
A New Middle East?: Globalization, Peace and the 'Double Movement'

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Abstract

The 'rise and fall' of the New Middle East (NME) cannot be separated from wider global developments and must therefore be studied in relation to them, in both their ideational and material aspects. The ideological background of the NME has drawn upon the ideology of globalization and shares its underlying tenets of rationality, professionalism and virtues of market economy. In the early 1990s a discourse of globalization was set in motion, highlighting economic and technological development that supposedly rendered territory and territorial disputes marginal or irrelevant. The NME, supported by Israel's business, political and academic elites, advocated liberal economics and peace as a solution to the region's problems. But Israeli elites have failed to turn the idea of the NME to a hegemonic concept, as this attempted liberal hegemony invoked a Polanyian 'double movement' that undermined the peace process. The scenario of the NME and the trade-off between territorial integrity and promised regional prosperity not only met fierce ideological rejection, but perhaps more importantly, failed to persuade the many more skeptics. Limited in its appeal and lacking sufficient legitimacy, the peace process was exposed to derailment by extremists, locking the region into cycles of violence.

Keywords: *globalization, Israel, Middle East, Palestinians, peace*

Introduction

The limits on movement became severe lately, especially since Israel took over most cities of the West Bank. Gone are the days when Ziad Agbariah could put his children in the car and take them to the McDonalds in Tel-Aviv or even Domino's Pizza in Jerusalem (*Ha'aretz*, 14 August 2002).

The 'New Middle East' quickly took on more meaning than the title of the book published in 1993. A new term was coined, and it was transformed into a vision. It came to stand for the Israeli outline of a peace project between Israel, the Palestinians and the wider Arab world. Within Israel this concept indicated a paradigmatic shift among policymakers and bureaucrats away from the conceptualization of the conflict as inevitable, permanent or intractable. The *New Middle East* (hereafter, *NME*)¹ written by Shimon Peres shortly before the Oslo agreements, was intended to provide a blueprint for the future of the region based on economic rationality, peace, democracy, cooperation, mutual gain and general prosperity. The choice the Middle East must face, Peres argued, is between peace, global integration and progress or continuing conflicts and backwardness.



Peace between Israel and the Arab states and the Palestinians will eliminate an important source of tension, if not the most dangerous. Instead of visions of blood and tears there will rise visions of happiness and beauty, life and peace. We are at a historic crossroads. Do we choose the path of the tongues of fire, billowing smoke, and rivers of blood, or of blooming deserts, restored wastelands, progress, growth, justice and freedom? The higher the standard of living rises, the lower the level of violence will fall.²

While the *New Middle East* outlined a peace process based on mutual gains, in reality the actual peace process between Israel and the Palestinians was a typical bargaining process, often zero-sum in nature, in which each side attempted to secure its interests. But in the background, and underlying the attempted public appeal of the process, loomed the prospect of an NME, supposedly a promise for a better future, overriding the mundane obstacles for peace. For a brief period, shortly after the conclusion of the Oslo Accords, the NME seemed to shift from dream to reality. Businessmen and politicians traveled across the Middle East discussing regional projects and promoting joint ventures. Multinational corporations invested or expressed their intention to invest and optimism abounded.

The story of Ziad Agbariah quoted above may very well be symbolic of both sides of the 'before and after' coin: the short spring of the NME and its fall. In the era of promise, a relatively well-to-do Palestinian family from Ramallah could go out to McDonalds in Tel Aviv, experiencing, even if to a limited extent, the world of globalization and consumption of the product most associated with it. For Israeli families of the same status the benefits of globalization were more tangible and a part of their everyday experience. The era of optimism, however, was short-lived. The promise of the NME was shattered by a return to violence, the derailment of the peace process and the public(s) loss of faith. The economic dividends derived from the peace process did not create the expected public support and the peace process oscillated between intensive negotiations, impasses and new cycles of bloodshed. With the collapse of the peace process in October 2000 and violence escalating to higher levels than in the past the Palestinians found themselves back under military rule and curfew: a far cry from any global dreams of a different Middle East. Israelis were also disenchanted with peace prospects, and the concept of a NME became the object of ridicule and an example of a pipedream. Skeptics and critics alike now had proof that the 'New Middle East', book and concept, was founded on a poor understanding of the nature of the region and the intractable nature of the Arab-Israeli conflict.

This paper proposes a different explanation for the collapse of the NME, arguing that accounting for the 'rise and fall' of the New Middle East requires a structural explanation that extends beyond dismissal of the concept as 'naiveté' and beyond specific events like the failed Camp David negotiations in the summer of 2000, important as they may be. The rise of the NME, as well as its fall, cannot be separated from wider global developments, i.e. globalization, and must therefore be studied in relation to them, both to their ideational and material aspects. The NME

drew upon the ideology of globalization and shared its underlying tenets of rationality, professionalism and virtues of market economy. Accordingly, it stressed the importance of economic and technological development that supposedly rendered territory and territorial disputes marginal or irrelevant.

The reality of Middle East politics, like that of world politics, however, was soon proven more complex than the optimistic scenarios cultivated by Israel's elites. Thus, despite the impressive encroachment of liberal economics and the advancement of globalization, the process, as will be detailed below, has failed to achieve hegemony and, consequently, has not escaped discontent and resistance. Similarly, while the NME changed the business atmosphere and initiated economic growth, significant sectors across the region remained indifferent or hostile to the peace process and its future promises.

The 'rise and fall' of the NME, therefore, will be explained in this work in relation to globalization and by using Karl Polanyi's description of the 'double movement'.³ Coined in the 1940s to explain the collapse of the nineteenth-century liberal order, the 'double movement' captures well the forces and counter-forces of contemporary globalization. The expansion of the market economy, itself a socio-political agenda as demonstrated by Polanyi, was met by a defensive counter-movement seeking to shield society from its negative effects. The double movement is an amalgam of social forces with different and, at times, contradictory ideologies and purposes, with each reacting to what it perceives as a threat constituted by market economics. The NME, it will be argued here, heavily influenced by the ideology of globalization, the catch-phrase for a complex process with economic liberalization at its core, evoked its own double movement of various resistances. This amalgam of resistance consisted of those opposed to the very notion of the NME (and globalization) and those who were suspicious of its outcomes or disappointed in their own fate.

My claim is not that the peace process failed because of economic inequality; while inequalities certainly had an impact this would reduce resistance to material considerations. Rather, it is that the belief that globalization makes peace all but inevitable was shortsighted and, accordingly, the promise of the NME that was supposed to provide the cement holding the peace process together failed to generate the necessary support and transcend other issues. Israeli elites, in other words, have failed to turn the idea of the NME into a hegemonic concept. The scenario of the NME and the trade-off between territorial integrity and promised regional prosperity not only met fierce ideological rejection but, perhaps more importantly, failed to persuade the many more skeptics. Limited in its appeal and lacking sufficient legitimacy, the peace process was exposed to derailment by extremists, locking the region into cycles of violence.

This study is divided into three major parts. I will begin by setting a theoretical framework of globalization, attempted hegemony and the double movement. In the second part the ideational relationship between the NME and the wider discourse of globalization will be demonstrated and the domestic coalition behind the NME will be described. The third part will account for the failure of the NME by

delineating the sources of the double movement across the region, explaining their contribution to the derailment of the NME and thus demonstrating the failure of the hegemonic attempt.

Hegemony, globalization and the 'double movement'

Karl Polanyi's *The Great Transformation* provides an illuminating source for understanding the contemporary political developments and social conflicts associated with globalization. Looking back at the collapse of nineteenth-century liberalism, Polanyi identifies a historical double movement between two opposing organizing principles: 'economic liberalism, aiming at the establishment of a self-regulating market . . . [and] the principle of social protection aiming at the conservation of man and nature as well as productive organization'.⁴ The creation of a market society based on the 'disembedding' of markets is counteracted by society's protective measures and demands to de-commodify the social-economic order. In the context of contemporary globalization Polanyi's description of the double movement allows us to come to terms with, on the one hand, the powerful thrust of the neo-liberal order associated with globalization and, on the other hand, with the wide discontent and resistance it evokes. These conflicting tendencies, I will argue below, are central to the rise and fall of the 'New Middle East'.

Liberalism and the self-regulating market, according to Polanyi, were neither a 'natural' evolution of society nor a spontaneous phenomenon, but rather a political process advanced by interested classes using coercive power in the service of a utopian idea. The success of this class to transform the social order is based not only upon its coercive power but also on 'the breath and variety of its interests, other than its own, which it is able to serve'.⁵ This idea of a leadership in which the dominant group is able to convincingly present itself as representing a general interest parallels Gramsci's concept of hegemony. The hegemonic supremacy of a social group, according to Gramsci, is manifested not only in overt domination but also in more subtle ways of intellectual and moral leadership.

Hegemony describes a regime whose rule is based on a combination of coercion and consent and on the additional power that accrues to a dominant group by its ability to claim to represent the general interest. By convincingly presenting its particular interests as universal, the dominant group can win the consent of those dominated by it.⁶ The beliefs and practices of the dominant group that are disseminated to the public through various institutions become an intractable component of common sense.⁷ Hegemony, therefore, does not simply 'happen' as a result of some exogenous change; rather it is the result of time, energy and resources invested by interested parties.⁸ Thus its study pertains to questions of how ideas and ideologies emerge, how power relates to the spread of ideas and their translation to popular consciousness, and how ideas combine with power to affect wide social transformations. Finally, the accumulation of political power does not guarantee that the dominant group will become hegemonic or that its hegemony will be sustained.

Globalization, and the associated rise of neo-liberal ideology, has been described as a hegemony that overturned the former consensus over the welfare state. Accordingly, decisions among most advanced industrial states to disembody markets and to 'roll back' the state were influenced and supported by the dissemination of neo-liberal ideas that have made the market economy the optimal solution for society's problems and, consequently, legitimized policies of 'downsizing' and 'globalizing'.⁹ The neo-liberal descriptions of globalization celebrate the emergence of a global market and global competition. Evolutionary imagery or technological determinism is used to explain the process and its positive ramifications are highlighted: rationality, prosperity, democracy and even peace. The power of globalization, therefore, is based not only on the technological and financial changes that facilitate 'flows' across borders, but also upon an ideological support system that attempts to describe the process as both inevitable and desirable. These ideological arguments, elaborated below, have become also part and parcel of the idea of the New Middle East discussed in the following section and as such they justify a detailed description.

The positive-optimistic account of globalization can be traced to the triumph following the collapse of the USSR and the argument, best framed by Fukuyama, of 'the end of history' and the exhaustion of all viable systematic alternatives.¹⁰ The spread of liberalism, with its underlying premises of democracy and economic rationality, Fukuyama argues, means more peace for the developed part of the world.¹¹ Tongue in cheek, Thomas Friedman, the influential *New York Times* columnist, adopts the democratic peace argument of globalization, suggesting that no war has ever been waged between two countries that both have a McDonalds. As an emblem of Western capitalism, the existence of McDonalds in a country means more than hamburgers; it is about being a part of the developed globalized world. In this post-Cold War world, according to Friedman, incentives for war are diminished as the world is dominated not by superpower rivalry, but by economic rationality of businessmen.¹² Globalization carries with it two other related virtues: the democratization of the world and the rationalization of governments. Democratization operates on several registers that influence the transformation of nondemocratic regimes that want to join the world economy and must comply with its rules. It is not the intervention of other states but the actions of rational investors operating globally in search of profit – the so-called 'electronic herd' – who request reliable information, transparency and accountability that dictate democratization to nondemocratic regimes.

The *fait accompli* thesis of globalization has been famously advocated in the work of Kenichi Ohmae, a former senior partner of the global consulting firm McKinsey & Company. As early as the late 1980s, critical of his Japanese government's policies and of US–Japan trade disputes, Ohmae was already speaking out in favor of a global economy.¹³ His work since then describes a revolutionary transformation of world geography, away from the 'outdated vocabulary of political borders' and into a new reality in which 'traditional nation states have become unnatural, even impossible, business units in a global economy'.¹⁴ Ohmae's conclu-

sion is strikingly clear; the use of 'nation-focused' maps to make sense of economic activity is misleading: 'the old cartography no longer works. It has become no more than an illusion.'¹⁵

But, while neo-liberalism is well entrenched and politically effective it falls short of the moral legitimacy that hegemony requires,¹⁶ and globalization, in spite of its powerful thrust, remains politically problematic and unstable.¹⁷ Simultaneous integration and disintegration can be observed in the late twentieth century's globalization that may be approaching a conjuncture in which renewed liberal-economic structures will generate large-scale disruptions and sustained pressure for self-protection.¹⁸ Unlike a solidified counter-hegemony in the Gramscian sense, with a fixed alternative agenda, the anti-globalization movement is an amalgam of reactions to globalization analogous to the double movement Polanyis identified in earlier historical periods when the liberalization of society was met by a defensive counter-movement.

This was then the usual defensive behavior of society faced with a change; it was a reaction against a dislocation which attacked the fabric of society, and which would have destroyed the very organization of production that the market had called into being.¹⁹

This counter-movement was more spontaneous than coherent and organized, and contained an amalgam of social forces with diverse and, at times, contradictory visions and goals.

The counter-movement against economic liberalism and *laissez-faire* possessed all the unmistakable characteristics of a spontaneous reaction. At innumerable disconnected points it set in without any traceable links between the interests directly affected or in any ideological conformity between them.²⁰

The 'double movement', therefore, draws the picture of a society reacting against the dislocations caused by liberalization. While the agents of the movements towards the market economy ranged from the local and national to the global (the *haute finance*), the agents of the counter-movement were largely local and national whose aim was the protection of national and local interests.²¹ Thus, protective legislation, restrictive associations and other instruments of intervention were used against what was perceived as the deleterious action of the market: first and foremost, social disintegration.

Not economic exploitation, as often assumed, but the disintegration of the cultural environment of the victim is then the cause of the degeneration. The economic process may naturally supply the vehicle of the destruction, and almost invariably economic inferiority will make the weaker yield, but the immediate cause of his undoing is not for that reason economic; it lies in the lethal injury to the institution in which his social existence is embodied.²²

This description parallels developments within the contemporary period of globalization in which a double movement can be observed between the globalizing tendencies pushed forward by business and finance, described above, and an amalgam of a counter-movement that has both global and local manifestations. Globalization exposes a deep fault line between groups who have the skills and mobility to flourish in global markets and those who do not have these advantages, as the general tendency toward growing inequality in most of the OECD countries attests.²³ Workers, especially low-skilled workers, have to pay a larger cost in work conditions and benefits and incur greater instability in earnings and hours worked as their bargaining power erodes.²⁴ But insecurity is not the sole property of the lower classes, as even some of the middle class feels they are losing ground.

Counter-hegemonic visions and actions are diverse, at times contradictory, and are held by groups with different purposes, ideologies and methods, alluding to the differential effects of globalization itself. Some have recognized class differences and upheld democracy – understood in terms of communal self-determination – as a value to be defended against globalization. Others, coming from a right-wing perspective, resort to scapegoating and conspiracy narratives to defend the nation supposedly at stake. The rise of ethnic and class tensions, a reassertion of territoriality, growing xenophobic nationalism and demands for protection that occurs in the heart of Europe and the US are all related to globalization.²⁵ The liberalization and de-territorialization associated with globalization, therefore, is met by a counter-movement seeking to redraw boundaries.

This denationalization, which to a large extent materializes in global cities, has become legitimate for capital and has indeed been imbued with positive value by many government elites and their economic advisers. It is the opposite when it comes to people, as is perhaps most sharply illustrated in the rise of anti-immigrant feelings and the renationalization of politics.²⁶

The resistance to globalization has wider political ramifications than Polanyi's double movement suggests, as it promotes not only decommodification for social protection, but also reterritorialization and renationalization driven by those who fear globalization's social consequences. The double movement of globalization is the framework in which the idea of the New Middle East developed, but also the context for its rising opposition. As such it allows coming to terms with both the rise and the decline of the New Middle East.

The New Middle East

Israel will be a high-tech locomotive that will pull Jordan and the Palestinians along with it. Already Siemens has linked up its Israeli factory, Siemens Data Communication near Haifa, and a Siemens team of Palestinian engineers in the West Bank town of Ramallah, with Siemens headquarters back in Germany. It's just the beginning.²⁷

Thomas Friedman's optimistic scenario, quoted above, was one of many emanating from both within and outside Israel in the period following the Oslo Accords, when the New Middle East seemed a reality. Written shortly before the signing of the Accords, Peres sought to produce a blueprint for what he perceived as the dawning of a new age. The book offered new ideas for security cooperation, regional economic projects, water supply, agriculture and the refugee problem. Overall, economic progress was the key for resolving all troubling issues. When writing the book, with Arie Naor, the peace process seemed nowhere in sight as neither the direct negotiations in Washington between Israelis and Palestinians nor the secretive back channel in negotiations in Oslo seemed to be advancing. But what started as an 'intellectual exercise' or a utopian vision became part of the political discourse when the Oslo Accords preceded its publication. Peres' blueprint was quickly embraced, even if with a grain of cynicism, by the liberal press, the business class and the liberal elite.

The *NME* sought to propose a new direction for Israel and the region by taking advantage of wider global developments. 'We cannot allow the past to shape immutable concepts that negate our ability to build new roads',²⁸ argued Peres in the book, presenting the process of globalization as creating a potential escape route from a conflict termed intractable. The roots of the NME, as Keren demonstrates, can be found in Peres' tenure during the 1950s at the Ministry of Defense as the Director-General, and later as Deputy Minister. Peres formed a close working relationship with the professionals who, often critical of the centrality of government, could identify with his call for a modern technological Israel.²⁹ In the 1980s, when Peres became Prime Minister in a national unity government, his alliance with professionals deepened in his fight against 'populist trends': hyperinflation, the war in Lebanon, right-wing rhetoric and political stalemate.

It was a short way for Peres, who was engaged throughout his political career when holding office with a 'knowledge-power nexus' seeking to 'rationalize' Israeli society, to apply the same rationale for the resolution of the conflict. Already in 1978, in an article published in *International Security* Peres argued that Israel must opt for 'unusual solutions' and take 'unpaved roads' towards peace. Economic cooperation, he suggested, could create an infrastructure for peace.³⁰ This 'professional' approach, argues Keren, based on rationality underlies the logic of the Oslo Accords, where professionals devised pragmatic solutions for a complex conflict.³¹ The Peres approach to the conflict, however, did not represent professionals in the narrow sense of the word but, as will be discussed below, a wider stratum of Israeli elite who shared his vision of a rational, liberal society at peace with its neighbors.

In the 1990s globalization and the liberal project described above provided Peres in the 1990's with a powerful rationale for peace that converged with business and professional perceptions developed earlier. Economic cooperation, according to this plan, would be followed by increasing, ongoing political understanding until stability was achieved.³² As in the liberal accounts of globalization described above, the economy was to take precedence over the political process, changing political preferences and antagonistic identities. The *NME* shares with the liberal

accounts of globalization not only their optimism, but also the faith in market economics as forces of rationality and progress and their basic understanding of a new world order.

In the past, national relations were contingent on quantitative factors: size of an area, natural resources, population density, locations. Countries competed to own or control these resources . . . Toward the end of the twentieth century, relations began to take on a new, qualitative dimension. There was increasing significance in scientific progress, rapid communication, methods of data collection, higher education, artificial intelligence, high technology, and fostering a peaceful environment that creates wealth and goodwill. These are the elements of contemporary power. The scale has tipped in the direction of economics rather than military might. Armies might conquer physical entities, but they cannot conquer qualitative ones. At this stage of the game objects that may be subjected to a military takeover are no longer of value.³³

This point was reiterated even seven years later:

The basic change the world has experienced is the evolution from an economy of land to an economy of brains . . . Once a nation turns its focus on land to a focus on brains, borders are irrelevant. Brains do not have borders, nor do they recognize borders. Actually, governments are becoming irrelevant to modern societies. They are too small to control the big issues. The world economy runs without governments . . . multinational companies have become more important than governments. Markets have become more important than countries.³⁴

In the Middle East, as elsewhere across the globe, according to the *NME*, borders have lost much of their significance even for the purpose of national defense that now requires wide-ranging regional arrangements. ‘What significance do physical barriers – mountains, rivers, deserts – have when missiles can fly over or around them toward their predetermined targets.’³⁵ The continuous adherence to borders and territoriality impedes the ability of the Middle East to integrate globally, holds back economic development and, as a result, neither pacification nor democratization can happen.

Thus, economic and social development are the criteria for successful democratization of the Middle East . . . But for the democratic process to take hold, we must first overcome poverty and ignorance – the cradle of fundamentalism. The movement against modernization arises from the gap between the ethos of and economic expectations from the West, and reality. This gap is manifested in a low per capita income and GNP, hampered upward mobility, high unemployment rate, overpopulation, and limited production.³⁶

Facing the common enemy of communism European states were able to transcend ancient hatreds and form the EU. Similarly, argues Peres, the states of the

Middle East face a common enemy – poverty – that calls for cooperation and common action. Yet, poverty and the conflict feed off each other and entrap the region in backwardness.

The tremendous arms budget swallows any profits . . . the tremendous investment in weaponry and the concentration of knowledge and talent in the area of security come at the expense of social considerations and lead to poverty and distress, which in turn give rise to fanaticism, fundamentalism, and false messianism. The solution to breaking this vicious cycle is clear: crush the barriers of hatred.³⁷

If war is the source of regional distress, the one and only solution is peace. In addition to the direct economic advantages of peace, a wide spectrum of fantastic opportunities will open up, with backing from local and foreign sources as well as government and international aid.³⁸

The Middle East therefore is trapped in a web of poverty, backwardness, hatred and authoritarianism, whereas peace is the way out of the trap and economic rationality can create the incentives for peace. The barriers of hatred can be crushed by the rational world of business, creating a common interest overriding the conflict, and, by the realization of all parties to the conflict of the stakes involved, an obvious choice between the ‘hatred of the Balkans’ and ‘the road paved by Western Europe.’³⁹ As regional common markets, reflecting the ‘new Zeitgeist’, form across the world, it is both inevitable and desirable that the Middle East should follow that course.

With the establishment of these new world trade organizations, can the Middle East afford to remain on the sidelines? The transition from an economy of strife to an economy of peace has set the stage for the Middle East. We have a real interest in using the peace opportunities at hand to raise the standard of living for our region, our countries, and our citizens.⁴⁰

The Middle East will not always import unemployment and export hunger. A regional organization is inevitable here as well, where Western civilization began. The regional organization now dictates world policy in which the market is more important than the individual countries, speed is more important than quantity, and a competitive atmosphere is more important than old borders.⁴¹

The underlying premises of the *NME*, namely the ability of economics to change the zero-sum nature of politics, largely due to the declining significance of territory, are unmistakably influenced by popular accounts of globalization. The *NME* was an answer to the challenges of globalization and the new opportunities it presented for the region. Common regional problems – desertification, water shortage and poverty – and the promise of global integration, according to the *NME*, created new incentives for cooperation and changed priorities. Based on business rationality, a gradual three-tiered pyramid program of cooperation was outlined including

binational or multinational projects, international consortiums that will carry out projects involving large-capital investments, and a regional community policy with the development of regional institutions.⁴² This framework of cooperation would create a virtuous cycle based on common interests, in which economic development and advancement in the peace process would cross-fertilize.⁴³

The making of a New Middle East

Peres' ideas were shared by Israel's liberal elites whose desire to 'normalize' Israel was translated into a three-part agenda that included economic and political liberalization, termination of the conflict and global integration. While the Israeli economy had been on a rapid liberalization path since the mid-1980s (with the great help of Peres' short tenure as Prime Minister), the continuation of the conflict was perceived as impeding the economic progress and keeping Israel away from the orbit of globalization. Frustrated with the Likud government's policies, Israeli businessmen developed high expectations from the Labor Party led by Yitzhak Rabin. Two days before the elections of 1992, when the polls indicated that the Labor Party led by Rabin would win, an improved business mood was reflected in the stock prices, which climbed by 3.5 percent, and after the election results confirmed these expectations they climbed by another 7 percent. 'Whereas in the ballot box investors vary in their political views', explained one economic analyst, 'in the stock market there was largely a consensus. For most investors the return of the left (the Labor Party) means higher chances for conflict resolution.'⁴⁴

The newly elected Prime Minister Rabin did not entirely share Peres' enthusiasm towards the NME and was generally more reluctant towards the peace process. But, having a close relationship with the business elite, Rabin was sensitive to business expectations and was voted for in the belief that he would lead Israel in a new direction. The economic developments that followed the signing of the Oslo Accords had not only made the NME seem possible but also had created an opportunity for the business elite and the Labor political elite to promote an agenda of economic development and conflict resolution. The stock market reflected the explosion of business optimism due to what one paper described as 'investors betting on peace', reaching an unprecedented peak, breaking all records, three days after the signing.⁴⁵ The daily newspaper *Ha'aretz* argued that the stock exchange was an indicator of the upcoming economic boom and that the peace accords were one of the best things that had ever happened to the Israeli economy.⁴⁶ Foreign companies that had previously avoided business in Israel now entered the Israeli market. The list included major American retail chains – Pepsi Cola, McDonalds, Burger King, Tower Records, Office Depot and Ace Hardware – European companies – Heineken, Amstel and Daimler Benz – and East Asian companies – Hyundai and Acer.

The negotiations in Oslo were kept secret from Israeli businessmen but they were quick to align their support. Dan Gillerman, President of the Federation of

Israeli Chambers of Commerce, highlighted the economic benefits that peace would bring to Israel and the region and suggested projects and institutions that would encourage cooperation, be the catalyst of peace and transform the region.

Israel could become just another state . . . or, it could become the strategic, logistic and marketing center of the whole region like a Middle Eastern Singapore or Hong Kong where multinational companies base their head offices . . . we are talking about an utterly different economy . . . Israel must act and fast to adjust or this once in a lifetime economic opportunity will be missed only for us to say: "we could have".⁴⁷

Similarly, the Manufacturers Association declared that Israel was now working with a 'new paradigm' within which 'Old enemies have become new friends; opportunities beckon from across our borders.' Israel, its brochure declared, is 'the dynamo of the Middle East' and a logical point of entry into the region.⁴⁸

The economic atmosphere in the months that followed the signing of the accords highlighted the linkage between globalization, peace and economic growth and encouraged cooperation between the business community and the Labor government to promote a common agenda. The Israeli government attempted to use the momentum created by the signing of the agreements to garner support for the process and government officials stressed the potential prosperity. Statements made by the government were backed by businessmen's optimistic scenarios that received high-profile media coverage and by new business ventures that were to take advantage of regional developments. The closer it got to the agreement, the more enthusiastic the newspaper headlines became. 'In the air, the land and the sea – Israel is on the map', exclaimed a major daily.⁴⁹ The papers were drawing a new map of the world, with countries such as Tunisia, Malaysia, Cambodia and Oman opening up to Israel, and projected potential economic and political gains that Israel would experience.

Koor, one of Israel's largest conglomerates, revealed a day before the ceremony in Washington an ambitious peace project secretly launched one year earlier. The project titled 'Salaam 2000' was a \$100 million investment firm in which Koor had joined forces with a Spanish bank (Banesto), a large Moroccan private concern (ONA) and a group of Palestinians. Gaon, Koor's CEO, explained that the company had reached the conclusion that the war industry had run its course and peace, therefore, was a better investment.⁵⁰ Further support was received by international business statements that shared the government's perception of Israel becoming a regional center. The president of Taiwan-based Acer decided to begin manufacturing in Israel and explained the regional logic behind the company's decision: 'When the peace process advances, we will upgrade our Israeli assembly plant to become the distribution center for neighboring states.'

The close 'working relationship' between the government and the business community was established early on when, right after the signing of the Declaration of Principles (DOP) in Washington, the Prime Minister's plane with a delegation of

senior Israeli entrepreneurs headed for Morocco to discuss joint investments. In the following months businessmen accompanied several visits of governmental officials in the region and beyond making the connection between the political and the economic developments explicit. The government, explained one businessman, conveyed a simple message to the business community: 'we (the government) are making the breakthrough in the peace process, and you (the business community) have to consolidate it'.⁵¹ The steps taken towards peace by the government created new opportunities for businessmen who, by exploiting them, were creating 'peace dividends' that were serving a dual purpose: consolidating the new relations between Israel and the Arab world and bolstering the Israeli public's support for peace.

But while the business community was highly supportive, as were other affluent sectors of society, others within Israel and across the region were yet to be convinced of the NME's benefits. It was soon revealed that the peace process and the NME suffered from a shortage of legitimacy, not only in the Arab world, but also within Israel. Yossi Beilin, then Deputy Minister of Foreign Affairs, recalls little euphoria even at the peak of the process when opinion polls in Israel showed a slight advantage to the opposition.⁵² The biggest mistake, he reflected in retrospect, was the belief that peace would speak for itself and support would be forthcoming.

We thought that people would automatically make the connection between the diplomatic process and the end of the Arab boycott, the enormous growth of investment in Israel, the drastic decline in unemployment, the quick rise of living standards, the end of the threat of war, the rise in tourism, and the transformation of Israel from an ostracized state to a welcome and important partner.⁵³

What was missing from the peace process, as several of those involved were aware, was 'cognitive legitimacy' at the grass-roots level: a real culture of change which takes place as populations are prepared to think in terms of peace rather than conflict.⁵⁴ This lack was not only the result of extremist terrorist action, but also a testimony of the incomplete hegemony of globalization and the counter-movement discussed above. The elites, and especially the powerful business class promoted the NME and were able to capitalize on its development, but other sectors across the region shifted between indifference and hostility. While the NME was far from being entrenched, it was associated with prior developments of liberalization that marked the rift between the elites and the rest of society, and associated peace with the former's agenda. Thus, against the attempted hegemony of the NME, the motivations, perceptions and actions of various groups formed an amalgam of a double movement that undermined the NME and derailed the peace process. On the one hand, groups opposed to the very ideas of the NME, globalization and compromise led this double movement in violent actions. But, on the other hand, it was the milder but wider resistance of groups who failed to be enchanted by the vision of the NME, and discarded its promise to be universally beneficial, and who refused

to cooperate or provide the necessary legitimacy for the process to the point that eventually undermined it. Some of the major components of this movement, their sources of distrust and resentment – in the region, among Palestinians and within Israel – and their reaction to the NME will be described in the following sections.

Regional cooperation – support and resistance

The *NME* outlined regional cooperation based on mutual interest, following successful regions across the globe. Three interrelated problems, however, proved to be a high hurdle for significant regional cooperation: the wide gaps between national economies in the region, lack of trust, and difficulties in promoting cooperation beyond the elites. While the Israeli economy was close to Western standards in terms of technological development, consumerism, exports and GDP, Arab countries lagged far behind. The total exports of all Arab countries in 1993 equaled approximately \$130 billion per year, less than Italy or France, and their imports were mainly cheap consumption products or arms. Israel's exports, on the other hand, were largely expensive products and arms, none of which were expected to reach the Arab countries.⁵⁵ Israel had several incentives to pursue regional cooperation, not all of them economic. First, economic cooperation was perceived as a part of any peace plan, being a major component of the so-called 'normalization' of Arab–Israeli relations. Second, the stabilization of the region and the creation of economic networks were perceived as a springboard for globalization, making the region, and Israel in particular, attractive to foreign investment. And, third, the region did offer new (even if limited) markets and a pool of cheap labor.

Arab states, for their part, were conscious of Israel's economic superiority and suspicious of its intentions, fearing an economic takeover and arguing that Israel had more to gain from cooperation.⁵⁶ Moreover, there were demands to hold back cooperation with Israel until the peace process, particularly regarding the Palestinians, was complete. Despite the obstacles, economic cooperation in multi-lateral settings took place, with some significant results. However, while Arab business elites came to conclusions similar to those of their Israeli counterparts, namely that the region as a whole could attract foreign investment to the benefit of all states, and were ready to cooperate with Israelis, policymakers, the press and the public remained reluctant. The *Saudi Gazette*, quoting Arab economists and bankers who met at a conference in Beirut, argued that Israel, with its advanced industry and commerce, would make use the peace process to take control of the Arab economies.⁵⁷ The NME was perceived to have been arranged by Israel and structured such that all political and economic roads would run through Tel Aviv and Haifa.⁵⁸ The regional initiatives made even Egypt, a country that had had a peace treaty with Israel for over 15 years, uncomfortable. 'What is a new Middle East?' asked Egyptian President Mubarak. 'If it is peace and cooperation that's OK. But people say Israel wants to be the strongest state in the region and control the economy. Talk like this makes all the countries in the region afraid.'⁵⁹

The Casablanca business summit in November 1994 revealed the different perceptions in Israel and the Arab world regarding the future of the region. The summit, attempting to create a regional version of the distinguished Davos forum, supposedly released the forces of economic change in the region – the initiation of reforms in Arab economies, the rise of new educated economic elites, cooperation between Israeli and Palestinian businessmen, and the decision to establish a regional development bank.⁶⁰ US Secretary of State, Warren Christopher, addressing the summit, in the spirit of the NME urged all countries to pursue peace and market economics.

If the forces of peace prevail and if governments here adopt free market reforms, the Middle East and North Africa will enjoy an era of economic growth that exceeds anything they have seen in this century. There is no reason why the economic miracles that are transforming parts of Asia, Eastern Europe, and Latin America cannot transform this region. I can foresee a day when the 300 million people of the Middle East and North Africa, so long held by strife and hatred, can finally join the mainstream of international commerce.⁶¹

While many of the ideas and initiatives that were raised in Casablanca never materialized, the major problem of the summit was the reaction across the Arab world. The overbearing presence and determination of Israeli businessmen, accompanied by no less than eight government ministers, confirmed many of the Arabs' fears. In the follow-up summit in Amman a year later, the Foreign Office advised Israeli businessmen to learn the lessons of Casablanca and tone down their message. Accordingly, a smaller delegation was sent which proposed joint projects with Arab states instead of Israeli initiatives.⁶² While Casablanca was a breakthrough in terms of the meeting between Israeli and Arab businessmen and the final declaration that laid out a blueprint for future economic cooperation, formidable opposition to normalization with Israel continued.⁶³

Bilateral economic relations have not fared much better, even in the case of Jordan, a country that signed a formal peace agreement with Israel in 1995. Economic cooperation was mainly the transfer of Israel textile plants, seeking cheaper labor, to Jordan. Arab economists were critical of the relations, describing them as exploitation.

The Israeli approach to business dealing with Jordan indicates that Israel wants to exploit the peace treaty in a manner that Jordanian businessmen believe will not best serve their interests. That in return, has consolidated deeply rooted suspicions about Israel and its willingness to be a partner in the joint, and regional, development process.⁶⁴

The fact that most Israeli–Jordanian joint ventures involved subcontracting by Israeli manufacturers to Jordanians, enjoying the advantage of Jordan's cheap labor, contributed to the worries of an Israeli economic takeover. Other Israeli ventures in

Jordan, designated as a 'launch pad' for infiltrating other Arab markets that remained closed, added little to Jordanian confidence.⁶⁵ Aside from the fear of Israeli takeover, there was also some disappointment and unfulfilled expectations as peace, for most people, had not changed everyday life. As one Jordanian observer noted: 'People thought the peace process meant a new house, a new car, a better living standard. But now they see only that their lives are the same and in many cases worse.'⁶⁶

The Palestinians

The Oslo Accords raised high hopes among Palestinians for improvements in their political status and quality of life. In a survey among Palestinians in September 1993 approximately 65 percent supported the agreement.⁶⁷ Opposition to the agreement emanated from radical Islamic groups, as well as from secular activists, who perceived the agreement as a 'sell-out' and were skeptical regarding any benefits it would yield. Edward Said, a distinguished Palestinian intellectual living in the US, was among the harshest critics of the agreement describing it as 'Arab capitulation'.

Israel has achieved all of its tactical and strategic objectives at the expense of nearly every proclaimed principle of Arab and Palestinian nationalism and struggle. Thus Israel has gained recognition, legitimacy, acceptance from the Arabs, without in effect conceding sovereignty over Arab land, included annexed East Jerusalem, captured illegally by war.⁶⁸

The Oslo Accords remained vague on questions of borders, refugees, the status of the settlements, Jerusalem and other thorny issues, which were all left for the final status negotiations three to five years down the road. This vagueness is described by Keren as escapism and, conversely, by Edward Said as an intentional neglect in which Israel received everything in return for almost nothing.⁶⁹ But, following the logic of the NME as outlined above, there is another explanation. In a globalizing world, where economics override politics and borders are rendered insignificant, these thorny issues might simply lose their edge. Differently put, providing both parties act in 'good faith', the NME could materialize and create new incentives for both sides to compromise. The opposition to the agreement, it was acknowledged, was not economic but national and religious. Yet an overall improvement in quality of life, it was thought, could minimize the power of anti-agreement forces and empower the so-called pragmatic or moderate factions.

In 1993 the Palestinian economy was a shambles. Heavily dependent upon Israel, it was paying a grave economic price for the uprising of the 1980s (the Intifada) in terms of decline of productivity, trade with Israel and employment in Israel. Additionally, Palestinian support of Iraq during the first Gulf War resulted in the termination of aid from Kuwait and Saudi Arabia, and remittance income from

Palestinians working in the Gulf who were deported after the war.⁷⁰ Both the Israeli government and the World Bank recognized the need to drastically improve the life of Palestinians and gave the private sector an important role in developing the Palestinian entity. The World Bank's Emergency Assistance Program for the Palestinian Authority (PA) had a central aim of stimulating private investment. But with the dire situation of the Palestinian economy, private investments seemed a doubtful solution, despite the Palestinian elites' adoption of liberal rhetoric.

Uri Savir, then Director-General of the Israeli Foreign Office, acknowledged in retrospect that the economic issues between Israel and the Palestinians were ill planned. To start with, much emphasis was placed upon inward investments, but investors were generally hesitant to invest in the territories before stability was secured. As a result, the donations from foreign governments only kept the Palestinian economy afloat. Second, the Palestinian Authority itself failed to promote economic development. And, third, Israel was looking to maintain its own economic interests and overlooked those of the Palestinians. A document written by the Israeli Foreign Office warned of the dangers of Israeli military rule being replaced by economic rule and recommended that Israel be more generous towards the Palestinians.

We have agreed in principle with this recommendation, but did not do much beyond agreeing because the general notion was that Israel's economic interests must be kept rather than taking account of the economic stability and cooperation . . . both sides would pay dearly for this lack of foresight.⁷¹

The economic protocol between Israel and the Palestinian Authority, known also as the Paris Agreement, was signed in April 1994. The agreement, largely backed by the Israeli business community, iterated principles of market economics where the two sides agreed on coordinated import taxes, monetary policy, direct taxation, flows of labor and open borders for industrial and agricultural produce, with limits on quantities of six agricultural products. Despite the reciprocal language of the agreement, according to critics it was structurally favorable to Israel. The agreement allowed the Palestinians some freedom at the micro level – the level of individual economic sectors – but not on the macro level, where the structural terms of Israel's economic relationship with the West Bank and Gaza were employed.⁷² Regardless of its merits and shortcomings, the economic agreement was short-lived. In March 1993, following terrorist attacks, Israel imposed a series of closures on the territories, which turned the free movement of labor and goods set forth in the agreement into a dead letter. Israeli industrialists, farmers and developers, with government permission, replaced Palestinian laborers with foreign laborers.⁷³ Since Israel retained authority over all borders, the closure of the territories, and particularly the limits on labor movements, was a hard blow to Palestinian economy.

Palestinian economic priorities were generating employment; improving productive capacity, especially in agriculture and industry, through heightened investments; enhancing private sector growth; improving quality of education,

training and health; and ending dependency on Israel.⁷⁴ But not only has the peace process not mitigated economic hardship for the majority of Palestinians, their economic situation has grown even worse, particularly in comparison to the booming Israeli economy. 'Not a week passes in Israel without receiving a foreign delegation interested in initiating economic links', noted one Palestinian observer with envy,⁷⁵ as little of that fortune was shed on the Palestinians. Measured against the advances made by other states in the region, argues Roy, the Palestinian economy was weaker than it was in 1967.⁷⁶

The policy of closures almost tripled the unemployment rate in the West Bank and Gaza, from 11 to 28 percent. Following the total closure of March–April 1996, 66 percent of the Palestinian labor force was either unemployed or severely underemployed. This forced the PA to increase public sector employment and donor countries to redirect as much as 40 percent of their disbursements from long-term investments to emergency budget support and employment generation. Trade was also adversely affected by the closure, with the closing of the Israeli market for Palestinian exports and the severing of ties between Gaza and the West Bank. The overall result has been a severe decline of per capita GNP by approximately 30 percent since 1993. Real wage rates declined by 38 percent between 1992 and 1994 and by an additional 15 percent between the end of 1995 and the end of 1997.⁷⁷

Israelis perceived the closures imposed on the Palestinians as the outcome of legitimate security concerns following terrorist attacks, but Palestinians perceived them as a form of collective punishment.⁷⁸ With the growing disappointment, the opposition to the peace process among Palestinians was strengthened and extremist groups received more legitimacy. The relations between Israel and the Palestinians entered a vicious cycle in which terrorist attacks led to closures and closures led to growing discontent among Palestinians, waning support for peace and growing support for terrorism. While in September 1993 about 65 percent of Palestinians expressed support for the DOP, little more than a year later, in December 1994, only 41.5 percent expressed support. In 1995 a majority of Palestinians (59.5 percent) said they did not expect a lasting peace with Israel, and only 23 percent did expect a lasting peace.⁷⁹

Israel – limited legitimacy

In economic terms the peace process paid handsomely for Israel. Overall economic growth measured in GDP, after a long period of slow growth, reached 6.8 percent in 1994 and 7.1 percent in 1995. GDP per capita grew from \$12,610 in 1992 to over \$16,000 by the end of the decade. Foreign direct investment increased tenfold, from \$240 million annually through 1992 to \$2.4 billion four years later. Israel's risk rating was markedly improved due to its economic growth, fiscal policy and the peace process.⁸⁰ In addition to the booming high-tech industry, the tourism industry, which is most sensitive to geopolitical developments, doubled in size, from an average of 1.4 million to 2.5 million visits and the total revenue growing from \$1.8

billion to \$3.5 billion.⁸¹ With the continuation of the peace process, economic forecasts were positive, predicting the continued growth of Israel's economy.

But despite these impressive economic measures, the support for the peace process was tepid. On the one hand, right-wing supporters, especially the national-religious settlers, described the agreement as a 'sell-out' and strongly protested its implementation. On the other hand, large sectors of the Israeli public remained indifferent to the peace process and the NME, feeling they pertained to the interests of the elite and held little if any benefits for them. If anything, global integration was perceived as a threat to their traditional religious way of life. For the ideological right wing, the peace process and the general desire to 'normalize' Israel through global integration was an anathema. Territorial compromise was perceived by the members of the ideological right as a betrayal of Zionism. Accordingly, the language used in their demonstrations described the government in harsh terms such as 'traitors', and some of their demonstrations turned violent. One right-wing journal, for example, described the peace process as a humiliating return to the Jewish life of the diaspora, since they were again at the mercy of Gentiles. Titled 'How to Buy Peace with Money', the editorial regarded Peres' idea as 'a pathetic attempt to buy your enemy with money that carries a historic stench of buying the mercy of the landlord'.⁸²

The negative reaction from the religious right was expected, but the major problem of the peace process was its failure to gain popular support from the moderate right consisting of many lower-class Mizrachim (Jews who immigrated from Muslim countries), who perceived the peace process as essentially serving the interests of the Ashkenazi (Jews of European descent) elites. In the early 1980s a Mizrahi resident of an outlying development town explained to the novelist Amos Oz, one of the left's distinguished spokespeople, why he resented the left's vision of peace and why he felt threatened by this possibility.

All my life I have been on the bottom and you [Ashkenazim] have been on top . . . Why did you bring my parents to Israel? Wasn't it to do your dirty work? You didn't have Arabs then, so you needed our parents to do your cleaning and be your servants and laborers. You brought our parents to be your Arabs. But now I am a supervisor and my friend over here is a self-employed contractor. And that guy over there has a transport business. If they give back the territories the Arabs will stop coming to work, and then and there you will put us back into dead-end jobs like before. If for no other reason we won't let you give back those territories.⁸³

Contrary to the expectations for the NME, the peace dividends of 1993–96 failed to change these perceptions and widen the support for the peace process. The impressive economic growth left large parts of society indifferent, as it had little effect on their lives with income gaps remaining wide.⁸⁴ This indifference left the peace process and the government with minimal support that in a short time, following terrorist actions, turned into resentment.

At the 1994 Caesarea Conference, an annual meeting of top Israeli businessmen, policymakers and bureaucrats, the mood following the signing of the accords was overwhelmingly enthusiastic. Yet some concerned dissenting voices were raised, like that of Haim Oron, a Knesset member from the left-wing Meretz Party.

I agree with the estimates that the Israeli economy has gone through three positive years on many parameters, but Israeli society has gone through three difficult years. There must be some connection between the two . . . I think that this discussion, like the one last year, has a general feeling of self-satisfaction or at least some comfort . . . it is about time that somebody says that he is concerned with high income gaps.⁸⁵

These concerns were not unfounded, as the positive mood of the business community did not reflect general public opinion. In a Gallop poll published in a daily paper shortly after the ceremony in Washington, and at the peak of the 'peace festival', only 33 percent said that the agreement with the PLO would improve their economic wellbeing, while 51 percent foresaw no change.⁸⁶ Polls conducted by a Tel Aviv research center in the summer of 1994, after a celebrated economic year, found general support for the agreement quite moderate. Less than 52 percent of Jewish Israelis expressed support for the peace process; almost half perceived the territorial and political 'price' of the agreement too high.⁸⁷

The elections of 1996, after the assassination of Prime Minister Rabin, proved just how fragile the support for the peace process was. The indifference towards the NME had turned into resentment and a 'double movement' expressed in the ballot box. Despite the wide lead Peres and the Labor Party had, enjoying wide sympathy after the assassination, the gap was rapidly closed after a series of Palestinian terrorist attacks. The business community, throwing its weight behind the Labor Party, had little effect and the right-wing Likud won the election. Nachum Barnea, a senior columnist, explained that the Labor Party was defeated by the constituencies either historically hostile to the Labor Party or those it managed to alienate during its four years of rule.

It was a coalition of communities and individuals that believed he [Peres] is not loyal enough to the national, Jewish interest . . . It was a coalition of the hungry. Many of them feel neglected, treated unfairly and marginalized in Israeli society. They identify, not without justice, the left as identified with political, economic and cultural establishment, in which they have no share.⁸⁸

Another writer used harsh words to explain what the peace process and the New Middle East meant and why the Labor Party lost the elections.

Oslo and the New Middle East are in our eyes a conspiracy of the rich for the rich. A window of opportunities to the wealthy who are always at the table of the Laborite prime ministers. A window that is still closed to us, the 'irrational' . . .

for us your peace ceremonies are a mockery. A celebration that white elite organizes for itself. An academic experiment in the price of our blood . . . the rich and the bourgeoisie open new markets and make money while we are blown apart in buses.⁸⁹

The Labor Party, who won the 1992 elections by a small margin, was defeated in 1996 by an even smaller margin. After almost four years of rule with, despite setbacks, an ongoing peace process and impressive economic advancements, the peace camp's numbers did not grow and the sectarian divide hardly changed.

Conclusions

If the neo-liberal hegemonic drive of the 1990s signaled globalization as the way forward, the *NME* was a road map presented for the Middle East region. This package of democracy, liberal economics and peace, and a promise of overall prosperity, however, failed to elicit the necessary support, leaving many to shift between indifference and discontent. Karl Polanyi's observation of the early twentieth-century double movement seems to hold well for the reality of the early twenty-first century, as the wide entrenchment of market economics has neither unified the world under a common border-erasing logic nor pacified it through rational economic thinking. Rather, globalization evoked a counter-movement, an amalgam of forces each seeking to protect itself from its dangers, real or perceived.

In its outlook the *NME* shared the optimistic liberal view of globalization, but was undercut by its own amalgam of apathy and resistance. The Middle East, it was reasoned, must adapt to the new global economic reality, capitalize on new opportunities or risk remaining on the margins. This reasoning, as demonstrated above, followed a wider world neo-liberal attempted hegemony that underscored the virtues of market economics and globalization. Market economics and peace, accordingly, were two inseparable tenets of the *NME* that preconditioned successful globalization, itself a powerful incentive for the transformation of the Middle East conflict. But, across the region, among Palestinians and within Israel this incentive failed to achieve the expected results.

The *NME* outlined a road for peace based on what Peres termed the 'economization of politics':⁹⁰ an insertion of economic incentives and logic that would change popular priorities from conflict to cooperation. But, with limited support from the start and disappointment added by unfulfilled expectations, instead of the 'economization of politics' we have witnessed a 'politicization of economics', where political actions, associated with the double movement both undercut the peace process and decimated economic growth. Thus, with the backlash of the double movement politics have turned out to dictate economics and the vision of the New Middle East has been relegated to utopia. Economic incentives, explicitly or implicitly, remain a part of many of the roadmaps for Middle East peace. But the experience of the New Middle East can serve as a lesson that while

the peace process can generate economic growth it remains uncertain whether economic growth in itself will sustain peace. Thus, social justice and inclusion will have to be an integral part of any future peace process in order to foster the wide legitimacy a stable and long-lasting peace requires.

Notes

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