Contested Trade in the Middle East: How free trade helped end the Oslo Peace Process and de-liberalize the Hashemite Kingdom of Jordan

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Introduction

For the last two decades, a pillar of American policy in the Middle East has been promotion of trade reform. As with similar policies in other developing areas, a driving assumption of these policies is that US initiated free trade and directed assistance to the private sector fosters political decentralization and kick starts economic development. According to President Bush's sales pitch, "Old patterns of conflict in the Middle East can be broken if all concerned will let go of the bitterness, hatred, violence, and get on with the serious work of economic development." No where has this premise been more tested than with the 1990s Oslo Peace Process. While the failure of Oslo has been dissected extensively, less known and appreciated is the failure of Oslo's economic trade components.

The historical background

The Oslo Peace Process established bilateral and multilateral tracks to secure regional peace and integration. The bilateral talks involved not just Israeli-Palestinian talks but Israeli-Syrian and Israeli-Jordanian tracks. While the Syrian track failed to move past initial hopes, US-PLO-Israeli negotiations resulted in the creation of the Palestinian Authority, a phased negotiation, and an Israeli withdrawal to terminate in the creation of a Palestinian state. The most successful element appeared to be the Jordanian-Israeli peace treaty completed in 1994. Since the underlying assumption of Oslo was that success in one set of talks would support and reinforce talks in another, the Jordan-Israel front was integral. Jordan was not just a stable American ally, but the country was also home to several million Palestinian refugees. If peace between Israel and Jordan could not be deepened, then there was little hope for the other tracks. Even before the treaty was signed, US, Jordanian, and Israeli officials openly touted the expected peace dividend where economic opportunity and development was to follow peace. Given over 20 percent unemployment and a decade of economic downturn, the Jordanian public was particularly drawn to these promises. Plans for Israeli-Jordanian tourism and even a biblical theme park in the Jordan Valley were advanced. However, the most important and far reaching plans called for increased trade among the former antagonists.

In 1995, US officials created a kind of regional chamber of commerce, the Regional Business Council (RBC), in an effort to bring Israeli, Palestinian, Jordanian, and Egyptian business elites together. The RBC set up meetings and conferences with the idea that business was apolitical and thus ideal to cement deeper connections. It was hoped that such meetings would yield deeper cooperation that Washington intended to build upon. Thus came the Qualifying Industrial Zone (QIZ) program whereby designated export processing zones (EPZs) located in the West Bank, the Gaza Strip, Jordan, Israel, Egypt, or Jordan could export to the US duty free. While QIZ incentives were not, until recently, taken up in Egypt and occupation and violence in the West Bank and Gaza buried QIZ plans there, Jordan launched its first QIZ in 1998 at Al Hassan Industrial Estate near Irbid. By 2004, there were seven such zones in operation. To ensure the zone exports would be the fruits of Arab-Israeli cooperation, exports would have to meet specified value added from all the participants. In the case of Jordan, this means no less than 35 percent of the appraised value of a good must come from a combination of Jordan (11.7 percent) and Israel (7-8 percent) with the remainder from Jordan, the US, the West Bank, Gaza or Israel. In terms of peace promotion, the QIZ program would seem to be straightforward: trucking and bartering among former antagonists deepens the bonds of peaceful interaction.

How have Jordanian QIZs done in economic terms? According to the government numbers, Jordan's QIZs have added 25,000 to 30,000 jobs and accounted for a significant jump in exports to the US (approaching 1 $billion for 2004). At best these are moderate gains in the context of a low growth, high unemployment, demographically young developing country. The real problem is that the program was designed to secure peace; so how has it done?

The death of the peace process and liberalization in Jordan

Recall that the economic and trade incentives of Oslo came as promises of a peace dividend. In part, these promises were meant to offset lingering unease about the peace process among Jordanian citizens. Prior to Oslo's start in 1993, King Hussein had inaugurated a series of political liberalizations, recalling elected parliament, easing press restrictions, and generally claiming a process of incremental democratization. Since political parties have been historically very weak and parliamentary elections rigged to favor regime allies, Jordanians gravitated to the country's 12 professional associations representing over 100,000 professionals (doctors, lawyers, engineers, and so on) as their political venues. Consequently, these associations and their media allies have come to constitute quasi political parties. Much of the story of how trade helped kill the peace process is also a story of how political liberalization in Jordan was reversed.

Overt resistance to the 1994 peace treaty was muted, but Jordanians were uneasy about establishing normal relations with Tel Aviv ahead of a final settlement of Palestine. By 1996, the assassination of Yitzak Rabin and the election of Benjamin Netanyahu as Prime Minister in Israel signaled a downturn in the peace process. As violence in the occupied territories increased, Jordanian citizen unease about relations with Israel hardened. Aside from royal statements for calm, the Jordanian government and monarchy appeared to do little against what its public perceived to be increasing Israeli disregard for Palestinian rights. The issue united previously divided elements of the political opposition, Islamists and left-wing nationalists. Weak political parties and royal suspension of parliament led the opposition to turn to the professional associations. A clarification is needed at this point. It would be a mistake to equate Arab World professional associations with the kind of union and civil society organizations present during the democratic transitions in Latin America. By contrast, Arab associations suffer from organizational weakness, lack of funding, and legal obstacles which are artifacts of decades of regime neglect or abuse. Nonetheless, these associations are where political oppositions across the region have sought institutional refuge. So in Jordan, the opposition mobilized through the associations to attack the most visible element of Israel-Jordan cooperation, business.

Eventually, all of the country's professional associations, including the chambers of commerce originally involved with the RBC, joined forces to boycott cooperation with Israeli business. Trade fairs with Israeli businessmen were peacefully protested. Jordanian business associations and leaders began taking very low profiles in the RBC meetings. Quite rapidly the RBC ceased to exist. Despite the protests, the US and Jordanian governments pushed the QIZ program forward with selected Jordanian and Israeli businessmen signing agreements for shared production, primarily in garment manufacturing. Association leaders responded by circulating boycott lists of Jordanian businesses dealing with Israelis. By the late 1990s, this was too much free expression for a Jordanian government that had committed itself to a peace process; a process which brought it hundreds of millions, eventually billions of dollars, in US budgetary and military assistance. In the final years of his life, King Hussein lashed out at the professional associations and warned them against political expression. Rallies and marches were banned, association leaders jailed, and press rights reversed. What began as citizen protest of trade policies cascaded into a steady reversal of the liberalizations and openings that had begun in 1989.

The death of King Hussein in 1999 and the transition to King Abdullah increased the pace of de-liberalization. During the height of the second Palestinian *intifada*, the new King suspended parliament from 2001 to 2003 and declared over 200 new laws, many restricting press and associative freedoms. Reports of intimidation by state security services multiplied from professional association leaders and members of the press. In November 2002, street rioting and clashes with the military in the city of Ma'an was the first such violence since 1970. On the economy, income growth has stagnated as housing and consumer prices have increased. Meanwhile, the draft budget for 2005 estimated that US foreign aid and oil grants from the Gulf States would equal 15 percent of Jordan's GDP, an astounding figure for a country that is suppose to be a regional example of productive development. For most Jordanians, the QIZs had as little impact on their economic circumstances as it had on their views of the peace process. Indeed, for the opposition anchored in the professional associations, the QIZs have come to symbolize how their government fails to represent the public. Of some 80 manufacturers located in the QIZs, only 3 are Jordanian owned and operated. About half of the employed workers are not Jordanian, and curiously enough all of the Jordanian managers of the zones are Christian. In other words, free trade to enhance peace has actually alienated most Jordanians; instead it has connected to and enriched only a very narrow segment of Jordanian elites. As the Hashemite monarchy has found itself caught between its fiscal alliance with Washington and the popular opposition of its citizens, the regime has chosen to keep the latter at all costs.

Conclusion

The counter intuitive result of trade actually weakening the peace process and kick starting--not broader economic development--but political de-liberalization reveals wider dilemmas. Special trade access and bi-lateral free trade agreements with developing countries in which the domestic political-economy is highly centralized end up being agreements and opportunities for elites. Likewise, peace processes that secure cooperation among regime leaders and not the general populace end up being equally narrow and precarious. The administration's call for essentially setting aside complex questions of justice and focus instead on making money clashes with these realities. In the case of Jordan, the reaction of the monarchy to shut down civil society associations which disagreed with the QIZ program only hardened the public resistance about the entire peace process.