

Introduction

It has been twenty-seven years since Israel signed its first peace agreement with an Arab country, enabling the establishment of economic and cultural ties. While much has been written about this issue from a theoretical perspective - what can or should be achieved - the events of the past decade have afforded sufficient perspective to analyze the reality of Arab-Israeli economic cooperation. Yet an economic analysis of what actually became of the many plans once implemented on the ground is strikingly absent in the academic literature. This monograph will attempt to fill this void, providing answers as to why some Israeli-Jordanian and Israeli-Egyptian economic ventures succeeded, even as the overwhelming majority faltered.

A central concern of this study has been to place the economic and logistical realities of cooperation within the context of the initial expectations *vis-à-vis* the cooperation effort. To this end, case studies form the core of my presentation. The raw material is the first-hand experiences and perceptions of the Jordanian, Egyptian and Israeli investors, entrepreneurs and managers behind the economic cooperation effort. To place the issue in context, the author has relied on archival records, the IPR Strategic Business Information Databases,¹ field visits, references to relevant academic literature and the personal experience of the author.

In the years following the 1994 Middle East-North Africa (MENA) Economic Summit in Casablanca, which attracted 1,114 business people and representatives from some 61 countries, the tone of the vast majority of literature on economic relations between Israel and its Arab neighbors *vis-à-vis* the potential for economic

1 IPR Strategic Business Information Databases is a central database of businesses and businesspeople throughout the Middle East used by many multinational companies for research, including Reuters, Financial Times, Dow Jones, Lexis-Nexis, Gale Group, Genios, ProQuest, ISI Emerging Markets, Ebsco and World Reporter. The database includes extensive information on economic cooperation between Israel and Egypt and Israel and Jordan.

cooperation was overwhelmingly optimistic;² pessimists, a distinct minority, tended to concentrate on the tense political mood between Israel and the Palestinians.³

From a conflict-resolution point of view, regional economic cooperation was touted as the most effective means of promoting dialogue and understanding between the opposing parties in the Middle East conflict. Yet there was also a strong, purely economic undercurrent; many spoke as if economic relations could precede and preempt the political process itself. The literature optimistically touted ways in which Israeli, Jordanian and Egyptian companies could benefit by pooling their respective competitive advantages. The *leitmotif* of the research in the period following the Casablanca conference was the unique opportunity for Jordanian, Egyptian, and Palestinian companies to acquire Israeli know-how while benefiting from international assistance to integrate into regional and global markets. Meanwhile, it was believed that Israeli companies could tap new markets and take advantage of cost-effective outsourcing opportunities, offsetting the rising cost of domestic production and transforming local service industries into regional players throughout the Arab world.

The view that economics could facilitate the political process gained currency as evidence began to point to a sea change in the political environment. The Israel-PLO Declaration of Principles signed in 1993, which created the Palestinian Authority, focused heavily on issues of development, aid and infrastructure. The Peace Treaty signed between Israel and Jordan in 1994 also stressed economic cooperation. At the time, serious negotiations with Syria were underway, and statements from both Syrian and Israeli government sources clearly expressed the possibility that Israel might withdraw from the Golan Heights in exchange for full economic and

2 Shimon Peres, *The New Middle East* (Element, 1993); Stanley Fisher et al (eds.), *Securing Peace in the Middle East: Project on Economic Transition* (MIT Press, 1994); Tayseer Abel Jaber, "The Impact of the Israeli Economy on the Neighboring Arab Countries in Time of Peace: An Arab viewpoint," in Louis Blin and Philippe Fargues (eds.), *L'Economie de la Paix au Proche-Orient/The Economy of Peace in the Middle East* (Maisonneuve et Larose/CEDEJ, 1995), Vol. 1: Strategies and the activities of the ICT.

3 For a full survey, see Andrew M. Watson, *Economic Cooperation and Integration in the Middle East: A Literature Survey* (Center for International Studies, University of Toronto, 1994).

diplomatic relations. Simultaneously, regional development conferences were held in Arab countries; whereas previously, the Arab Boycott had forbidden any form of cooperation between Israel and Arab countries, Israel was now invited to participate on equal terms. Finally, the personal support and endorsement of U.S. President Bill Clinton and Russian Premier Boris Yeltsin lent the prospect of regional economic cooperation a degree of international legitimacy.

As the events following the outbreak of the Second *Intifada* in 2000 have made clear, the peace process that began at the Madrid conference of 1991 was unable to undo decades of bitterness, prejudice and mutual distrust. Economic relations have inevitably been affected by the political and social reality on the ground, and this has trickled down to every manifestation of cooperation, be it a private jewelry workshop in Jordan or a joint Egyptian-Israeli agronomic study.

Despite the success enjoyed by several projects in terms of revenue and longevity, most failed or were discontinued for other reasons. Since the outbreak of the Second *Intifada*, there has been a marked dearth of sober analysis of what has and has not been achieved on the ground in terms of Israel-Jordan and Israel-Egypt economic cooperation. From the available materials, four basic types of economic cooperation can be discerned:⁴

- Private-sector joint ventures
- Infrastructure projects
- Scientific/agricultural projects with a commercial aspect or application
- Trade

In analyzing Israeli-Jordanian cooperation, the present study has concentrated principally on private-sector industrial joint ventures; in the case of Egypt, the focus has been on scientific/agricultural projects. Due to the limited scope of this

4 Shaul Mishal, Ranan Kuperman and David Boas, *Investment in Peace* (Sussex University Press, 2001) used the first three categories. scientific projects have been added to the standard breakdown of types of economic cooperation because they often have a commercial application and the transfer of scientific knowledge and technology has economic value.

monograph, greater priority has been given to industrial and scientific joint ventures. Bilateral trade has been addressed only in a very general sense; joint ventures are a far more significant and demanding form of economic cooperation. While trade involves the buying and selling of goods, a joint venture involves joint ownership, joint liabilities and risks, and constant collaboration in terms of strategy and the allocation of resources. This requires long-term faith, trust, loyalty and commitment.

This volume also examines several joint Israeli-Jordanian infrastructure projects. The first was a private sector initiative, the second a state-level project. Given the length of the shared border between both Israel and Egypt and Israel and Jordan and the ecosystems and topography shared by all three, infrastructure projects are a critical part of effective economic cooperation.

Owing again to this volume's limited scope, the author has forgone an analysis of Israeli-Palestinian trade and economic cooperation. It should nevertheless be stressed that the motivating factors driving Israeli-Palestinian economic cooperation are quite different from those driving Israeli-Egyptian and Israeli-Jordanian relations.

One of the reasons for taking a heavily case study-based approach was the fact that, until now, few micro-level studies had been undertaken. Those few studies that have been conducted on joint ventures (e.g., the Delta group) have not been of considerable length, and have not been updated since initial publication. I therefore felt it important to detail specific joint ventures - how they came about, whether they succeeded, and the reasons for their ultimate success and failure. Portions of this book pertaining to specific joint ventures are original, and have never before been documented as part of a study. Other portions, such as those on agricultural cooperation, serve to provide a general overview; recently, Prof. Shmuel Pohoryles has published a volume in which he presents an in-depth analysis of agricultural cooperation between Egypt and Israel.

This monograph is divided into four parts. Part I aims to place economic cooperation in context, and features two chapters. Chapter 1 surveys the psychological and historical background to economic cooperation, including the Arab Boycott and its accompanying literature. As the case studies presented in this volume will show, each side harbored its own particular fears, expectations and perspectives *vis-à-vis* its counterpart - sometimes consciously, and sometimes subconsciously.

The process of economic cooperation has been accompanied by a parallel active literature, principally through elements of the Egyptian and Jordanian press and professional trade unions, which sought to undermine and thwart any economic cooperation between Israel and Arab states. This has had an inevitable effect on all levels of cooperation, be it economic policy and attitudes, pressure on the part of trade unions not to do business with Israel, or the public perception of the Israeli presence in Jordan and Egypt. Chapter 2 explores the reality of economic relations between Israel and her Arab neighbors. While most of the academic literature has focused on the long-term potential of economic cooperation, this volume focuses on the immediate potential for industrialists on both sides to form joint ventures. This chapter gives practical grounding to the issues examined in the previous chapter: who really benefited from cooperation? What were the risks and incentives for the respective economies? This chapter also includes statistics and charts on bilateral trade between Israel and Egypt since the start of the economic cooperation process, as well as a brief analysis of the competitive advantages of the Israeli economy and the underlying nature of the Jordanian and Egyptian economies.

Part II explores three major Israeli-Jordanian joint ventures, as well as several smaller ones. These case studies were compiled from personal interviews with senior managers on both the Arab and Israeli sides. After providing background information on each venture, this study will examine the process through which they were established, including both primary figures related to their establishment and information on their actual functioning as joint ventures. Finally, the study will evaluate the ultimate success or failure of each venture, analyzing the underlying factors that led to that result. The projects surveyed, culled from a variety of industrial sectors, are a representative sample of the broad process of cooperation.

Part III examines the history and nature of Israel's economic cooperation with Egypt, including several brief case studies on cooperation efforts. These case studies were chosen to offer an overview of the main types of cooperation projects proposed over the past three decades. In this context, it should be noted that cooperation projects with Egypt differed dramatically from those with Jordan. The major exception to this is Delta Galil, which has also operated in the Jordanian market, albeit on a much smaller scale. The company prospered in the Egyptian economy despite being

under full Israeli ownership; the project has been greatly beneficial to both Israel and Egypt. The other Israeli-Egyptian case studies have generally been trilateral or multinational scientific or agricultural ventures with international funding and assistance, rather than bilateral business-to-business industrial projects.

Based on the case studies presented in the previous sections, Part IV attempts to draw conclusions. The first section of Part IV highlights the major themes that emerge from the case studies. Here, the study interweaves the practical reality of the case studies with the accompanying literature and pronouncements of the Arab press at the time, while comparing and contrasting Egyptian-Israeli and Jordanian-Israeli cooperation. The second section features a series of recommendations for the future; this is an attempt to synthesize the lessons learned from the first decade since the struggle for regional economic cooperation began in earnest.

The author believes that this case-study approach may serve as a practical basis for understanding the motivating factors for economic cooperation and its true economic, social and political potential. To this end, the section pertaining to conclusions offer some pointers as to how the process of economic cooperation should be handled in the future, learning from the mistakes of the past.