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Economic Implications of the Peace Treaty Between Egypt and Israel

by David Aviel*  **

I. INTRODUCTION

ON MARCH 27, 1979, following lengthy negotiations in which President Carter played an important role, Prime Minister Begin of Israel and President Sadat of Egypt signed a peace treaty in Washington, D.C. It is the first treaty ever signed by Israel and an Arab state. The agreement, while thus marking a historical event, is nevertheless opposed by almost all of the other Arab states.1

In the years preceding the agreement, Egypt was faced with three difficult options in its relations with Israel: to maintain the status quo, to go to war in an attempt to liberate the occupied territories, or to attempt to regain the territories through negotiations.

Maintaining the status quo had proven increasingly difficult and precarious. For the foreseeable future, it would have required Egypt to continue on a war footing. Egypt's serious social and economic problems could hardly have permitted an indefinite continuation of a war economy. Moreover, it is doubtful that military aid from Saudi Arabia would have continued indefinitely if the status quo were to be maintained.

This first option suggested additional risks. The Israelis, for example, had held the Sinai since the 1967 War. Maintaining the status quo entailed the risk that the world would become gradually more accustomed to the occupation and Israel would continue to develop and settle in the territory. As a result, it would become increasingly difficult if not impossible to arrange for its eventual return.

Employing military force to recover the territories suggested an even less appealing option than maintaining the status quo. Egypt's military capability was no match for the Israeli army

Israel had built up an arsenal of sophisticated arms including nuclear weapons, that beggared the Arab military potential. General Mohamed Abdel Ghany Gamassy, Egypt's Minister of War and overall commander of the armed forces, told Sadat that if war broke out, his army would be

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** Written with the assistance of JoAnn Aviel.

1 N.Y. Times, Apr. 28, 1979, § 1, at 3, col. 4.
devastated. Because of Sadat's frosty relations with Moscow there was no longer a Soviet supply link; Egyptian forces had slipped badly in relation to the Israelis since the strike across the Suez in 1973.²

Egypt lost lives and territory in each of the four wars it fought with Israel. Based on this bitter experience, Egyptian leaders could only have been skeptical of the use of military force to recapture lost territory, in view of the probability that even more territory would be lost in the event of war.

Moreover, since 1973, the Egyptian economy had developed industries highly vulnerable to war, such as tourism and oil production. Many new industries had sprung up in the Suez Canal region which would clearly be endangered. In short, it seems likely that Egyptian leaders perceived renewed warfare as potentially devastating. In light of these considerations, the third option—attempting to regain the territories through negotiation—became the most appealing.

Israel also had to face some difficult decisions. It had two basic options: negotiate a peace treaty with Egypt or attempt to maintain the status quo. The first option posed serious security risks. Signing a peace treaty with Egypt would have meant and indeed, did mean returning all of the Sinai peninsula, including civilian settlements and the airfields which had served as the main bases of the Israeli air force, thus stripping Israel of its strategic depth and rendering its borders less defensible. Furthermore, the only Arab leader willing to consider peace was Sadat, a sixty-year old statesman who could not have been expected to maintain control indefinitely. Israeli leaders were undoubtedly worried that Sadat's successor, with the Sinai under his control, might well decide to return to the Arab camp and turn on Israel when the option of war next presented itself.

However, there were also risks for Israel if a peace agreement were not attained. First, had Israel passed up this opportunity to negotiate a peace treaty with the only Arab leader who had expressed willingness to do so, it would have been doubtful whether another such opportunity would have arisen. Second, Israel would have eventually had to confront mounting internal problems such as the pressure of public opinion. There were signs that a growing number of people had become tired of the prolonged state of war and were ready to make sacrifices for the cause of peace. Demonstrations attracted tens of thousands of Israelis who accused the government of not doing enough for peace.³ More importantly, Israel's relations with the United States would have suffered. Absent the

signing of a peace treaty, it was doubtful that generous U.S. aid to Israel would have continued. In view of Israel's extraordinarily high rate of inflation and the burdensome taxation of its citizenry, it would have been difficult for the Israeli economy to stabilize without aid. These considerations suggest that Israel, like Egypt, had only one viable alternative, negotiation of a peace treaty. To summarize, both parties were drawn into the peace agreement not primarily because of its merit, but because of the lack of viable alternatives. These factors need to be considered when assessing the costs and benefits of the peace treaty to both parties in the sections which follow.

II. THE COSTS AND BENEFITS OF THE PEACE TREATY

A. Military Spending

The Peace Treaty provides: "The state of war between the parties will be terminated and peace will be established between them upon the exchange of instruments of ratification of this treaty." Hence, indirectly, one of the goals of the Peace Treaty is the reduction of military spending. Egypt's defense budget for 1977 alone approached $3 billion (twenty-four percent of GNP), a figure which constituted a heavy burden on the impoverished Egyptian economy. The actual cost to the nation may have been even higher if one takes into account the great deal of talent being channeled into the armed forces and away from other sectors of the economy. Thus, the Peace Treaty with Israel should enable Egypt to reduce the defense burden and divert scarce resources to civilian sectors. Admittedly, this is a gradual process, the effects of which will not be felt for years to come.

Even with the establishment of full diplomatic relations with Israel, however, it is doubtful that Egypt can get by without a strong military. Authoritarian regimes usually rely on a strong standing army for internal policing purposes. In addition, the fact that Sadat's regime has been threatened by most of the other Arab leaders (see discussion infra) increases Egypt's dependence on its military for security purposes. Egypt is particularly concerned about its Libyan neighbor and about Soviet activities in the area. Consequently, part of the aid Egypt will receive from the United States as a result of this Treaty ($2 billion) is earmarked for the military.

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5 Treaty of Peace, Mar. 30, 1979, Egypt-Israel, art. 1, § 1, reprinted in 79 DEPT STATE BULL. (May 1979), 39 FACTS ON FILE No. 2003, §1, at 223 [hereinafter cited as Peace Treaty].
7 TIME, Jan. 29, 1979, at 56.
8 N.Y. Times, Mar. 24, 1979, § 1, at 3, col. 1.
Neither can Israel be expected to cut its forces significantly since it still faces a military threat from the unified Jordanian and Syrian command (the "Eastern Front") and from Palestinian forces in Lebanon. Moreover, the United States has approved sizable weapons sales to both Israel and Egypt. Thus a significant cut in military spending is not expected in the near future.

B. Resources

The Peace Treaty provides:

Israel will withdraw all its armed forces and civilians from the Sinai behind the international boundary between Egypt and mandated Palestine as provided in the annexed protocol (Annex I), and Egypt will resume the exercise of its full sovereignty over the Sinai.

Israel's discovery and development of extensive oil fields in the Sinai, which is to be returned to Egyptian control under the Treaty, will yield Egypt sizable economic benefits. As a result Egypt will become a self-sufficient oil producer, thus limiting the impact of the Arab oil embargo on Egypt. Egypt will also benefit by the acquisition of settlements and tourist facilities developed by Israel in the Sinai. Finally, while Israel must withdraw from important airfields and rebuild new fields in the Negev, Egypt will be able to utilize these airfields for commercial purposes.

The Israelis, in turn, will suffer sizable economic losses, which are especially severe in light of the fact that Iran has joined with Arab oil producers in embargoing oil to Israel. To protect Israel against an increased dependence on foreign oil sources, the United States and Israel completed a Memorandum of Agreement on Oil. It provides for an oil supply arrangement which is to extend ten years beyond the five years provided for in the previous September 1, 1975 arrangement which accompanied the initial Sinai withdrawal. However, the agreement requires that Israel reimburse the United States for the costs incurred in

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9 The combined forces on the Eastern Front exceed 1,000 aircraft and 5,000 tanks. See Int'l Inst. for Strategic Stud., supra note 6, at 37.
11 Peace Treaty, supra note 5, art. 1, ¶ 2.
12 See [1978] Eur. Y. B. 315 for statistical survey of Egypt's past import and export figures on crude petroleum, reprinted in Appendix, Table 2.
13 Peace Treaty, supra note 5, Annex I, art. 6.
14 Deadline Data on World Affairs, at 87 (DMS, Inc., Greenwich, Conn.) (a copy of this publication is on file in the office of the Case W. Res. J. of Int'l L.).
16 Id.
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providing oil to Israel.\(^\text{17}\)

The total cost to Israel of withdrawing from the Sinai was estimated by Israeli Defense Minister, Ezer Weizman at $3.5 to $4 billion.\(^\text{18}\) However, this estimate does not take into account the inflation which is likely to result. "A number of leading economists have predicted that Israel's extreme inflation rate, already about 50 percent a year, will soar because of the peace treaty."\(^\text{19}\) In addition, the already severe housing shortage is expected to worsen as construction resources are shifted to the Negev to meet the needs of military forces being withdrawn from the Sinai.\(^\text{20}\) In short, the withdrawal constitutes not only a security risk for Israel, but also threatens Israel with economic losses.

C. Normalization of Relations

The Peace Treaty provides that:

The parties agree that the normal relationship established between them will include full recognition, diplomatic, economic and cultural relations, termination of economic boycotts and discriminatory barriers to the free movement of people and goods, and will guarantee the mutual enjoyment by citizens of the due process of law.\(^\text{21}\)

As a result of the Peace Treaty, Israel will be recognized by an Arab state for the first time. The two nations also agreed to exchange ambassadors immediately following completion of the first stage of withdrawal. According to the Treaty, this is to occur within nine months from the date the instruments of ratification are exchanged.\(^\text{22}\)

Egypt, however, may expect continuing adverse reactions to its peace initiative from its Arab neighbors. Although Egypt had in the past maintained strong economic, political, diplomatic and cultural ties with the rest of the Arab world, many of these ties have been weakened or broken as a result of the peace overtures initiated by Sadat. Relations with Algeria, Iraq, Libya, South Yemen and Syria were severed in December 1977 after these countries sought to form a united front to fight Egypt's peace policy.\(^\text{23}\) On April 7, 1979, Sadat announced the recall of ambassadors from Bahrain, Kuwait, Morocco, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates after they withdrew their ambassadors from

\(^{17}\) Id.

\(^{18}\) N.Y. Times, Mar. 7, 1979, § 1, at 1, col. 3.

\(^{19}\) N.Y. Times, Mar. 30, 1979, § 1, at 9, col. 1. However, national news broadcasts during October, 1979, reflected that the inflation rate has escalated to 100%.

\(^{20}\) Id.

\(^{21}\) Peace Treaty, supra note 5, art. 3, §3.

\(^{22}\) Id. Annex I, art. 1, § 3A.

\(^{23}\) N.Y. Times, Apr. 28, 1979, § 1, at 3, col. 4.
Relations with Jordan had been similarly broken earlier.\textsuperscript{25} Egypt became even more isolated from the Arab world after the signing of the Peace Treaty. Iraq, for example, invited all the Arab states to discuss sanctions against Egypt following ratification of the Treaty.\textsuperscript{26} After an initial split between the moderates and the extremists, all attending parties agreed to recall their respective ambassadors from Egypt, to transfer the Arab League headquarters to Tunis, and to impose a total economic boycott.\textsuperscript{27} The move was to include “an end to all Arab financial and economics aid, trade and oil supplies, and a boycott of any Egyptian business concern that deals with Israel.”\textsuperscript{28}

It is still too early to predict the full impact of these sanctions. First, Egyptian Deputy Foreign Minister Ghali has stated that only unanimous decisions under the Arab League Charter are binding.\textsuperscript{29} Significantly, the Sudan and Oman allied themselves with Egypt and refused to attend the Baghdad meeting.\textsuperscript{30} Second, the Charter expressly prohibits interference in the internal affairs of member nations.\textsuperscript{31} Moreover, if attempts are made to implement the boycott, Egypt might retaliate by seizing Arab holdings or barring Arab shipping through the Suez canal.\textsuperscript{32} In retaliation against the decision to transfer the Arab League headquarters, the Central Bank of Egypt has already instructed local banks “to honor only those powers of attorney on Arab League bank accounts that existed before the Baghdad meeting.”\textsuperscript{33} This was done “ostensibly to guarantee the payment of salaries and severance pay to about 600 Arab League employees in Cairo.”\textsuperscript{34} The Arab League will, however, encounter difficulties in its move since the $5 million earmarked at Baghdad to transfer the League to Tunis was to be paid from Arab League assets.\textsuperscript{35} Moreover an estimated seventy percent, of the League’s employees are Egyptian and they have been encouraged to refuse to leave.\textsuperscript{36} In addition, the government has ordered the impounding of all archives and papers if an attempt is made to remove them from the Cairo secretariat.\textsuperscript{37} In short, “Egypt

\textsuperscript{24} N.Y. Times, Apr. 8, 1979, § 1, at 1, col. 5. However, those diplomats below the rank of ambassador were permitted to stay on.
\textsuperscript{25} Id.
\textsuperscript{26} Id.
\textsuperscript{27} Id.
\textsuperscript{28} Id.
\textsuperscript{29} N.Y. Times, Apr. 8, 1979, § 1, at 1, col. 5.
\textsuperscript{30} Id.
\textsuperscript{31} Id.
\textsuperscript{32} N.Y. Times, Apr. 1, 1979, § 1, at 1, col. 3.
\textsuperscript{33} N.Y. Times, Apr. 8, 1979, § 1, at 1, col. 5.
\textsuperscript{34} Id.
\textsuperscript{35} Id.
\textsuperscript{36} Id.
\textsuperscript{37} Id.
seems determined not to give the Arabs anything to move," or at least to
make the removal so costly and impractical as to render it a most unat-
tractive option.\footnote{Id."

The significance of these and other events is the indication that
Egypt is apparently prepared to make the sacrifices necessary to obtain
peace with Israel despite earlier pronouncements that "Egypt would
rather forget the peace negotiations with Israel than be isolated from
other Arab countries."\footnote{Statement made on \textit{CBS News Broadcast}, Feb. 6, 1979, 9:00 AM (PT).}

D. Trade

Before the signing of the Peace Treaty, Egypt had close economic
ties with other Arab countries and did not engage in trade with Israel.\footnote{N.Y. Times, Apr. 28, 1979, \textsection 1, at 3, col. 4.}
It was a member of the Arab Economic Unity Council and the Arab Com-
mon Market (ACM) since its founding in 1964.\footnote{U.S. DEP'T OF COMM., \textit{OVERSEAS BUS. REP.}, OBR No. 78-41, (Sept. 1978).}
The ACM members "have agreed in principle to remove all customs duties on agricultural,
animal, and natural resource commodities in trade among themselves.
They have removed, with a few exceptions, the tariffs on manufactured
products, creating in theory a free-trade area."\footnote{Id.} They retained, however,
"significant quantitative restrictions on trade in manufactured goods
through bilateral trade agreements which set target ceilings on the quan-
tity of goods that two-member states could exchange."\footnote{Id.}

The next proposed step toward Arab economic unity is the creation
of a customs union during 1978-81, with the purpose of "eliminating all
trade barriers among an expanded membership while [retaining] a com-
mon external tariff toward non-member countries."\footnote{Id.} Ultimately, the for-
mation of a "full payments union . . . to act as a clearinghouse for trade
payments" is anticipated.\footnote{Id.} Presently, however, Egypt finds itself increas-
ingly excluded from trade with other Arab states, and may well be barred
from participation in these ambitious programs.

Although peace will undoubtedly generate some trade between Egypt
and Israel, a look at both economies and the major export commodities of
each reveals that there is little they can offer each other. For thirty years
the two countries have been developing along independent lines. Israel’s
markets were concentrated in the developed and industrial countries of

\footnotesize{\begin{footnotes}
\item 38 Id.
\item 39 Statement made on \textit{CBS News Broadcast}, Feb. 6, 1979, 9:00 AM (PT).
\item 40 N.Y. Times, Apr. 28, 1979, \textsection 1, at 3, col. 4.
\item 42 Id.
\item 43 Id.
\item 44 Id.
\item 45 Id.
\end{footnotes}}
Western Europe and the United States. Accordingly, Israel specialized in expensive foods and consumer goods. Its major exports have consisted of finished diamonds, edible fruits, textiles and fashion goods and sophisticated electronic systems (see Table 1, infra, Appendix), products which are either not imported by Egypt or for which Egypt does not exhibit a substantial need (see Table 2, infra, Appendix). A look at the composition of Egypt's imports reveals that there is little Egypt can buy from Israel—primarily chemical products, machinery and electrical apparatus, and iron and steel products—which Israel does not supply in large quantity (see Table 1, infra). Similarly, Israel is not in great need of Egypt's primary export commodities, which include raw cotton, cotton yarn, potatoes and crude petroleum (see Table 2, infra). In the future, some oil from the Sinai oil fields might be shipped to Israel. Consequently, more trade diversion than trade creation can be expected for the near future. In the long run, however, the creation of industries catering to the new markets and the formation of joint ventures can be anticipated.

Nonetheless, some internal changes are necessary before such developments can occur within Egypt. In the past, the centralized nature of the Egyptian economy was an obstacle to freely-functioning private enterprise. All major firms were controlled by government holding companies which left little room for initiative by individual entrepreneurs at the local level. As a partial response to this state of events, the 1975 Egyptian Legislature passed Law III, which was designed to simplify some procedures and permit greater autonomy and flexibility at the plant level. Nonetheless, major issues such as investment and expansion, employment and product pricing remain in the hands of the centralized government bureaucrats. For trade and joint ventures to develop, companies must be allowed some freedom to adjust prices to rising cost, adjust the workforce to market requirements and select investments based on projected rate of returns.

E. Technical Cooperation

In the field of technical cooperation, Egypt stands to gain more from the Treaty than Israel. Unlike other benefits, these gains can be felt in the short run. For example, Israel has achieved considerable success in

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46 This fact is clearly evidenced by examination of past issues of The Europa Year Book. See Eur. Y.B., supra note 16.
49 See OVERSEAS BUS. REP., supra note 41, at 7.
50 Id.
51 Id.
developing a modern and productive agriculture. Egypt, on the other hand, has neglected this sector of its economy. Agriculture remains underdeveloped and productivity remains low. Thus, there is great potential for cooperation in this sector. Israeli experts could instruct Egyptian farmers in new irrigation techniques, better crop selection and modern cultivation methods, thereby increasing farm yields considerably as was done by the Israelis in the West Bank.

Nevertheless, it is doubtful that under a peace agreement signed without the approval of other Arab countries, Egypt would allow such a conspicuous Israeli presence. It is more likely that Egypt would prefer a low Israeli profile. Judging from the tortuous path which the peace negotiations have followed, it seems likely that without the support of other Arab countries, Egypt will do little more than comply with the minimum terms of the Camp David Agreements.

F. Employment

More than one million Egyptians are currently employed in various Arab countries, sending home over $1.5 billion per year.\textsuperscript{52} Should Arab dissatisfaction with the Peace Treaty result in the expulsion of these workers, a hard blow would be dealt to the Egyptian economy. An important source of foreign revenue would thereby be eliminated and one million Egyptians would be added to unemployment rolls. Such an expulsion \textit{en masse} might also create serious social and political consequences within Egypt.

While there are many employment opportunities in Israel for both skilled and unskilled workers, Israel is reluctant to import Egyptian workers, primarily because of fear of “political and sociological ill effects.”\textsuperscript{53} Since Israel already relies heavily on Arab workers, it is unlikely to increase this reliance on foreign labor.

G. Tourism

The Peace Treaty provides that: “Mutual unimpeded access to places of religious and historical significance will be provided on a nondiscriminatory basis.”\textsuperscript{54} Egypt and Israel have considerable attractions to offer the tourist, ranging from religious and historic sites to sun and beaches. Tourism is already an important industry for both countries, bringing in several hundred million dollars annually to each.\textsuperscript{55} Projected income for

\textsuperscript{52} Ahiram, \textit{Trends in Egypt's Economy}, \textit{Econ. Q.} 101 (Jerusalem, Apr., 1978).

\textsuperscript{53} See \textit{The Middle East}, supra note 48.

\textsuperscript{54} Peace Treaty, supra note 5, Annex III, art. 4, § 2 at 226.

Egypt alone is $800 million. Moreover, tourism has a high value added rate in that few imported commodities are necessary to run this industry. Finally, tourism is a labor-intensive industry suitable for Egypt, a country with an abundant supply of semi-skilled workers.

There is little doubt that peace will greatly enhance the tourist industry in both countries. Thousands of Israelis and Egyptians are probably eager to visit each other's country, as are Western Europeans and Americans. Special package tours would undoubtedly be offered.

An increase in tourism is not without problems. Egypt's capacity to receive additional tourists is limited; hotel rooms are in short supply and already operate close to capacity. Building new hotels takes time and requires foreign capital, which, as will be discussed later, may not be readily forthcoming. Although Israel does have sufficient hotel accommodations, successful package tours must include Egypt as well. Nevertheless, in the long run the potential benefits to the whole region from the tourist industry could be substantial (see Table 3, infra, Appendix).

Table 3 is based on estimations of what could occur in the event that peace becomes a reality. However, the Peace Treaty between Israel and Egypt has been attended by continued terrorist activities. Since the tourist industry is highly sensitive to political and military disturbances, even a local incident or a commentary in the media about potential trouble can cause thousands of trip cancellations. In short, continued terrorist activities pose a serious threat to any hopes of a flourishing tourist industry.

There are other signs that the growth of tourism may be slower than anticipated. In Israel, for example, a committee headed by Eliahu Ben-Elissar, former Director General of the Prime Minister's office and now Ambassador to Egypt, has recommended that economic and travel links with Egypt be built up gradually "to avoid offending sensibilities on either side." The committee suggested that during the first year, travel to Egypt be limited to persons in their official capacities attending international conferences, scientific meetings and other formal events. It was further suggested that travel be limited to the air and that organized tourism not begin until later. Thus, while Israel and Egypt quickly

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57 A recent report by the U.S. Department of Commerce reads: "Hotel space in Cairo is extremely difficult to obtain on short notice and sometimes reservations confirmed in the U.S. are not honored." U.S. Dept. of Comm., Overseas Bus. Rep., OBR No. 78-20 at 9 (Jan. 1978).
59 N.Y. Times, Apr. 28, 1979, § 1 at 3, col. 4.
60 Id.
61 Id.
agreed in principle to establish a civilian air link, large numbers of tourists may not visit each other's countries until some future time as remains to be determined. Meanwhile, although the Arab-Iranian boycott has not been fully implemented, Egypt may lose its profitable tourist trade with other Arab countries. 62

H. Foreign Investment

After signing the Peace Treaty, Prime Minister Begin spoke to a group of American businessmen at a luncheon of the Israel-U.S. Business Council and encouraged them to invest in both Israel and Egypt. 63 President Sadat also planned to meet in Washington with influential U.S. leaders "to push for U.S. acceptance of his $15 billion economic development scheme, which he called "the Carter Plan."" 64 This plan is designed to encourage American and European foreign investment in Egypt. Since Egypt has a very low savings and investment rate, 65 it is forced to rely on foreign investments to a large extent. In the past, foreign investments were slow to come to this war-torn region. Peace, it is hoped, will begin to attract more foreign funds.

However, the expectations of both Prime Minister Begin and President Sadat may be too high. Even in peacetime, Egypt would rank low on the "investability index" of most major investors. This is mainly the result of fifteen year old government policies and practices designed to promote Arab Socialism. Under these policies, actions were taken by the Egyptian government which were not attractive to foreign investors: (a) Major sections of the economy were nationalized and placed under centralized government control. The individual enterprise was stripped of its planning and decision making powers and became hamstrung with "red tape." Many entrepreneurs lost interest and initiative. 66 (b) The Egyptian government assigned hiring quotes to plants and government agencies in an effort to reduce the unemployment problems. Hence, unnecessary workers were hired, thereby increasing costs and complicating the bureaucratic processes. 67 (c) Through a complicated system of price controls and subsidies the market mechanism was seriously impaired. 68

62 To date this has not occurred. Boutros Ahali, Egyptian Minister of State for Foreign Affairs, indicated at a recent new conference that the borders were still open between Egypt and the other Arab countries. Id.
63 N.Y. Times, Mar. 29, 1979 § 1, at 10, col. 1.
64 Time, Apr. 2, 1979, at 28.
66 See Ahiram, supra note 52.
67 Id.
68 Id.
(d) Scarce foreign exchange was allocated by the government in a cumbersome and inefficient manner. Consequently, some industries still cannot obtain a steady supply of raw materials and spare parts, and remain idle part of the time.69

As a result of these policies and practices, the infrastructure and basic services in certain areas such as transportation and communications are inadequate and underdeveloped by western standards. They may constitute an additional obstacle for the foreign investor.

Although Israel may become a more attractive place for investors upon the establishment of peace, peace alone will not produce a substantial influx of foreign capital. More basic societal and industrial problems must first be resolved. Israel is a relatively small market (population 3.6 million).70 It is plagued by a high taxation rate and a shortage of labor. Like Egypt, its economic development has been hindered by problems with the government bureaucracy and restrictive labor practices.71 A fundamental and comprehensive reorganization of management and production techniques and business practices is therefore a prerequisite to proper economic stimulus and thus to the possibility of attracting significant foreign investment.

I. Foreign Aid

After the signing of the Peace Treaty, the United States promised to extend $3 billion in new aid to Israel.72 This promise includes $2.2 billion in credits on favorable terms over the next three years and $800 million in grants to help finance the removal of Israeli airfields in the Sinai.73 This is in addition to the $1.8 billion in military and economic aid that Israel has been receiving annually from the United States.74

Egypt, in turn, is scheduled to receive $1.5 billion in new U.S. military assistance and perhaps an extra $300 to $500 million in economic aid.75 This is in addition to the $750 million in economic aid and $200 million in food aid recently received from the United States.76

However, Egypt stands to lose the $1.5 billion in aid which it has been receiving annually from Saudi Arabia and the $500 million from Ku-

69 Id.

70 See The Middle East, supra note 48.

71 Under these practices, for instance, it is hard and expensive for a company to lay off unnecessary workers. Hence, underemployment exists in many sectors of the economy.

72 Time, Apr. 2, 1979, at 28.

73 Id.

74 Id.

75 Id.

76 N.Y. Times, Mar. 30, 1979, § 1, at 8, col. 1.

77 See Time, supra note 72.
wait. It is quite possible that without this aid, Egypt's economy may be placed in great difficulty and the political stability of its regime seriously threatened. In an address to senior information officers, President Sadat said:

In October 1973, the Egyptian economy was in a great bind. The availability of a slice of bread in 1974 was not on the horizon. I had debts to liquidate in December according to world arrangements, but had no way to liquidate them. We did not have one penny in hard currency. This was one of my considerations to go to war, since if 1974 came while we were in such a difficult situation Israel would not have had to fire one shot. You ought to know that there was no way to receive one dollar of Arab aid—$500 million—before inscribing with our blood the heroic crossing of the canal. Within the first week after the October war our Arab brothers sent us this aid.78

In an attempt to help alleviate Cairo's economic ailments in the past, Saudi Arabia and Kuwait had organized the Gulf Organization for the Development of Egypt and provided the bulk of the $2 billion in capital to Egypt.79 Most of this aid was applied to pay off Egypt's short term debts.80 In view of the resolutions adopted at Baghdad on March 31, 1979 to retaliate against Egypt for signing the Peace Treaty,81 further aid from this source may be discontinued. Arab sources have since indicated that "Saudi Arabia would meet its existing commitments, including the payment of $525 million for American F-5 jets to Egypt, but would not undertake new obligations."82 And while the Egyptian Minister for Foreign Affairs stated in a news conference on April 28, 1979 that Egypt continues to receive economic assistance from Saudi Arabia, he declined to specify the amount.83 In short, any benefits to be derived from a peacetime economy will take time to inhere. Meanwhile, Egypt will be in need of aid. If aid is not forthcoming from Arab or other sources, the Egyptian economy could regress to a situation similar to that in October 1973.

J. Future Developments

The Peace Treaty provides:

Noting that the aforementioned Framework as appropriate is intended to constitute a basis for peace not only between Egypt and Israel

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77 Id.; N.Y. Times, Apr. 24, 1979, § 1, at 3, col. 4.
78 See Ahiram, supra note 52.
79 N.Y. Times, Apr. 24, 1979, § 1, at 3, col. 4.
80 Id.
81 N.Y. Times, Apr. 1, 1979 § 1, at 1, col. 3; Time, Apr. 2, 1979, at 28.
82 N.Y. Times, Apr. 24, 1979, § 1, at 3, col. 4.
83 N.Y. Times, Apr. 28, 1979, § 1, at 3, col. 4.
but also between Israel and each of its other Arab neighbors which is prepared to negotiate peace with it on this basis.\footnote{Peace Treaty, supra note 5, Preamble.}

A lasting and legitimate peace in the Middle East can come only if other Arab states join Egypt in its commitment towards this goal. Even if they moderated their opposition to the Peace Treaty, Israel and Egypt would gain substantial benefits. If Saudi Arabia alone were to do so, Egypt could overcome some of its insecurity over loss of aid and other economic sanctions and would be more inclined to fuller cooperation with Israel. Furthermore, with Saudi Arabia committed to the peace process, Jordan might be persuaded to join. With Jordan and Saudi Arabia joining in the peace process, a number of substantial benefits could be foreseen.

First the risk of war would be further reduced. Without Jordan, the Eastern Front would consist mainly of Syrian forces, and it is doubtful that Syria would go to war alone against Israel. Consequently, further reductions in military spending could be accomplished in Israel and Jordan and more allocations for economic development could take place.

Second, with the likelihood of hostilities reduced, more tourists could be expected to visit the area. The resumption of Saudi aid in the event of regional stability would enable Egypt to construct new hotels at a faster pace and to develop its infrastructure and basic services without having to rely on foreign investment.

Third, large scale cooperative projects between the countries in the region could be undertaken. The Tel-Aviv University has already established a Research Project on Peace to foster research on the peace process and regional cooperation. Israeli planners have discussed such projects as building a massive hydroelectric complex in the Jordan Valley by making use of the height differential between the Mediterranean and the Dead Sea (about 1200 feet).\footnote{See S. Gur, The Jordan Rift Valley, A Challenge for Development 3 (Tel Aviv, 1975); S. Hirsch, supra note 85; Eisenberg, Planning for Regional Cooperation in the Middle East, The Middle East Rev. 5 (Spring, 1979) (American Academic Assoc. for Peace in the Middle East).} Ultimately, joint projects could be conducted to manage energy and water resources as well as to facilitate industrial development.\footnote{Transportation and telecommunications could be improved, for example, by such projects as the Cairo-Lod-Beirut railroad and the Cairo-Eilat-Amman highway. The resulting exchange of information would benefit the environment, agriculture, and public health as well as promote industrial development.}

Unfortunately, the possibility that Saudi Arabia or Jordan will join the peace talks is remote. The decision by the Saudi cabinet to break
relations with Egypt followed a marked hardening of Saudi Arabia's mood as reflected by the tougher statements concerning the Peace Treaty made by Prince Sultan, the Minister of Defense and Prince Abdulah, the head of the National Guard. Moreover, it is speculated that a power struggle might be underway within the Saudi royal family with the pro-American faction under Crown Prince Fahd losing ground.

Until recently, Saudi Arabia has been pursuing a carefully balanced policy of trying not to antagonize any party in the Arab world. For instance, it provides aid to the Palestinians and to the conservative monarchy in Jordan. It maintains influence in most Arab capitals regardless of their ideology or orientation. Joining the peace talks would indicate that the Saudis had taken sides. This would not only anger and alienate such radical regimes as Syria, Iraq, Libya, Algeria and the Palestinians, but might also result in serious military and security problems. Saudi Arabia is no match for countries like Syria or Iraq. In addition, it has a large Palestinian presence in the form of refugees employed in the oil fields and in other positions, both managerial and blue collar. Thus, by joining the peace talks, Saudi Arabia would be taking a considerable risk. Moreover, the immediate benefits in doing so are not yet clear.

As far as King Hussein of Jordan is concerned, there are also some definite advantages in not presently joining the peace talks. Like Saudi Arabia, Jordan must also worry about Syria, Iraq and the Palestinians. As long as the United States and Egypt are already pursuing Jordan's interests by attempting to extract concessions from Israel on the West Bank and in Jerusalem, it is wise for Hussein to delay submitting his own demands pending the outcome of these efforts.

Furthermore, since Jordan's economy has been fairly strong and became even stronger following the civil war in Lebanon during which many businesses moved from Beirut to Amman, there is little incentive for Jordan to join the peace talks now. The United States House of Representatives tried to provide an incentive by amending a foreign military aid bill to bar Jordan from receiving $121.3 million unless President Carter "determines and certifies" that Jordan is acting in good faith in seeking peace. However, with so few friends in the Arab world, it is unlikely that the Carter administration would risk a confrontation with Jordan.

Since the risks to both Jordan and Saudi Arabia in joining the peace talks appear to outweigh the foreseeable benefits, it is likely that the isolation of Egypt will continue.

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87 N.Y. Times, Apr. 24, 1979, § 1, at 3, col. 4.
88 Id.
89 N.Y. Times, Mar. 30, 1979, § 1, at 8, col. 1.
III. Conclusion

The economic advantages to be derived from the Peace Treaty by Israel and Egypt are negligible to both countries and are offset to a large extent by the disadvantages. These disadvantages could have been minimized had the negotiations and the final agreement been handled with fewer formalities and less media exposure. The fanfare and publicity accompanying the negotiations alarmed the other Arab countries and provoked a harsh reaction which stifled the potential gains from the Peace Treaty. Furthermore, President Sadat, surprised by the intensity of these reactions, hardened his own stand by increasing his demands on Israel to prove that he is sensitive to the interests of other parties to the conflict and is still the patron of the “Arab Cause.”

In short, a more productive approach might have been a *de facto* peace with minimum formalities and fanfare. Not only would this have been more palatable to both countries and to President Sadat, but also to the American taxpayer, who is now asked to compensate for the loss of Saudi aid and for other economic hardship that is likely to be caused by the reaction of other Arab states.

While the economic benefits of the Peace Treaty are negligible, war and peace cannot be measured in economic terms alone. The loss of life, human suffering, and the grief inflicted on thousands of families in a war must be contemplated and added to the cost of a war option. Although peace will not automatically solve Egypt’s immediate problems of poverty and overpopulation, neither will war. War could only aggravate these existing problems, while peace may initiate and catalyze a process of economic recovery that, at least in the long run, will alleviate these problems. While the peace agreement will not provide Israel with the peace and security it wants, neither have the past wars. For Israel also, peace is at least a start, carrying with it the possibility that better things will follow.

An old proverb of Benjamin Franklin’s says that there was never a good war or a bad peace. One can only hope that this peace agreement, in spite of its limitations, will gradually develop into a full and mutually beneficial peace.
## TABLE 1

Israel—Commodity Composition of Principal Imports and Exports

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Diamonds, rough</td>
<td>488,017</td>
<td>442,960</td>
<td>469,126</td>
<td>670,252</td>
</tr>
<tr>
<td>Boilers, machinery and parts</td>
<td>279,724</td>
<td>327,955</td>
<td>434,502</td>
<td>403,501</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>158,828</td>
<td>212,141</td>
<td>241,252</td>
<td>182,722</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>226,055</td>
<td>428,642</td>
<td>349,153</td>
<td>263,970</td>
</tr>
<tr>
<td>Vehicles</td>
<td>196,008</td>
<td>263,651</td>
<td>188,848</td>
<td>194,760</td>
</tr>
<tr>
<td>Chemicals</td>
<td>180,800</td>
<td>244,144</td>
<td>301,362</td>
<td>282,615</td>
</tr>
<tr>
<td>Crude oil</td>
<td>208,816</td>
<td>583,568</td>
<td>628,319</td>
<td>675,516</td>
</tr>
<tr>
<td>Cereals</td>
<td>140,915</td>
<td>226,972</td>
<td>287,650</td>
<td>235,854</td>
</tr>
<tr>
<td>Textiles and textile articles</td>
<td>102,388</td>
<td>130,911</td>
<td>106,958</td>
<td>119,690</td>
</tr>
<tr>
<td>Ships, boats, aircraft, etc.</td>
<td>204,019</td>
<td>166,462</td>
<td>42,658</td>
<td>53,250</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Diamonds, worked</td>
<td>617,109</td>
<td>641,131</td>
<td>640,744</td>
<td>799,726</td>
</tr>
<tr>
<td>Edible fruits</td>
<td>127,854</td>
<td>137,528</td>
<td>200,797</td>
<td>203,922</td>
</tr>
<tr>
<td>Textiles and textile articles</td>
<td>142,838</td>
<td>160,234</td>
<td>164,748</td>
<td>209,105</td>
</tr>
<tr>
<td>Fruit and vegetable products</td>
<td>73,399</td>
<td>88,654</td>
<td>77,905</td>
<td>99,079</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>34,191</td>
<td>67,246</td>
<td>72,263</td>
<td>51,377</td>
</tr>
<tr>
<td>Organic chemicals</td>
<td>25,744</td>
<td>59,287</td>
<td>67,904</td>
<td>75,161</td>
</tr>
<tr>
<td>Inorganic chemicals</td>
<td>16,315</td>
<td>36,473</td>
<td>45,428</td>
<td>33,930</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>33,734</td>
<td>51,685</td>
<td>98,604</td>
<td>169,142</td>
</tr>
<tr>
<td>Non-electric machinery</td>
<td>30,293</td>
<td>46,887</td>
<td>54,571</td>
<td>67,587</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>27,082</td>
<td>42,704</td>
<td>78,112</td>
<td>93,467</td>
</tr>
</tbody>
</table>

## TABLE 2

Egypt—Commodity Composition of Principal Imports and Exports

<table>
<thead>
<tr>
<th>Imports</th>
<th>£ E Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals and Milling Products</td>
<td>66.2</td>
</tr>
<tr>
<td>Animal and Vegetable Oils</td>
<td>16.8</td>
</tr>
<tr>
<td>General Grocery</td>
<td>4.8</td>
</tr>
<tr>
<td>Tobacco</td>
<td>11.2</td>
</tr>
</tbody>
</table>

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**Notes:**


81 Id. at 315.
Textiles and Textile Articles 16.9 22.0 29.7 55.4
Paper and Paper Products 11.8 32.9 61.8 60.7
Pottery and Glassware 3.6 5.0 14.9 20.2
Clocks, Watches, Scientific Apparatus 4.1 5.3 12.1 21.1
Mineral Products (excl. Crude Petroleum) 7.2 29.8 43.9 63.1
Chemical Products 53.6 122.2 197.5 125.9
Wood, Hides and Rubber 24.9 57.4 96.4 89.2
Machinery and Electrical Apparatus 51.7 78.6 169.8 280.1
Transport Equipment 35.9 84.4 139.8 178.0
Crude Petroleum 3.6 1.2 71.8 21.0
Iron and Steel 25.3 56.6 118.1 113.6

<table>
<thead>
<tr>
<th>Item</th>
<th>1974</th>
<th>1975</th>
<th>1976</th>
</tr>
</thead>
<tbody>
<tr>
<td>'000 £E million</td>
<td>'000 £E million</td>
<td>'000 £E million</td>
<td></td>
</tr>
<tr>
<td>Cotton, raw</td>
<td>232 279.1 185 201.0 165 154.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton yarn</td>
<td>37 65.1 32 63.0 37 57.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton piece goods</td>
<td>14 20.1 9 16.2 14 17.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>136 39.7 104 24.2 211 31.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potatoes</td>
<td>100 5.9 48 3.2 158 17.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Onions</td>
<td>104 7.6 70 7.0 66 8.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edible fruits</td>
<td>169 12.0 228 20.4 185 24.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manganese and phosphates</td>
<td>120 1.8 105 2.2 119 2.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Petroleum</td>
<td>940 23.9 923 23.1 3,922 109.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benzine, kerosene and mazout</td>
<td>33 0.2 243 5.7 440 10.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cement</td>
<td>181 2.4 86 1.2 25 0.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 3**

Tourism in the area. Today and in time of peace.\(^{22}\)

<table>
<thead>
<tr>
<th></th>
<th>Under present conditions</th>
<th>In peace</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism from outside the area</td>
<td>2,500,000</td>
<td>3,300,000</td>
<td>+32%</td>
</tr>
<tr>
<td>Arab tourists in the area</td>
<td>2,500,000</td>
<td>3,500,000</td>
<td>+40%</td>
</tr>
<tr>
<td>Israeli tourists in the area</td>
<td>400,000</td>
<td>1,500,000</td>
<td>+225%</td>
</tr>
</tbody>
</table>

Average stay
- Tourists from outside the area: 18 days
- Tourists in the area: 10 days
- Israeli tourists in the area: 12 days

Total number of "overnights"

\(^{22}\) See Hareven, supra note 55.
<table>
<thead>
<tr>
<th>Category</th>
<th>1980</th>
<th>1990</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourists from outside the area</td>
<td>38,000,000</td>
<td>59,000,000</td>
<td>+59%</td>
</tr>
<tr>
<td>Arab tourists in the area</td>
<td>25,000,000</td>
<td>28,000,000</td>
<td>+12%</td>
</tr>
<tr>
<td>Israeli tourists in the area</td>
<td>5,000,000</td>
<td>8,000,000</td>
<td>+60%</td>
</tr>
<tr>
<td>Total</td>
<td>68,000,000</td>
<td>95,000,000</td>
<td>+40%</td>
</tr>
</tbody>
</table>