's; and [e]ducated workers are more likely to be unemployed than the unskilled."[120]

Unemployment in the Middle East afflicts the urban centers of the region more than the rural areas.[121] "Agricultural and informal rural labor market outcomes are best explained with supply-and-demand models, i.e., wage flexibility prevails in these markets."[122] In other words, despite the fact that unemployment and poverty exist in rural areas, unemployment in the agricultural and informal rural labor markets is fairly stable or consistent because wages are flexible enough to clear labor markets when supply-and-demand forces fluctuate.[123] As a result, the labor (unemployment) moves from the rural areas to urban centers, "which are growing about 4.5 percent every year."[124] In turn, this rural-urban migration decreases the growth rate of the rural labor supply.[125] The pressure, therefore, is placed on the Arab governments to create jobs for the unemployed rushing to the cities to find work.

Unemployment in the Middle East mainly afflicts the young, new entrants to the labor force.[126] For example, "[n]early half of unemployed Moroccans are between 15 and 24; 75 percent of unemployed Egyptians are new entrants to the labor force."[127] In effect, the higher rate of unemployment among the young tends to raise the overall unemployment rate.[128] Some of the unemployment among the young is a result of the tendency of young people to change jobs more frequently and thereby be "'between jobs'"; this is known as "'voluntary'" or "'frictional'" unemployment.[129] However, "[m]any young people lack the marketable skills necessary for private-sector work."[130] As a result, a generational dichotomy persists in the region:

> [M]any hope to find a government job and register themselves as unemployed in order to remain in public job queues. Such jobs are not being created, because governments are running out of money. Consequently, old bureaucrats with job security sit stolidly astride the traditional path of upward mobility of young urban men. To some extent, the conflict between Arab nationalists and Islamists is a generational conflict, a fight between fathers and sons.[131]

Unemployment in the Middle East is also partly due to gender and societal roles.[132] In the Middle East region, the unemployment rates of females

---

120. *Id.* at 177.
121. *See id.*
122. *Id.*
123. *See id.*
124. *Id.*
125. *See id.*
126. *See id.*
127. *Id.*
128. *See id.*
129. *See id.*
130. *Id.*
131. *Id.*
132. *See id.*

are greater than their male counterparts.[133] These gender and societal roles are explained as follows:

> Strong social conventions restrict the definition of "respectable work." Since nearly all women in the region are married, they can more easily remain unemployed if necessary to "maintain family honor." (Men, of course, engage in similar behavior; Jordanian unemployment coexists with the immigration of unskilled Egyptians because young Jordanian men do not want to accept work that they, their families, and—perhaps especially important—prospective spouses' families find "demeaning.") In this regard, men, but especially women, are adversely affected by the decline in (eminently respectable) public-sector jobs.[134]

In the end, "unemployment is especially an affliction of the educated."[135] In fact, more people are completing school than there are jobs being created for them in the modern sector.[136] The problems facing the educated are that:

> Unemployed youth have too little (or the wrong kind of) education to compete in the modern, formal-sector labor market, but too much education to be willing to accept an unskilled job. Unemployment is highest among secondary-school leavers, who are, perhaps not coincidentally, also increasingly prominent in radical Islamic groups. It seems that "a little knowledge is a dangerous thing."[137]

Job creation is a major problem facing the Middle East because "of the rate of growth of the number of new entrants to the labor force."[138] As one commentator explains:

> The region's labor force is growing at a rate of about 3.1 percent per year, the fastest rate in the world. At this rate, the region's labor force will double by the middle of 2016—less than 23 years from now. In ten years, there will be one-third more people—all of them young—looking for work. By the turn of the century, the region's labor force will be roughly 25 percent larger than it is today. Put differently, between now and the end of the decade, the Middle East's labor force will grow by over 20.5 million—

---

133. *See id.*

134. *Id.* at 177-78.

135. *Id.* at 178. According to Richards, for example:

> [U]nemployment [in Jordan] increases precisely with education: in 1991, just over 8 percent of illiterates were unemployed, while university graduate unemployment was over 20 percent. In Egypt, the highest rates of unemployment are found at intermediate educational levels (roughly 30 percent); for university graduates it is about 15 percent, while nearly all illiterates have jobs (unemployment rate of 3 percent).

Id.

136. *See id.*

137. *Id.*

138. *Id.*

> which is about the combined size of the current labor forces of all Asian Arab countries (approximately 21.2 million)![139]

Infusion of private investment is needed to create more jobs and spur rapid economic growth to accommodate the rapidly increasing new entrants to the labor market.[140] Simple economic growth is just not enough:

> [T]he sluggish overall growth of these economies means that the number of new jobs is swamped by the number of new job seekers. During the 1980s, the economies of the region grew at only about 0.5 percent per year, while population growth exceeded 3 percent. Since the mid-1980s, the picture is worse. In Egypt, for example, it has been estimated that the economy needs to grow at about 7 percent per year simply to keep unemployment from rising. But since the mid-1980s, the Egyptian economy has essentially stagnated, registering a real GDP growth rate of about 2.6 percent.[141]

Two reasons are given to explain the "sluggish growth" in these economies: (1) the oil boom ended,[142] and (2) as the "need for structural adjustment" emerged, the problems of the "state-led, import-substituting industrialization" policies of the past became noticeable.[143] In addition, another factor contributing to the unemployment is the statist development strategies, where many Arab workers in the Middle East work for the government.[144] "Public-sector or administered labor markets are much less flexible than private-sector markets. Since labor-market inflexibility is positively associated with unemployment, large public sectors contribute to high rates of unemployment."[145] In the end, a young Arab worker "is disappointed and disillusioned. He may have a job, but he believes that his job is demeaning. He is employed, but he is also frustrated. The steadily increasing number of unemployed young people is a political time bomb."[146]

B. *American-Arab-Israeli Joint Ventures*

As a result of the unemployment problem, the governments of the Middle East must adopt new development strategies that stress export-led growth based on private investment to create more jobs at a rate greater than the population growth rate.[147] One measure that can aid in the development of export-led growth based

---

139. *Id.*
140. *See id.* at 179.
141. *Id.*
142. *See id.*
143. *See id.*
144. *See id.*
145. *Id.*
146. *Id.*
147. *See id.* at 183-84. Governments must stop "excessively and arbitrarily regulating business and maintaining inefficient state-owned enterprises," start "providing infrastructure and the rule of law," and improve in "providing sound macroeconomic management; educating children; tailoring educational systems to labor market requirements." *Id.* at 184; *see also* Jean-Pierre Chauffour et al., *Growth and Financial Stability in the Middle East and North Africa*, FIN. & DEV., Mar. 1996, at 46, 48 (suggesting that improvements in the Middle East can be made through

on private investment, is a joint venture system.[148] With leadership from the United States, U.S. companies would be encouraged to invest in Arab-Israeli joint ventures.[149] One commentator prefers that the U.S. government encourage U.S. companies to invest in Arab-Israeli joint ventures to maintain equality and prevent alienation in the region between Arabs and Israelis.[150] This Note, nevertheless, encourages U.S. companies to enter into any mix of joint ventures in the Middle East. These joint ventures are encouraged, even if U.S. government incentives are lacking because the economic incentives are there, and the lack of economic growth will not be affected any more so by alienation between Arabs and Israelis. Four specific measures that the United States could pursue to encourage U.S. companies to invest in Arab-Israeli joint ventures have been proposed as follows:[151]

> First, the United States could grant tax incentives to eligible U.S. entities . . . that enter into qualifying joint ventures with Arab and Israeli partners. The incentives could take the form of tax credits, accelerated depreciation allowances, wage tax deduction allowances, or preferential tax rates. The tax incentives would vary depending on the "labor mix" or equity composition of the joint venture in question. The most advantageous treatment would be accorded to joint ventures in which each of the Arab, Israeli, and U.S. partners held one-third of the enterprise's equity, and in which Arab and Israeli workers accounted for equal shares of the labor pool.
>
> Second, the United States could provide grants or loan guarantees to companies that decide to invest in the aforementioned joint ventures. This program could be administered by the Overseas Private Investment Corporation (OPIC), a government agency which already performs similar functions. Approval of such guarantees could be subject to review by a committee that would ensure that the investment conforms with the best interests of the United States and promotes coexistence between Arabs and Israelis.
>
> Third, the United States could provide war risk, political risk, and currency inconvertibility or currency volatility insurance at subsidized rates to U.S. companies wishing to enter into Arab-Israeli-U.S. joint ventures, but which have hesitated to enter into a seemingly profitable venture due to fears of instability abroad. Similar political risk insurance, at market rates, is already offered by OPIC on an ad hoc basis. As with loan guarantees, political risk insurance could be placed under OPIC's auspices. In addition to the requirements set forth in the previous paragraph, grants of political risk insurance could be made contingent on success of a business feasibility

---

"implementation of a consistent and supportive mix of macroeconomic stabilization policies, including pursuit of appropriate fiscal and monetary policies," along with continued integration in the region).

148. *See* Lubetzky, *supra* note 5, at 406.

149. *See id.*

150. *See id.* at 417.

151. *See id.* at 406.

> study, thus ensuring that risk is managed and minimized by the government agency.
>
> Fourth, Congress could create an investment agency, a government entity dedicated to assisting U.S. companies in overcoming bureaucratic as well as cultural barriers. The investment agency would be lightly staffed by specialists with experience trading in the Middle East. Its services would range from dealing with government red tape to making connections, alerting U.S. companies about opportunities abroad, and providing guidance about national differences.[152]

Joint ventures are an effective means of reducing risk; that is "[a] joint venture allows the undertaking of speculative endeavors without exposing assets to unlimited liability."[153] U.S. partners can benefit from this program of joint ventures because "local expertise [can be] contributed by the native partners, which offsets the problem of investing in an unknown atmosphere."[154] In addition:

> These joint ventures would also offer the benefit of having Israel at the crossroads between two continents, since it is the only country in the world that boasts free trade agreements with both the European Union and the United States [and now Canada[155]]. Thus, after a degree of local transformation, U.S. products could penetrate both Israeli and European markets duty-free, because the Israeli partner could provide access on competitive duty-free terms.[156]

Notwithstanding the economic benefits, joint ventures also possess social benefits:

> [J]oint ventures are an ideal medium for promoting Arab-Israeli interaction . . . [because they] can be structured so as to maintain equality—and thus equanimity—among its partners. Arab-Israeli cooperation must be rooted in equality; every joint venture must affirm that Arabs and Israelis are equals in order to heal yesterday's vanquisher-conquered relationship.[157]

The joint venture program discussed above is an ideal means of encouraging equality among Arabs and Israelis and providing the private investment needed to aid the governments of the region to follow export-led growth policies, thereby creating economic growth and jobs.

---

152. *Id.* at 406-07.
153. *Id.* at 416.
154. *Id.*
155. *See International Agreements: Canada-Israel Free-Trade Accord Puts Canada, U.S. on Equal Footing*, 13 Int'l Trade Rep. (BNA) 1275 (Aug. 7, 1996) [hereinafter *Canada-Israel*]. Canada signed a free trade agreement with Israel on July 31, 1996. *See id.*
156. Lubetzky, *supra* note 5, at 416-17.
157. *Id.* at 417.

V. INCREASED FREE TRADE AGREEMENTS BETWEEN THE UNITED STATES AND MIDDLE EASTERN COUNTRIES

In addition to the joint venture program, increased free trade agreements between the United States and Middle Eastern countries also can help Middle Eastern governments implement export-led growth policies. These policies help attract private investment, thereby increasing economic growth and creating badly needed jobs, which promotes more stability in the region. With more stability in the region, more private investment will flood in; thus a positive cycle of peace and economic expansion could be created. These free trade agreements also could serve as a basis or the groundwork for a Middle East common market.

A free trade agreement (FTA), which creates a free trade area, is defined as "a bilateral arrangement between two governments which provides for mutual removal of tariff and other trade barriers with respect to goods and services originating in the other country (party to the agreement)."[158] An FTA "does not interfere directly with trade relations that each party has with other countries or with political sovereignty, and is not designed to achieve economic or political harmonization."[159] Because free trade agreements are not designed to promote harmonization, the agreements are excellent for gaining successful economic growth, while not compromising national pride and political independence.[160] This would be an advantage to Middle Eastern countries who need economic growth, yet fear aligning themselves to a great extent with the West.

In addition, many reasons exist for countries to enter into FTAs:

> Nations form free trade areas by agreeing to eliminate duties and other trade barriers that govern commerce between them. The economic argument in support of free trade area agreements characterizes these agreements as efforts to improve efficiency in international trade. FTAs allow participating countries to take advantage of economies of scale by concentrating their production efforts in their most efficient areas, while trading with other participating countries for their remaining needs. A successful free trade area maximizes trade creation and minimizes trade diversion.[161]

Israel currently has (and is the only country in the Middle East which has) an FTA with the European Union,[162] the United States,[163] and Canada.[164] In relation to the United States and the European Union, these FTAs with Israel, after 1995 and 1997 respectfully, allow greater access to each other's (Israel-U.S. and

---

158. Azrieli, *supra* note 31, at 192.

159. *Id.* FTAs do not conflict with the General Agreement on Tariffs and Trade (GATT) because "GATT permits its signatories, under certain conditions, to agree on the creation of a free trade area or a 'customs-union' between them. . . . [This is permitted] despite the fact that such agreements constitute deviation from its principal idea, namely, nondiscrimination." *Id.* at 193.

160. *See id.* at 192.

161. Galper, *supra* note 31, at 2035.

162. *See id.* at 2030-32.

163. *See id.*

164. *See Canada-Israel*, *supra* note 155, at 1275.

Israel-E.U.) agricultural markets.[165] Greater access to agricultural markets through FTAs allows for increased agricultural trade between the United States and Middle Eastern countries as recommended above.

The United States, Israel, and some Arab countries have recognized that political and strategic interests can be furthered more effectively through economic cooperation and interaction (integration). Because the United States realized that the Palestinians were being disadvantaged by their new status as an authority (Palestinian goods made in the Palestinian Territories could no longer benefit from the U.S.-Israel FTA preferential tariff treatment available to Israel-origin products),[166] and in furtherance of showing the benefits of peace to those who enter into it, the United States and the Palestinian National Authority (PNA), in October 1995, entered into negotiations to create a U.S.-Palestinian free trade agreement.[167] Under this agreement, no customs duties would be imposed by the United States on goods originating from the Palestinian Territories.[168] "This U.S.-Palestinian free trade agreement will eliminate the tariff advantage Israeli goods had over Palestinian goods under the Israel FTA."[169] Further, the Economic Protocol between Israel and the Palestinian Council creates a customs union with elements of a free trade agreement.[170] Israel also has been negotiating a possible FTA with Jordan;[171] Israel, Jordan, and Egypt also will establish a free trade area around the tri-border area of Taba, Eilat, and Aqaba.[172] In addition, scholars from the United States and the Middle East (Arabs and Israelis) have discussed the possibility of a Middle East common market advocating free trade and economic development.[173]

As a result, the United States should enter into more FTAs with other Arab countries.[174] The United States and Middle Eastern countries realize the benefits of entering into FTAs: expand trade, encourage private investment, encourage export-led growth policies, expand economic growth, and create jobs, all of which lead to stability in the region.

VI. CONCLUSION

Greater political and economic stability can be created in the Middle East if the United States and Middle Eastern countries make certain political and economic conditions conducive to the following economic measures: (1) increased agricultural trade to the Middle East to provide relatively inexpensive

---

165. For a discussion of relations between Israel and the United States, see Galper, *supra* note 31, at 2097-2100. For a discussion of relations between Israel and the European Union, see *id.* at 2088-90.

166. *See* Fidler, *supra* note 30, at 548.

167. *See id.* at 548-49.

168. *See id.* at 549.

169. *Id.*

170. *See id.* at 536-38.

171. *See* Galper, *supra* note 31, at 2117.

172. *See id.*

173. *See* SECURING PEACE IN THE MIDDLE EAST: PROJECT ON ECONOMIC TRANSITION 1-41 (Stanley Fischer et al. eds., 1994).

174. *See generally* Galper, *supra* note 31, at 2037 (stating that the Clinton Administration has concluded more than 180 trade agreements over the past three years).

food in terms of comparative advantage for the ever increasing population; (2) increased foreign private investment in the form of joint ventures; and (3) increased free trade agreements between the United States and Middle Eastern countries, which could serve as a basis or the groundwork for a Middle Eastern common market in the future.

While this program of economic measures is not without some difficulties, especially when it comes to persuading the Arabs to align themselves economically with the West (*i.e.*, changing their state-led, import-substituting industrialization to export-led growth through private investment), the overall benefits greatly outweigh the difficulties. Even if persuasion is not very successful, internal economic (*i.e.*, the need for private investment, job creation, and food) and political pressures (*i.e.*, lack of democracy, and the rise in Islamic fundamentalism) will force Middle Eastern governments to take on some of these economic measures. In fact, agricultural trade between the United States and Middle Eastern countries, joint ventures in the Middle East, and free trade agreements already exist, albeit on a small scale. In the end, these economic measures will help to break the vicious cycles of mistrust, violence, and instability that exist in the Middle East.