

THE POLITICAL-DEVELOPMENT NEXUS OF ECONOMIC PEACE IN THE MIDDLE EAST:

PARIS PROTOCOL TO THE OSLO ACCORDS

ABSTRACT

This thesis investigates if liberal theory of economic interdependence of international trade and capital flows can help to support sustainable peace in the Middle East. To be more precise, the overarching question is — *Under what conditions could the benefits of economic interdependency help overcome the asymmetry of the Israeli-Palestinian conflict, and support a sustainable peace in the Middle East?*

The Liberal Peace paradigm has shaped perceptions regarding conflict resolution. Peace, according to this paradigm, is not to be imposed, only naturally achieved between countries, with international trade and democracy serving as its basis. This concept was a theoretical and policy relevant building block of the twentieth century global world order. However, conflicts are now on the rise and more protracted, violent, intractable, fragmented, and asymmetric in nature.

Economic incentives have always been used to achieve 'non-economic' targets; they form an integral part of foreign relations. Indeed, whether imposed or used for encouragement, punishment/threat or reward/promise, economic incentives have a long history of application in pursuit of political, military, and social goals. The Middle East conflict is no exception. The subject of this thesis is a clear example: negative and positive incentives have been used in the Israeli-Palestinian conflict in order to promote a resolution. With the emergence of the Middle East Peace Process at the beginning of the 1990s the economic (dis)incentives became the way to pursue progress in the peace process.

The economic considerations also played a central role in both Israel and Palestine's pursuit of the peace agreement. Moreover, beyond the economic potential, the decision was also motivated by an aspiration for a wider change in the region that would lead to a new Middle East. The establishment of official economic, and, especially, trade relations, originally were perceived not only to enhance economic relations but also as a catalyst for achieving sustainable peace in the whole region.

This thesis focuses on the 1993 Oslo I Peace Accord aimed to promote economic development in the Palestinian Occupied Territories by enhancing economic interdependence, as the way forward to overcome the Israeli-Palestinian conflict and achieve a lasting peace. As part of the Oslo I Accord, the agreement regulating the interim economic arrangement between Israel and Palestine was signed on 29 April 1994. This agreement, *The Protocol on Economic Relations to the Oslo Accords* (commonly known as *Paris Protocol*) established the legal framework of the bilateral economic relations between the conflicting sides, and in many ways regulated the *de facto* economic regime already in place since the 1967 Occupation into a *de jure* one. The stagnation in the peace process led to the Oslo peace process, originally designed as a five-year interim agreement to become a building block of the permanent external framework shaping the economic development in Palestine, with the Protocol at its centre.

This project covers more than 30 years of economic development and cooperation in the framework of the Israeli-Palestinian conflict. It begins with the United Nations Conference on Trade and Development's (UNCTAD) adoption of the unprecedented Resolution 109 (V) in 1979 that focuses solely on the economic development of Palestinian Territory, making UNCTAD the first international organization to systematically examine the multifaceted development predicament of the Palestinian economy. The research extends until the times in which economic deprivation and an ongoing de-development process supported Hamas' rise to power in the Gaza Strip, bringing about the official split in Palestinian leadership by the end of 2008. The economic model predictions, however, extends until 2019 taking into consideration more recent developments in the region. The research completed and closed per 30 September 2023.

The Peace Paradox

Initially, during the negotiations on the Paris Protocol 1994, part of the Oslo I accord, economics and trade were seen as pathways to establish, welfare, peaceful coexistence, and cooperation. Arguably, this philosophical basis of the liberal peace theory also guides other more successful projects, such as the creation and extension of the European Union (EU) or the Irish peace process, and less successful cases, such as the Cyprus conflict. The untapped trade potential, both with Palestine as well as with other Arab/Muslim countries, that this peace agreement would uncover was believed to fuel and support the peace process, culminating in the formation of two viable independent states, Israel and Palestine living side by side.

Paradoxically, greater economic (inter)dependency coincided with higher intensity in the Israeli-Palestinian conflict despite the numerous initiatives, roadmaps, plans, incentives, as well as development and aid assistance in the decades following the Oslo I accord. Indeed, peace has become further beyond reach. This paradox contrasts with the stylized finding that economic incentives in other (comparably) protracted conflicts have been successful in

ending armed conflict and, moreover, enhanced resilience in the face of asymmetry and oppression. This paradox motivates the puzzle addressed in this thesis concerning the liberal peace theory outlining the path to achieving peace in the Middle East.

On the one hand the peace process stagnated alongside a growing economic dependency of the Palestinian economy on Israel. On the other hand, the Middle East region experienced numerous turbulences over the years since the Oslo process: local and regional political changes of governments, the Arab Spring, and new diplomatic and economic relations with third parties to be formed by both Palestine and Israel. Still, claims for an untapped trade potential, one that could be used as a motivation for the revival of the peace process, kept being championed, promoting the concept of economic peace in the region.

The Economic Peace Puzzle

This thesis aims to examine if economic benefits, especially trade, can help shape the course of the Israeli-Palestinian conflict towards peace, putting under scrutiny the premise of economic peace, directly derived from the liberal peace paradigm as the way for achieving economic development in the Middle East region. According to the liberal peace theory, an economic interdependence leading to mutual benefits will support peace, while not giving importance to the comparative level of the benefits achieved by each side. This thesis, however, argues that in cases of asymmetric conflicts, the benefits should be relative. This narrows the existing balance of power, in accordance with a time perspective. While assessing the role of economic benefits, especially trade, on the level of asymmetry between the two sides, the benefits should be analyzed within the limits of political constraints.

International trade and capital flows are not only determined by economic and geographical factors. Cultural differences, history, and language also play a significant role when it comes to examining the level of trade between two dyads of countries. In cases of conflict, the dyadic distance is determined not only through the existing trade barriers but also through the level of trade potential defined as (in/visible) walls. However, with a greater imbalance of power between the conflicting sides, in order to uncover the full potential of the trade relations we need to go further beyond the walls and explore the perceptions and misperceptions of the ideas behind the economic policy. Thus, for asymmetric conflict analysis of the dyadic economic distance, all these levels should be addressed.

The Paris Protocol (1994) encapsulates the essence of complexities between economics and politics in the region as well as sets the framing of economic barriers and cooperation from 1967, when the Palestinian Territory was occupied, until today. Accordingly, in time perspective analysis, the Protocol is the lens through which the economic interdependence analysis takes place for both tangible and intangible factors affecting the balance of power.

The three-layered political-economy analysis of the dyadic distance as set in the Paris Protocol, that is, trade barriers, visible and invisible walls, and the motivations for the

economic policy, serves as the reference point for the political-development nexus underpinning this research to achieve the peace promotion through economic interdependence in asymmetric conflicts. The analysis of economic and trade relations, and trade policy in time perspective consideration, establishes the ways these have been used in the past to support the liberal economic peace in the region, and examines if these can be reshaped to provide a *Pot of Gold* that can support the quest for the way forward in the Israeli-Palestinian conflict once again.

Conditioned upon the existence of a trade potential, this thesis then presents the pathway to economic peace in cases of asymmetric conflict through the nexus' economic diplomacy framework ranging between economic interdependence and incentives, and international law; that is, positive sanctions and external sovereignty).

In order to grasp the perceptual distance, a semi-structured interview method is used. A total of 26 interviews were conducted with high-ranking officials from Palestine, Israel, other countries and international organizations. These individuals were either directly involved in the Oslo negotiations, specifically regarding the Protocol, or played pivotal role in shaping the economic reality of the region in the years that ensued. The analysis of the perceptual distance through semi-structured interviews reveals the intentions behind the Protocol. Unlike the Oslo Accords, on which many monographs, interviews and analyses have been conducted over the years, the Protocol has only been investigated from an economic impact perspective, and these intentions have not received coverage yet. Therefore, this thesis addresses a notable gap in the existing literature, particularly regarding firsthand accounts from individuals involved in the negotiation process. The examination of perceptual distance is supported by a combination of primary and secondary non-economic documents, encompassing white papers, roadmaps, reports, analyses, and monographs.

To comprehend the trade potential, these aspects of distance are also analyzed through the gravity model, with bilateral distance being its main determinant. Similar to previous research investigating trade potential in the Middle East, using secondary economic data, this study presents a cross-country gravity analysis of 76 countries spanning the years 1991–2019. The gravity model analysis evaluates trade relations based on three different approaches, estimating the intra-MENA (Middle East North Africa) trade potential for the year 2019. In 2019, this '*pot of gold*' in per cent of intra-MENA trade amounts to 10 to 54 per cent (import-based) and 21 to 48 per cent (export-based). This thesis not only demonstrates the continued existence of economically significant trade potential, but also addresses the gap on the trade potential in the region. Previous estimates of trade potential were only available up to 1999. All previous peace accords between Israel and Arab countries through the years influenced the trade potential between Israel and Palestine, with gravity being the sole analysis method. Thus, the state-of-the-art gravity model applied in this research also

provides the estimation of the current trade potential, considering the signing of the most recent 2020 Abraham Accords.

The gravity model analysis and the *Pot of Gold* framework are supported by an innovative systematic literature review. Further to the conventional online web-based approach, this systematic review incorporates primary studies identified through the semi-structured interviews. Encompassing four decades of research, the systematic review examines 125 studies for their potential relevance and best practices, while also reviewing estimates of the trade potential. Moreover, the review confirms the literature recognition of the severely limited trade in the region, with the trade potential used as motivation for pursuing peace.

Economic incentives were and remain a pivotal instrument in the political trajectory of the Middle East region, and especially that of the Middle East Peace Process, as clearly indicated by this research. Nonetheless, these incentives are not standalone sufficient to overcome other motives and thus should be considered withing the bigger political-development scheme.