



## **Lebanon and the Middle East Peace Process**

### **Narrative Report**

**February 22, 2000, Beirut, Lebanon**

## **Peace and the Regional System**

### *Keynote Address*

The keynote speaker of the conference raised a number of relevant points with respect to Lebanon's participation – or absence thereof – in the Arab-Israeli negotiations. The speaker remarked that Lebanese civil society is eager to debate the topic of regional peace, but lacks accurate information on what is at stake. That is why many remain afraid that a final settlement will be to Lebanon's detriment. At the same time, Lebanon's absence at the negotiation table has caused some domestic frustration.

The speaker noted that it is necessary for the government to initiate diplomatic efforts so that Lebanon can enter the peace negotiations. His view was that once peace was achieved, it would lead to several other results, including rectification of the selective implementation of the Taif agreement and the normalization of the special relationship with Syria. These two byproducts would facilitate the emergence of a national unity government, which many favor.

The speaker sounded a cautionary note, however, when he remarked that peace would not return Lebanon to its economic glory past. Yet Lebanon had to discover for itself a new regional role, one that fit in with global economic trends. This would require coordination with Arab countries. As to the Palestinian refugees, Lebanon's official position and that of its people was clear: the Palestinians must be repatriated in accordance with UN General Assembly resolution 194. Lebanon must mount a strong diplomatic campaign to ensure that it is implemented.

The speaker concluded by noting that Lebanon needed a just and comprehensive peace. Only the future would tell, however, whether such a peace is warm, lukewarm, or cold.

### *Giving Lebanon a Hearing*

In a brief introduction, the moderator of the first session welcomed the participants. She described the conference as an effort to give Lebanon a hearing. Lebanon's perspective has not often been heard often enough, she pointed out, and the gathering was designed to do just that.

The first speaker began by reminding one and all that Lebanon is a player in what he referred to as the 'Levant sub-system', which is characterized today by conflict between Israel and Syria. The latter two powers are queens on the Levant chessboard, with such states or entities as Lebanon, Jordan, and the Palestinian territories being the less powerful pieces. This situation is likely to continue even after a peace settlement. Syria can be expected to tighten its bonds with Lebanon, as this will facilitate its opening to "the modern world." In turn, the speaker continued, Lebanon would benefit from the Syrian presence, as this would guarantee it security and stability. The speaker added that, in the event a settlement is reached, Syria may need Lebanon even more than Lebanon needs Syria. The countries were complementary, and together formed a potential market of over 20 million people.

Though his focus was on Syria and Lebanon, the speaker did comment on the fact that, in the context of the Levant sub-system, Jordan had lately repositioned itself. He speculated that the late King Hussein had chosen to succeed him his son, Abdallah, in order to move Jordan away, in relative terms, from the United States and Israel, who had protected his throne. King Abdallah, in contrast to the former crown prince, Prince Hassan, who was a champion of close relations with the US and Israel, has

sought to improve ties with the Arab states and make Jordan a more neutral actor in Arab-Israeli relations.

The speaker then moved on to the Syria-Israeli negotiations. He asked a question which was on many people's minds: Why, after an ongoing ten-year process, do the negotiations frequently seem to be on the verge of failure? A major problem is that the parties have fundamentally different conceptions of peace: Syria wants to recover the Golan Heights, occupied by Israel in June 1967. And, the speaker was persuaded, President Asad probably wants to contain Israel behind its pre-1967 borders, and bring about an Arab-Israeli balance of power.

Israel, in contrast, seeks to exchange territory for strategic advantage. Indeed, this has been a recurring feature of its security doctrine, for example in relations with Egypt and Jordan. Israel's desire to increase its influence, military and otherwise, in the region has been met by Syrian refusal, because it is the view in Damascus that Israel is already overwhelmingly strong as it is. The speaker noted that UN Security Council resolution 242 presented a formula of 'land for peace', not 'land for peace plus certain security advantages.' The struggle, therefore, is one between expansion on the Israeli side, and containment on the Syrian side.

There have been two public phases in the Israeli-Syrian negotiations, the speaker continued. The first was in the period 1992-1996, beginning with the process started after the Madrid conference of October 1991, and ending with the election of Benjamin Netanyahu as Israeli prime minister in May 1996. Several months after the election of Ehud Barak in May 1999 as Mr. Netanyahu's successor, the process formally resumed, with a meeting in Washington between Mr. Barak, and the Syrian foreign minister, Farouq al-Sharaa, and subsequent negotiations in Shepherdstown, West Virginia.

In the 1992-1996 phase, Syria refused to enter into substantial negotiations with Israel before the Israelis committed themselves, first, to a full withdrawal to the lines existing on June 4, 1967, the eve of the Six-Day war. According to the speaker, the Israeli Prime Ministers Yitzhak Rabin and Shimon Peres agreed to such a demand, though they made a full withdrawal conditional on a number of reciprocal commitments from the Syrians.

As negotiations progressed, the Syrians shifted priorities towards attempting to deny Israel strategic advantages after an agreement. This led to what became known as the "non-paper" of May 24, 1995, a document entitled Aims and Principles of the Security Arrangements. The unsigned one-page document set general conditions for future security relations between Syria and Israel, and specifically noted that these had to be equal, reciprocal, and mutual. Its underlying rationale was that security is indivisible, something, the speaker suggested, the Israelis have not fully grasped in their negotiations with the Syrians.

In response to a question, the speaker did confirm that Syria had, in the past, agreed to a 10:6 ratio of demilitarization along any future border with Israel. This detail was revealed in a study published by the leading Israeli negotiator with Syria, Uri Saguy, when he was a fellow at the James Baker Institute at Rice University. While this appeared to suggest that Syria accepted the principle of asymmetrical demilitarization to Israel's advantage, the speaker warned that Syria only considered this applicable to a narrow strip along an agreed future border. Israel and Syria have yet to agree on the size of such an area.

At Shepherdstown, a compromise was struck on borders. Mr. Barak, the speaker continued, accepted an Israeli withdrawal to the June 4, 1967 lines. These lines are de

facto boundaries, different than the 1923 Mandate border between Syria and Mandatory Palestine. That is why Syria reciprocated with a concession of its own: it agreed to the establishment of a joint boundary commission to delineate where, precisely, the June 4, 1967 lines stood. Syria's acceptance of such a commission suggested, implicitly, that it would compromise on a final border, as these became an object of negotiations.

The Syrians also agreed to a joint water board. Privately, President Asad has assured the United States that Syria would not seek to pollute Lake Tiberias or interrupt the flow of water there. Syria also accepted some sort of early warning station on the ground under American, or possibly French, control to provide the parties with protection against surprise attack.

After initially accepting the quid pro quo on borders – full withdrawal in exchange for joint demarcation of the June 4, 1967 borders – the Israelis reversed themselves at the second round of the Shepherdstown talks. Mr. Barak rejected the idea of a withdrawal to the June 4, 1967 lines and demanded that Syria make a series of concessions on other issues such as security and water. It is at that point that Syria, seeing that Israel had backtracked and realizing that the US was unprepared to implement a deal it had negotiated, decided to break off the talks.

One of the reasons for Mr. Barak's reluctance to follow through with the arrangement was the publicity surrounding the negotiations. While Yitzhak Rabin was able to maneuver secretly, Mr. Barak has no such luxury. His difficulties have been compounded by the fact that the Israeli public has deep-seated doubts about giving up the Golan. There is a view that relinquishing control of the plateau would not very much improve Israel's situation. Moreover, Israelis wonder whether a deal is really worth it, given the speculation surrounding President Asad's health. This pessimism is reinforced by the Syrian president's reluctance to behave towards Israel as did the late Egyptian president, Anwar al-Sadat.

### *The Syrian-Israeli-Lebanese Triangle*

In Lebanon, the speaker argued, Ehud Barak is facing a dilemma. He is hemmed in by the pledge he made to the Israeli electorate that he would pull his forces out of Lebanon by July 2000. The successes of the resistance, in particular Hizbullah, are pushing Mr. Barak in the direction of seriously considering a unilateral withdrawal from southern Lebanon. However, this is not his preferred option: he neither wants to give the resistance a public victory, nor does he believe that a unilateral withdrawal will satisfy Israel's security concerns.

Despite his preferences, however, Mr. Barak is politically weaker today than when he took office, in part because he has missed all the political deadlines he set. Even those who brought him to power – the media, the intelligentsia, and the left-wing political establishment – are confused by the prime minister's policies. This may well imply that events control Mr. Barak today, rather than the contrary. Illustrating this is the fact that in Lebanon Israel has no answer to Hizbullah. Nor can it hold Syria solely responsible for the organization's actions, since Hizbullah is neither a Syrian nor an Iranian puppet, and was born from the reality in south Lebanon.

The Israeli public increasingly favors a unilateral pullout from Lebanon. This would allow Israel to escalate from a position of strength, many Israelis believe. Right-wing members of Mr. Barak's One Israel coalition seem to be joining the Likud in demanding that such a withdrawal be accompanied by threats of massive retaliation if Israeli territory is attacked. Indeed it can be argued that Mr. Barak ordered the

attack against Lebanon's electricity infrastructure recently in order to save his coalition.

This situation, the speaker insisted, provides a recipe for war. This has been compounded by misperceptions on both sides of the Arab-Israeli divide. The speaker ventured, further, that the situation appeared not unlike that on the eve of the Six-Day war of 1967. This led the moderator to ask: Is the alternative to peace between Israel and Syria war? Not all participants agreed that it was.

The speaker concluded that Mr. Barak would be unable to resist demands for a withdrawal after the July 2000 deadline. This assessment was shared by many of the participants, as was the view that a unilateral withdrawal would pose substantial problems for the region. The speaker remarked that, in the event of a unilateral withdrawal from southern Lebanon, Syria would have a vested interest in maintaining instability in the border region, perhaps by encouraging anti-Israeli military activities by Palestinian organizations. This would allow the Syrians to continue to exert pressure on Israel, since the fear in Damascus is that an Israeli withdrawal from Lebanon will imply an indefinite delay in a solution to the Golan imbroglio.

Mr. Barak's difficulties in Lebanon also perhaps explain why he backtracked at Shepherdstown on his commitments to pull back to the June 4, 1967 lines. As the casualties in Lebanon have mounted, internal cohesion in Israel has suffered. At the same time, demands have increased on the prime minister to ensure that Israel garners ever more strategic advantages over Syria once a settlement is concluded.

How would President Asad react to this? He certainly prefers to conclude a settlement with Israel before the Palestinians do, and wants to reap the economic benefits of peace, which are imperative due to Syria's deteriorating economic situation. However, the speaker continued, President Asad will not agree to an accord that is to Syria's disadvantage. As the Syrian president sees it, there is room for demurral: while the Golan is a symbol of Syrian sovereignty – meaning there can be no concessions on its return – it is not essential to Syrian life, suggesting that Syria has ample time to await an optimal deal on the plateau's future.

The role of the United States in this emerging process was repeatedly brought up by the speaker and participants. According to the speaker, the US made two fundamental mistakes in the Middle East in the last three decades. One was to allow Israeli settlement building to continue, the other was to allow Israel to stay in Lebanon for so long. The speaker noted that the American president, Bill Clinton, undoubtedly wants peace treaties between Syria and Lebanon on the one hand, and Israel on the other. Yet Washington had not condemned the Israeli raids on Lebanon in February, nor did it forcefully defend the April understanding of 1996, which it helped broker. This could be because President Clinton did not want to damage the election chances of his vice-president, Al Gore, and his wife, Hillary, who are keen to avoid offending Jewish-American voters.

### *What of Lebanon?*

Several participants took advantage of the framework developed by the speaker to comment on the link between the Lebanese-Israeli and Syrian-Israeli tracks. No one openly suggested that the two tracks should be separated, though there was disagreement on the outcome of the linkage. One participant defended the close relations between Syria and Lebanon, implicitly recognizing that the resistance also served Syria's interests as a means of exerting pressure on Israel. He noted, further,

that Lebanon's right to resist occupation did not contradict the conducting of negotiations.

Another participant was more wary. He wondered whether, in the event cross-border attacks took place after a unilateral Israeli withdrawal, the Israelis would also respond against Syrian targets. The implication was that Lebanon alone might be made to pay the price for Syria's continued use of Lebanese territory against Israel, as a means of securing an advantageous arrangement on the Golan Heights. The speaker did not directly answer the question, though he did note that Mr. Barak had promised massive retaliation in response to attacks after a unilateral pullout. Mr. Barak's attitude is supported by many in Israel, and there are those in the Likud who would like a war with Syria.

The objections of one participant put Lebanon's limited influence in perspective. He commented that the negotiations between Syria and Israel had legitimized Lebanon's absence from the talks. He argued, further, that this was unjustified, since Mount Hermon, whose future was being discussed by Syria and Israel, was also partly in Lebanese territory. Lebanon had been given no say on how the 1.2m cubic meters of water there would be distributed. He noted that the early warning station so essential to the Syrian-Israeli talks was on Lebanese land. He mentioned, finally, that little was being done to solve the problem of Palestinian refugees in Lebanon, and concluded that there should be no peace at Lebanon's expense.

The speaker agreed. He cautioned, however, that it was time for the Lebanese to work in collaboration with Syria, Jordan, and the Palestinians to help find a solution to the refugee problem. He also recommended that Lebanon draw up an account of damages suffered during the Arab-Israeli conflict: "If you don't ask, you don't get" was the formulation he employed. He suggested that the Syrians too should put forward financial compensation claims, though President Asad appeared too proud to ask for money. This, he noted, was a mistake.

#### *A Reverse Sykes-Picot?*

The second speaker took the macro-political road to examine how the Middle East peace negotiations might affect the regional state system. He remarked, in reference to the Palestinian-Israeli track, that there was a serious conceptual clash on the final status of a Palestinian state. This revealed an absence of moral equivalence in Israel's dealings with the Palestinians. Thus, the Palestinians find themselves alone today – a situation to which they contributed – making the advance of serious negotiations between them and the Israelis laborious. As the speaker pithily put it: "The PNA (Palestinian National Authority) has lost its carrot and never developed a stick."

The situation was illustrative of a larger problem in the Arab world: the absence of Arab unity vis-à-vis Israel, and indeed its replacement by what the speaker referred to as an excessive "tribal-state logic." The Arab states, forever unable to act in unison, often seem to be engaged in a 'zero-sum game' when measuring their interests in relationship to those of their Arab brethren. This did not bode well for future negotiations.

The negotiations between the different Arab parties and Israel are leading to a fundamentally new state and security structure in the Middle East. The talks are about tomorrow rather than today, the speaker remarked. This has already alarmed Israel, which is wary of improved ties between the United States and Syria, along the lines of what took place between the United States and Egypt. The speaker then sought to

explain the context of the emerging state system in the region by offering up several observations.

He noted, first, that the region was witnessing a 'strong internationalization' of Arab relations, with a concomitant 'Americanization' of these relations. The speaker was specifically drawing a parallel with the concept of 'Finlandization,' whereby regional powers in the Middle East have been compelled, particularly since the Gulf crisis, to accommodate themselves to the interests of non-regional powers, most prominently the United States.

The speaker, continuing, remarked that the Arab world is demoralized and lacks a sense of direction. This is accompanied by, what he referred to as, increasingly 'dis-Arabized inter-Arab relations.' Making matters worse is the fragmentation of the Arab body-politic, which has made Arab states particularly vulnerable at a time when peace is reshaping the regional state system. In many ways, the Madrid conference of 1991 was a new Versailles. Various ideas for regional cooperation, particularly economic cooperation, have effectively "privatized the peace process."

The speaker then focused on what he referred to as 'historic Greater Syria,' an area corresponding to Syria, Lebanon, Israel, Jordan, and the Palestinian territories. The area has become the focal point for bitter conflict between states wanting to enhance their regional influence. This will lead to systemic transformations, since the fluidity in 'historic Greater Syria' is creating a veritable cornucopia of possible alternatives: Jordan might go the way of a confederation with the Palestinians, while Syria and Lebanon might go another. It is not clear where Israel stands in all this.

Continuing, the speaker remarked that what is going on in 'historic Greater Syria' is of vital interest to Egypt, Turkey and other regional powers which will be affected by the ensuing changes. The speaker argued that what is taking place is a 'reverse Sykes-Picot': the state system is being redrawn, although this time the motor for change is less imperial interests, which are inherently political, than economic relations.

A participant disagreed with this model, arguing that he did not necessarily discern inherited historical patterns in 'historic Greater Syria.' He was unconvinced by the notion of a 'new game' in the Levant area, and expressed the same view to the first speaker, who had used the expression 'Levant sub-system.' Implicit in this criticism was a notion that the Arab states are pragmatic enough to break out of traditional geo-political mindsets, even when they publicly pay lip service to these for reasons of expediency. Among the events proving this were the Egyptian-Israeli and Jordanian-Israeli peace agreements and the Oslo process.

Another participant agreed, questioning the whole concept of a supposed cohesiveness of the Levant area as developed by both speakers. He pointed out that "we are in a new age." His point was that the Levant was being transformed by globalization, which had, in the past twenty years, altered economic systems and political structures.

A third participant showed marked despondency in concluding that the Arabs appeared to be mere observers of regional developments. Invariably, it seemed, they were on the receiving end of the region's processes. This made him wonder whether cooperative Arab participation in the peace process was doomed. Given this state of affairs, he asked whether Israel intended to impose preferential economic relations – as opposed to security arrangements – on the Arabs in the context of a settlement?

The first speaker, to whom the question was addressed, noted that he did not think that Israel intended to impose a postwar economic system balanced in its favor.

Rather, the Israeli Prime Minister, Ehud Barak, appeared to be preoccupied with security issues and water, befitting his military background. Like his political mentor, the late Israeli prime minister, Yitzhak Rabin, Mr. Barak would primarily seek a hefty security package from the United States to make more palatable a new relationship with Syria.

The session adjourned amid a general acknowledgment of uncertainty in the near future. Syria is going through a period of domestic transition, particularly as regards the succession question; Ehud Barak is facing uncertainty both domestically and in southern Lebanon; and the United States is in the midst of an election year, which means that the president, Bill Clinton, has a short deadline to advance the Syrian-Israeli and Lebanese-Israeli negotiating tracks.



## **The Lebanese Angle**

### *Unkind to Lebanon*

The first speaker opened by commenting that, in general, the Arab-Israeli conflict and the successive wars of 1948, 1956 and 1967, had not been kind to Lebanon and the Lebanese. Nor, for that matter, had peace between Israel and its Arab neighbors. However, a Lebanese-Israeli peace treaty may prove kinder. This implies that any peace settlement between Israel and Lebanon must be promoted in Lebanon. A settlement is viewed as an opportunity by some, but for many is a source of anxiety, for which the Lebanese need to be reassured by those involved in the process, whether parties or sponsors.

The speaker indicated that the peace negotiations can be approached by posing several questions.

The first question is: How can a settlement be reached? A peace agreement between Lebanon and Israel will probably be based on a settlement between Israel and Syria. However, the speaker did not agree that the absence of a settlement would necessarily mean war. If Israel withdraws its forces from southern Lebanon without an agreement – and the voices in Israel favoring a withdrawal are increasing by the day – then Syria and Israel could well deter each other, avoiding conflict. This alternative may have positive aspects, despite what many people think, since each of the parties would avoid taking further advantage of the situation in Lebanon. However, the absence of peace would have negative repercussions on Lebanon.

One participant was more skeptical about deterrence in the event of a unilateral Israeli withdrawal. He pointed out that there was a reserve of armed men in the Palestinian camps that could be used to attack Israeli territory. He also cautioned that Lebanese national unity could be severely affected if Israel pulled out without a prior accord. The speaker suggested, in response, that the Lebanese should form a national unity government to face a unilateral withdrawal.

The speaker pursued his line of reasoning with a second question: Who will negotiate on Lebanon's behalf? He noted that the Lebanese had stopped negotiating in 1993-1994. Indeed, when negotiations between Israel and Syria became serious, Lebanon was not invited to the table. The United States had shown little inclination to reverse this trend. Many fear, he continued, that the Lebanese will today go to the negotiating table only once a full-fledged agreement has been negotiated between Israel and Syria.

The question then becomes: Will the Lebanese negotiate their own arrangement, or will they go merely to approve a pre-packaged deal between Syria and Israel? This question is a legitimate one, the speaker insisted, and affects Lebanon's sovereignty, future, and domestic equation. There have been attempts by the Israelis to bring the Lebanese to the table. However, these offers were merely intended as bargaining chips against Syria, since the Israelis knew that there was no desire in Damascus to see the Lebanese participate in talks until substantial progress had taken place between Syria and Israel.

The speaker then insisted that it is in Syria's and Lebanon's interests that the Lebanese participate in the negotiations as soon as possible. This will assure the Lebanese that a settlement will not come at their expense, and will encourage them to commit themselves to a future agreement. As important, it would reflect an underlying reality that, when it comes to technicalities, the Lebanese and Syrian tracks are dissimilar. The terms of reference for a settlement between Israel and

Lebanon are different than those between Israel and Syria. For example, the Lebanese are negotiating on the basis of the 1923 borders, Syria those of 1967. Lebanon will not negotiate the presence of early warning stations, while Syria is.

The speaker underlined, however, that the Syrian and Lebanese tracks should remain united. Several participants agreed, pointing out that Lebanon should avoid wishful thinking when it comes to conducting separate negotiations. The May 17, 1983 agreement stood as a monument to the ills of negotiating unilaterally. The participants did not, however, pick up on the speaker's argument that the Lebanese and Syrians were playing for different stakes in their talks with Israel.

Another participant threw out the provocative idea that the unity of the Syrian and Lebanese negotiating tracks should lead to the formation of a joint delegation. This could later be divided into sub-delegations. His point was that Lebanon should be a full partner in the decision-making strategy of the negotiations. Implicit in his suggestion was that Lebanon should not be idle while agreements were negotiated behind its back. The speaker disagreed, pointing out, once again, that the two sides were negotiating different things.

The speaker agreed that the April understanding had been very successful. His implication was that the understanding provides Lebanon with the kind of leverage that would allow it to buttress its political position. He likened the understanding to an inverted Oslo – referring to the 1993 Oslo agreement between the PLO and Israel. The Oslo process compelled the Palestinians to put an end to the *Intifada* in order for negotiations to proceed. In contrast, the April understanding has allowed the Lebanese to pursue resistance against Israeli forces, even as negotiations continue. One participant went so far as to suggest that fighting might continue in the border area in the event Israel withdraws from the south without an agreement. This seemed to be an implicit rebuttal of the speaker's argument that a withdrawal may, in fact, not lead to conflict.

The speaker then asked: What are the possible terms of reference for an agreement between Lebanon and Israel? He responded that the 1949 Armistice Agreement and the borders of 1923 were excellent departure points to demarcate the Lebanon-Israel border. UN Security Council resolution 425 was, additionally, important as a text managing the transition from a state of war to one of peace. Indeed, some aspects of the resolution should be maintained after a settlement – for example the presence of an international force in southern Lebanon. The speaker suggested that such a force could take various forms, though a revitalized UNIFIL was preferable. The speaker suggested that Syria might be asked to join, as this would perhaps encourage it to downsize its forces elsewhere in Lebanon.

A participant refined the idea somewhat by pointing out that the basic objective in resolution 425 was to emphasize Lebanese sovereignty in the area occupied by Israel in the south. For sovereignty to return, it was necessary that the Lebanese army be deployed to the internationally recognized borders.

In the negotiation process, the speaker continued, Lebanon will need to take into consideration the following: first, that the liberation of the south is a cooperative Lebanese venture, and, therefore, should not be construed as the victory of a single religious community. Second, that a post-peace strategy exists in Teheran, which bodes well for the future and suggests that Iran is not keen to abandon its strategic interests. And, third, that eventual peace dividends will not fall into the hands of Lebanese like fruits from the tree. Rather, the Lebanese will have to plant the trees in order to reap their fruits.

### *Lebanon and the Economics of Peace*

The second speaker sought to examine what peace would mean for the Lebanese economy. He argued that peace would, essentially, lead to competition between Lebanese and Israeli firms. Though it may be cold initially, peace should free up resources previously earmarked for security and military purposes. This should reduce political risks, increasing trade flows and investment.

Lebanon is facing the challenge of globalization. This means that tariffs and restrictions are gradually being reduced, and this trend must be factored into a post-peace environment. Multinationals and technology companies will play a bigger part in the economy, with Lebanon a transit point rather than just a final destination. Lebanon, because it is more advanced and more open to the world economy, has a greater ability to compete with Israel than other states in the region.

Lebanon faces two challenges: the first is domestic, and involves improving its finances and bringing about the structural reforms required after a settlement. The second is regional, and requires defining Lebanon's role in an integrated Arab, or Levant, free-trade area. If one assumes an environment characterized by peace and globalization, it would appear that Israeli companies will dominate.

The speaker argued that one of two kinds of peace would occur in the region: an unbalanced peace, which may allow Israel to achieve politically and economically what it could not achieve militarily. This, in turn, would allow Israeli companies to employ cheap labor and sell their products to the Arab world. Within this framework, Lebanon would become a gateway for Israeli products into the Arab world.

The second – and from a Lebanese perspective, preferable – option is a balanced peace, whereby peace dividends are distributed more equally. For this to take place, however, certain preconditions are required: Lebanon needs to successfully push through financial and structural reforms. It must also help create a free-trade environment in the Arab world, and avoid facing Israel alone, instead seeking to heighten economic integration with Syria, Jordan and Iraq.

Lebanon should also focus its resources on value-added and job-creating services, the speaker continued, and Lebanese firms need to develop more competitiveness. For this to happen, the state must implement administrative reforms, guarantee increased transparency, and insure that there is respect for the rule of law. Lebanon should overhaul its education system, thus enhancing its human capital. It should also encourage the emergence of a new culture of managers, since traditional Lebanese family entrepreneurship is no longer enough to insure prosperity.

The speaker added that there are many questions that have yet to be answered when it comes to the regional environment. For example, it is not clear how Syria will face the peace process; whether it will open up its borders and liberalize its economy. It is equally unclear whether Iraq will join the peace process. The speaker also wondered whether an Arab free-trade agreement would take place, and how a European-Mediterranean cooperation agreement would come into play.

An open-border policy between Arab countries within the framework of integrated economies and partnership with Europe would be beneficial. It would allow a larger market for Lebanon's products and services. It would also encourage specialization, so that regions in Lebanon could serve different economic purposes, and allow Lebanon and Syria to play complementary roles. This would mean more efficient distribution channels. European technical and managerial assistance would

permit the formation of joint ventures, making Lebanon more competitive with regard to Israel.

Several participants agreed with the speaker that Lebanon should benefit from globalization, and simultaneously strengthen its economy. This means, among other things, balancing the budget and increasing economic productivity. However, one participant argued that economics could not be isolated from politics and governance issues. For example, Lebanese tourism, though a great asset, was suffering due to an absence of urban planning. The existence of problems such as deforestation and soil erosion made Lebanon unattractive. Similarly, the reason Lebanon could not balance its budget was because the authorities did not collect an appropriate level of taxes. This required administrative reforms, which have not been seriously attempted.

Another participant disagreed with the speaker's assessment that Israel and the Arab world were destined to compete. She argued that things were far more complex: Israel was good in industries which either did not compete with Arab industries, or which were complementary to them. She remarked that the Arabs could benefit from Israel's strong distribution channels, which could carry Lebanese and other Arab products to international markets. Similarly, Israel's research and development capacities were potentially useful to the Arabs. She concluded that the more one analyzed the structure of Israeli companies, the less one saw a justification for worry in the Arab world, especially in Lebanon.

#### *Whither the Palestinian Refugees?*

The third speaker sought to determine how Lebanon would fare if the problem of the Palestinian refugees was not resolved. The speaker argued that five things could be said of the Palestinian presence in Lebanon:

First, that an internal consensus exists among Lebanese rejecting the permanent settlement of Palestinian refugees in their country.

Second, that the Lebanese and Palestinians have yet to recover from the legacy of the war years. Of the estimated 350,000-400,000 refugees in Lebanon, he noted, many participated in the Lebanese war. To this day, some of the Palestinian camps remain inaccessible to the authorities. All this has made it difficult for both Lebanese and Palestinians to go beyond stereotypes when dealing with one other.

Third, the Palestinian refugee problem poses a demographic challenge to Lebanon, not just a confessional one as many people think. There is a strong link between demographics and political stability, pluralism, and democracy in Lebanon, so that the permanent settlement of Palestinians, inasmuch as it will affect political participation, will be highly destabilizing.

Fourth, the international community has assumed that Lebanon is not yet able to deal with its problems, a belief that has justified Syria's privileged role in the country. In contrast, when addressing the Palestinian issue, the international community, and especially the US, has assumed that Lebanon is a 'normal' country. Yet once the war ended, Lebanon became ever more polarized along sectarian lines, sunk into a debt nearing today some \$25bn, and saw its political situation worsen, and its sovereignty reduced.

Fifth, and finally, the naturalization decree of 1994 allowed for the naturalization of some 250,000-300,000 people, 60% of them Syrians, many of whom do not even live in Lebanon. This situation makes all the more hazardous the settling of an additional 350,000-400,000 Palestinians.

The international community has tended to look at the Palestinian presence in Lebanon in humanitarian terms, while ignoring the political and national dimensions of the problem. The Israeli view of the issue has prevailed with regard to their return: there is a consensus that Palestinians need to meet certain criteria in order to move to the Palestinian territories. Moreover, the prevailing view is that these territories cannot accommodate many more people. The same argument, the speaker emphasized, must also apply to Lebanon.

Any settlement of the Palestinian refugees in Lebanon will be resisted. No Lebanese politician will accept resettlement. The problem is that Lebanon's Palestinians are the most prominent victims of the Arab-Israeli conflict. They form a highly mobilized population in Lebanon, one living in inadequate social and economic conditions, and they are well armed. The speaker's implication was that this volatile mix could create problems in the future. The speaker concluded that Lebanon should be present at peace talks in order to address the issue of refugees.

One participant reacted by pointing out that the notion of a demographic imbalance was old-fashioned. He suggested that the speaker's comments begged the question: Is there a demographic balance in Lebanon today between the Lebanese communities? He insisted that it was not possible to simply assume a sectarian balance in the country, while ignoring the presence of a Palestinian population that has been around for some fifty years. In other words, the fact that the Palestinians have become a part of Lebanese society has to be factored into any fair consideration of the future of refugees.

Another participant lamented the poor agreements concluded between the Palestinian Authority and Israel. The refugees in Lebanon had been largely left by the wayside. A future Palestinian state will be a source of frustration to Palestinians both in the territories and in Lebanon, since its final borders are bound to be unsatisfactory. This will have repercussions in Lebanon, an assessment which led the participant to wonder whether the Lebanese could give the Palestinians a status that would make their presence less explosive.

A third participant voiced the view of many in suggesting that Lebanon must participate in the multilateral talks in order to avoid being confronted with a *fait accompli* regarding Palestinian settlement.

The speaker responded that some 70,000 refugees may be settled in Lebanon. One scenario is for the refugees to be granted citizenship in a new Palestinian state. However, this would require a minimum level of coordination between the Palestinian Authority and Lebanon, something unlikely at present. Moreover, once the Palestinians are given citizenship, they cannot be denied return to Palestine. At stake is also the question of timing and Lebanon's participation in multilateral talks. What will happen between now and then remains unknown, the speaker concluded.

## **The United States and Europe: Buttressing Settlements**

### *What Europe Thinks*

The first speaker sought to explain Europe's role in the ongoing peace negotiations. She remarked that though the Europeans are not involved in the bilateral Arab-Israeli talks, they are nudging the process along and intervening at key moments – at times unilaterally, through France and Britain. European action has, more specifically, taken place within the context of a larger agenda for economic integration of the Mediterranean basin.

There are four broad guidelines, the speaker noted, to Europe's role in the Middle East:

The first is that the preoccupation in Brussels is not with the Middle East, even less the Arab-Israeli peace negotiations, but with the establishment of a common foreign and security policy for the EU members. In that sense, the Middle East is important as a testing ground for an emerging Europe, particularly in its "common search for conceptual coherence." Thus, one can argue, Europe's priorities are primarily parochial, involving structures, procedures, and divisions of labor in its interstate relations.

The second guideline is that Europe operates according to a world view in which the Middle East is on the periphery, albeit the close periphery. Of concern to Europe is what can be called 'failed states', especially those within Europe. This approach can be contrasted with America's preoccupation with so-called 'rogue states' in the Middle East region, such as Libya, Iraq, and Iran. Europe has a regional agenda, unlike the United States which has a global agenda. That means that both have a very different way of looking at the Middle East.

A third guideline is that, in its quest for conceptual coherence, Europe has sought to prepare its partner states, particularly those in the Mediterranean region, for globalization. The instrument for this has been the Barcelona process, which established the Euro-Mediterranean partnership. The underlying assumption is that the free market will lead to economic development, which will assure regional stability. The Europeans have applied this logic to the Maghreb states, and today see no reason not to do so to the Levant.

The negotiations between Israel and the Arab states fit neatly into this framework, since regional peace is perceived as a prerequisite to the economic development Europe is so eager to promote. However, the linkage was not always that clear: Europe for a time sought to keep the Barcelona process separate from the regional peace negotiations. This was reversed at the recent Moscow multilateral meeting, when the Barcelona process was formally linked to other efforts at regional integration, including the Middle East North Africa (MENA) process and a reinvigorated Regional Economic Development Working Group (REDWIG).

Finally, rather than seeking to play a central role as mediator between the Arabs and Israelis, Europe has adopted, as a fourth guideline, the promotion of specific key issues within the framework of the peace negotiations. Palestinian statehood, for example, is one such issue on which there has been a measure of success: Europe's efforts, and tacit American approval, led to the Berlin declaration, which expressed support for statehood. Europe has also favored people-to-people contacts, a notion that has gained currency as interest in the importance of civil society has increased.

The speaker concluded by outlining the paradox of European policy towards the Middle East: in its efforts to insure that international law is respected, Europe has often appeared, at least to Israel, responsible for delays in the peace negotiations. For example, the Palestinians held out longer on certain demands, because they believed that, with Europe's support, they could get more concessions from the Israelis. This has irritated both Israel and the United States. However, the speaker concluded, the European view is that peace at any price is not really peace. Therefore, settlements that generate deep frustration may, ultimately, prove counterproductive.

### *America, America*

The second speaker followed up with an assessment of United States policy in the ongoing peace negotiations, in particular on the Syrian-Israeli and Lebanese-Israeli tracks. He stated that all the parties, including the United States, faced constraints in their margins of maneuver. However, he doubted that the chosen way out of this was a Syrian-Israeli Oslo behind America's back. That is because Syria's president, Hafiz al-Asad, continues to believe that America's presence at the table is essential.

Rather swiftly the speaker made clear that progress on the Lebanese track awaited progress in talks between Syria and Israel. Most participants agreed, and reference was made to an earlier suggestion that Syrian and Lebanese negotiators join into a single team.

Offering up his version of the Syrian-Israeli negotiations, the speaker noted that between August 1993 and November 1995, when Yitzhak Rabin was assassinated, the parties came very close to an agreement. Though a settlement proved elusive, its general contours were clear. Perhaps that is why the subsequent suspension of negotiations prompted the Syrians, Israelis, and Americans to each perceive that the others had failed to take the hard decisions which would have led to a solution.

The principle source of discord was the interpretation of narratives by each side. Specifically, the Syrians and Israelis have differed over whether the late Israeli Prime Minister, Yitzhak Rabin, agreed to a withdrawal to the June 4, 1967 lines on the Golan Heights. The Israelis long insisted that Mr. Rabin's offer was hypothetical, conditioned upon Syria's meeting a number of Israeli demands. The Syrians, in turn, argued that the prime minister's commitment was a firm one and that Israel had to honor it, even if the final borders on the Golan had to be delimited. The Syrians were all the more adamant in that, they claimed, the United States repeatedly transmitted the Israeli commitment to them.

The major challenge today is to find a formula to restart negotiations, particularly after the period of escalating tension in Lebanon in February, which led to the bombing by Israel of Lebanese power stations. The framework of an agreement exists. Yet key questions remain without answers: Will Israel agree to withdraw to the June 4, 1967 lines? Will Syria give the Israelis what they want in terms of security?

### *What Ehud Barak Faces*

While most Israelis favor peace, current opinion polls suggest that a majority opposes full withdrawal from the Golan Heights. Mr. Barak's wager, like that of Yitzhak Rabin when he promised a referendum to approve a Syrian-Israeli agreement, is that a comprehensive settlement, once achieved, will turn Israeli public opinion around.

The speaker agreed that this strategy might work, noting that the element of time had to be taken into consideration: a referendum approving a withdrawal from the

Golan Heights would probably fail today, in much the same way as would a Clinton administration request for financial aid to pay for a peace deal in the Levant. However, once settlements were reached, the speaker forcefully insisted, there would very probably be a change of heart in Israel, and in the US Congress.

Mr. Barak is driven by a notion that agreements with Syria and Lebanon are part of a “strategic equation of peace.” The Israeli prime minister seeks to avoid conflict on his country’s northern border, and would like to avert a situation in which Syria might use its arsenal of weapons of mass destruction. Israel’s military superiority should not imply that war is impossible: “Reason doesn’t travel in the Middle East,” the speaker wryly remarked. However, in his efforts to close a settlement, Mr. Barak has been frustrated because Hafiz al-Asad has made none of the dramatic moves the Israelis would like him to make. As far as President Asad is concerned, a state of war with Israel continues until a peace treaty is signed.

The speaker underlined, however, that Syria fundamentally shifted its policy on peace with Israel when it accepted an invitation to the Madrid conference in 1991. Alas, the desire of the parties to come to an agreement has not prevented wasted opportunities. In June 1999, for example, just after Ehud Barak’s election, the Syrians and Israelis failed to take advantage of the honeymoon period existing. Several mediators – including the former US secretary of state, James Baker – carried positive messages between Mr. Barak and President Asad, yet nothing came of it.

The speaker argued that for the negotiating process to move forward, the Syrians and Israelis have to overcome negative impulses in their interpretations of past talks, and affirm the positive. Moreover, Mr. Barak, President Asad, and the US president, Bill Clinton, must demonstrate extraordinarily strong political will. They are now addressing existential issues of war and peace, and their personal participation is needed for a timely settlement.

The speaker remarked that if the proper conditions existed, and talks were resumed today, the negotiations could be brought to a conclusion in a period of four to six months. That was how close the Syrians and Israelis were. He added that progress on the Syrian-Israeli track would lead to advances on the Lebanese-Israeli track. However, a Syrian-Israeli peace treaty should not come at the expense of Lebanon’s political independence, sovereignty, and territorial integrity. This has been a long-standing official position of the United States.

Several participants pointed a finger at a major source of their wariness regarding the Lebanese-Israeli track: the fate of Palestinian refugees in Lebanon. They lamented the lack of coordination between the parties – Lebanon, Syria, the United States and the PLO. They argued, in particular, that Washington had a role to play in this, though it had been reluctant to discuss refugees outside the framework of the Lebanese-Israeli negotiations.

The speaker did not deny this, but doubted that governments would be willing to address the refugee issue now, before negotiations resumed. He proposed, instead, that the Lebanese begin serious informal thinking on the subject, whether within the government or outside, in case the issue came up soon in regional talks.

The speaker then cast a retrospective eye on US participation in the Syrian-Israeli peace negotiations. Up to February 1996 when negotiations were halted, he reminded the participants, the United States played an active role as facilitator between the parties. On several occasions, however, the Syrians and Israelis complained that the Clinton administration had not been assertive enough. However, the US was reluctant to play an active role until the last phase of the negotiations.



The speaker recommended that the US continue to mediate between Syria and Israel. However, he stressed, that this should take place in the context of secret talks, in which each side could confidentially advance their agendas on land, peace, security, and water. The Barak government's leak of a draft Syrian-Israeli peace agreement to the Israeli daily *Ha'aretz*, and other leaks to the Arab media, had done damage to the process, and were reasons for the ongoing difficulty in resuming negotiations. The speaker then reiterated a position, adopted recently by the Clinton administration, that the sides should assume that "nothing is agreed until everything is agreed."

The speaker concluded by noting that, since 1967, Washington has played a critical role in the Middle East negotiations. It has had a very close relationship with Israel, illustrated recently by talk of establishing a formal US-Israeli security pact, which doesn't exist. In terms of diplomacy, breakthroughs in the Middle East always took place when a strong president collaborated with a strong secretary of state – for example the Nixon-Kissinger, Carter-Vance, and Bush-Baker partnerships – and when the president involved himself at critical phases of negotiations. The US should continue to play the role of honest broker, and should guarantee security arrangements reached by Syria and Israel on the Golan Heights. Russia and Europe should be brought into the process, though the speaker did not specify how.

## **The Egyptian Experience with Peace**

### *What Egypt Learned*

The first speaker outlined the lessons Egypt had learned from its experiences in making peace with Israel. He indicated, however, that the process was ongoing, and reminded participants that peace was not the only difficulty both countries had confronted in the recent past.

In Egypt's case, there was a transformation process as Gamal Abdel Nasser was succeeded by Anwar al-Sadat, who was followed, in turn, by Hosni Mubarak. During this period, Egypt maneuvered through various turbulent phases in the international system, from that of détente in the early 1970s to that of increased globalization and a new world order today. There has been a thirty-three year process of peace since 1967, he noted, and throughout diplomacy has been accompanied by force.

Progress became significant after the 1973 war. Indeed, Henry Kissinger's step-by-step diplomatic approach came to characterize the nature of the whole peace process afterwards, whether on the Egyptian or the Palestinian front. This approach took different forms, leading to disengagement between the Arabs and Israel in 1974-1975, to the Egyptian-Israeli peace process between 1977 and 1982, and to the various Arab-Israeli agreements in the latter half of the 1990s.

Developing in parallel to the negotiations in the 1990s was the collapse of the USSR and increasing international globalization. At the same time, there was an attempt to reconstruct the Middle East along new geo-economic lines. The instruments for this were three large structures: the framework established through the multilateral negotiations; the various Middle East economic summits; and the Barcelona process, which aims to increase Europe's integration with the Mediterranean states.

Of Egyptian-Israeli relations, the speaker noted the following: Many Arabs and some Israelis characterize it as a cold peace. This, the speaker continued, was questionable. Egyptian-Israeli relations have had their ups and downs, and it is unrealistic to expect that the rapport will be like that, for example, between Belgium and Holland. Nevertheless there was a period of warm peace between 1979 and 1982, in which fifty-two agreements, understandings, memorandums, and protocols were signed. Moreover, a legal framework for peaceful relations was established.

A cold peace did indeed set in between 1982 and 1991. This was primarily the result of the Israeli invasion of Lebanon in 1982. Yet in a third period, between 1991 and 1996, the relationship warmed up again: investment, trade, tourism, official visits, and air flights increased. In 1995, Israel was Egypt's second leading regional trading partner – excluding oil. Israeli-Egyptian trade was 9% of Egypt's foreign trade, which is a high level. There were two daily flights between Ben Gurion and Cairo airports. Interaction was limited perhaps, but this is the norm in the Middle East.

Between 1996 and 1999 there was another cooling off period, when Benjamin Netanyahu was elected Israel's prime minister. It is too early to assess how Ehud Barak's election has affected the Egyptian-Israeli relationship.

The speaker then asked: Is Egypt better off after peace with Israel? In his view, Egypt was certainly more secure than it was before, and for several reasons. A peace treaty insured that Israel would not launch a surprise attack against Egypt. It also created a very strong military and security relationship between Egypt and the United States, which improved the quality of the Egyptian army. This has come with minimal cost: in 1998-99 Egypt's military budget was about 2.3% of GDP, compared to almost 50% after the 1973 war.

Socially and economically the peace treaty has also done the Egyptians well. There has been a ten-year increase in life expectancy in Egypt, and the literacy rate has increased by about 20%. For the first time in modern history, economics and the well-being of the country have become priorities for Egyptian governments. Politically, Egypt has opened up. There is quite a large margin for political activity in the country that did not exist before. There is a vital civil society, independence of the judiciary, and more freedom of expression than existed prior to peace.

There are, generally speaking, three views on peace with Israel in Egypt, the speaker noted. The first can be called the conservative-radical view. Proponents of this view see Israel as a foreign creation born of injustice against the Arabs, and particularly the Palestinians. Those who subscribe to this view are, generally, Islamists, nationalists, and Nasserites, who see the peace process and its results as a neo-colonial phenomenon. They talk about hegemony, and their solution is resistance – the Lebanese resistance is sometimes referred to. They argue that governments make peace but that the Arab peoples prefer confrontation, thus challenging the legitimacy of the state.

A second view, the speaker continued, is the idealist-liberal view. Its adherents argue that the real danger for the Arab countries comes not from the Arab-Israeli conflict or Israel, but from their marginalization in the world order, particularly with respect to economic issues. They point to such factors as overpopulation, declining wealth, lack of democratization, violence, and fundamentalism, and believe that peace allows Egypt to seriously address these problems.

A third view is the pragmatic-bureaucratic-realist view, and combines elements of the previous two. It is held mainly by bureaucrats at the foreign ministry, and politicians who have their hearts in the first group and their minds in the second. Most do not trust Israel and are fearful that once peace becomes widespread, Egypt will face a hegemonic Israel which possesses nuclear weapons. Israel would thus be alone in benefiting from the dividends of peace.

### *The Economics of Peace for Egypt*

The second speaker began with an assessment of regional economics during the past thirty years, before focusing on the present economic reality in light of possible peace with Israel.

If one looks at the Middle East in terms of growth rates in the past three decades, she noted somewhat grimly, it is the lowest in the world except for Sub-Saharan Africa. The region's share of world trade is only 3%, and that includes petroleum exports. Intra-regional trade is also low at 10%.

She then argued that there is a dangerous paradox in the Middle East: very high levels of unemployment – a legacy of poor economic management at the macro and sectoral levels during the past three decades – accompanied by the presence of rich governments. So, she asked: Where has the region's money been wasted? A large chunk has gone to defense spending, and another sizable share to paying for civil service employees, many of whom are redundant. Indeed, if one looks at the ratio of civil service employment to total employment in the Middle East it is 17.5%, compared to a worldwide average of 11%. The tradeoff is lower expenditures on such things as human development, research, and software infrastructure.

On the positive side, the speaker noted that the resources and windfalls available to Middle East governments in the past decades allowed for the building up of a solid physical infrastructure. At the same time, poverty in the region has been relatively

minimal, and income distribution is at one of the best levels in the world. Only recently have those below the poverty line become a serious problem in transitional countries, such as Egypt, where comprehensive adjustments at the macro level have meant slashing subsidies and cutting back on government jobs.

Looking to the future, the challenge of employment-creation comes amid difficult circumstances. Practically every country in the Middle East and North Africa region is undergoing demographic transition: the growth rate of populations is in decline, but the numbers of those just entering the labor force are increasing at an all-time high. Finding employment will be one of the biggest difficulties for an increasingly young population. This shows the advantages of cooperation, integration, and partnership with the EU where the population is, on average, aging and declining in numbers.

A second major challenge faced by the states of the region is restructuring the size and role of government, in such a way as to enhance private sector investment, employment, and exports. This is necessary so that Middle East countries can adapt to globalization. Privatization of public services is an essential ingredient in encouraging the private sector. Again, the Middle East has done very poorly in the past eight years (1990-1998), and earnings from privatization are only 3% of global privatization revenues. There is improvement in a number of countries, however, including Egypt.

#### *What Peace Dividends?*

The speaker then turned to a discussion of what peace could mean for the Arab world. She noted that when discussing competition with Israel – and her reference point was Egypt – one must look not at competition between firms in the Arab countries and Israel, but competition for foreign direct investment (FDI) and the interest of trans-national corporations (TNCs).

The most important peace dividend, the speaker argued, will be increased capital flows to the region. Looking at trends in FDI during the 1990s, the speaker pointed out that trans-national economies were taking up an increasingly large share of world trade – accounting, with multi-national corporations (MNCs), for a third of global exports. The most natural and practical conduit for regional economic actors to enter export markets was through alliances – whether through equity or other types of joint ventures, and licensing arrangements with TNCs.

The speaker pointed out that with or without peace with Israel, there remains a strong economic justification for increased trade and the breaking down of trade barriers between the region's countries. The biggest challenge to the Arab countries is also to increase non-oil exports. The region is still too highly dependent on oil exports, which account for more than 70% of total exports. If we look at non-oil exports, particularly manufactures, we find that very few countries in the region have made progress. Lebanon and Tunisia are among the very few Arab countries which have performed well in terms of the export of manufactures. So there is much room for improvement, but Arab governments must do something on the policy front.

#### *The Case of Lebanon*

The speaker then turned to Lebanon's prospects, outlining its comparative advantages. In the event of a settlement – and even today – portfolio flows and FDI are important to Lebanon. Between 1997 and 1998, FDI to Lebanon increased from \$150m to \$230m. The prospects are good in terms of the country's institutional framework. Lebanon has a skilled labor force, an adequate wage level for labor

productivity, and enjoys the proximity of regional markets, as well as a strong and proficient banking sector.

Several factors in Lebanon compare quite well with those in other countries of the region, including Israel. The first is that Lebanon has a healthy balance in terms of the distribution of its industry. In 1994, small firms accounted for 44.7% of employment in industry, medium-sized firms (between 10 and 99 workers) for about 33% of employment, and large firms (over 100 employees) for 19% of employment. This compares favorably with the breakdown in the region. Lebanon also has a very lean government compared to international standards, in spite of a belief that the civil service is bloated.

A second advantage is the Levantine entrepreneurship of the Lebanese. There will be enormous room for profit, for example if the Lebanese invest in Syria in the future. Despite Syria's insulation from the regional and world economies in the past thirty years, the Syrian economy can be highly competitive.

The speaker also pointed to a third Lebanese advantage: the scope for privatization of infrastructure. Privatization would allow the state to reallocate budget resources to soft infrastructure and social services. Playing to Lebanon's disadvantage, however, is the taxation structure. Corporate taxation is very low, making up 2.5% of GDP, while a very high 8.8% of GDP come from imposition on trade. This situation has to change so that there can be greater dependency for revenues on corporations and individuals.

In light of what both speakers said, a participant asked about the psychological factors accompanying peace and how they would relate to economic improvement. The first speaker responded by arguing that when discussing psychological variables, it is important to gauge what the Israelis think. While acknowledging that there are various contending views on how Israel was established, he underlined that peace is made with adversaries. Rightly or wrongly, this adversary has a psychological phobia whereby it sees its situation as one pitting a few Jews against many Arabs.

He continued: The Arabs, given their long history under colonization, also have an overriding fear, namely that technologically advanced states will impose hegemony over them. There is nothing in the peace process that addresses both Israeli and Arab fears. The Arabs have tended to look at the negotiations from a moral point of view. That is why they have asked for implementation of UN General Assembly resolution 194, which calls for the return of Palestinian refugees to their homes. However, the return of 4m people to Palestine would practically mean an end to the Jewish state. While not defending the Israeli point of view, the speaker argued that demands to return to the pre-1967 situation would prevent the conclusion of peace. More practical was the effort to work tradeoffs between the Arabs and Israel into final agreements.

The speaker outlined several conditions for this, including going back to the 1967 borders without the loss of Arab territory. Another matter which could be addressed is the issue of nuclear power, with Israel the sole possessor of nuclear weapons in the region. A third path may be to bring to the table the matter of Israel's military might, and its relationship with the United States. These are some of the domains in which tradeoffs can take place.

The second speaker replied by noting that there is a strong link between peace and successful liberalization. Companies and investors are invariably concerned with political stability in the region, and this is, in certain cases, their priority. For many reasons, Israel has been able to attract FDI because of perceived political stability. Some 80% of its exports of manufactures are based on three or four TNCs operating in Israel. Peace, and the ensuing stability, was an inherent part of this confidence. From

Egypt's perspective, political stability has brought macro-economic steadiness, allowing the state to move on to social and institutional reforms. She concluded by saying that the sooner peace comes, the better for all the countries in the region.

One participant sounded more skeptical, asking: Will globalization lead to the improvement of the lot of the poor in the Middle East, or will the poor get poorer? He noted that the speakers spoke highly of the Egyptian peace settlement with Israel. Yet why was the Egyptian example not repeated with Jordan and the Palestinians?

The second speaker responded by noting that there are complicating factors when assessing the advantages of peace: first, the process is ongoing, and, second, there are other, simultaneous, developments taking place which may mitigate these advantages. Such variables as the distribution of wealth, for example, may not be determined by external events such as peace agreements. Egypt was better off after peace, the speaker insisted, noting that Port Said province – which was economically liberalized at the beginning of the 1970s through the establishment of a free-trade zone – has the highest standard of living in Egypt. However, the trick was to insure that the newly-created wealth was properly distributed. The speaker's point was that peace did not necessarily imply a more equitable distribution of the national pie. Rather, it created a new situation allowing governments to initiate macro-economic reforms, attract investment, and move towards addressing social problems.

Competition, the speaker continued, does not know national boundaries. The view that competition only occurs with Israel is unrealistic. In a market economy everyone is a competitor: Saudi Arabian companies are competing with Egyptian ones for cement and steel markets in Egypt; the four or five Israeli textile factories in Egypt compete with Israeli textile factories. They mostly operate out of free-trade zones and export directly to Europe, creating jobs and generating foreign currency for Egypt. Similarly, Israel is providing technical assistance to Egypt, especially in the agriculture sector, at a time when Egypt is still exporting less than one percent of its horticulture output. So these relationships create a completely new situation when compared to the one existing in the midst of classical military confrontation.

The speaker argued that Israel's economic power vis-à-vis the Arabs in a new and complex global relationship would be very much reduced, since the Israelis would have to compete with the rest of the world. The Arabs would be able to demand from them the best price for the best quality. The economic relationship between the Arabs and Israelis will, therefore, not be a zero-sum game. She made the pertinent point that Israel has deficiencies of its own: around 15% of the Jewish population is as backward as that in any other region in the world. Israel has been the highest recipient of per capita aid and in the world since the 1950s. It is not a miracle by any world standards.