Iqtisadi
Middle East Economy
Tel Aviv University
The Moshe Dayan Center for Middle Eastern and African Studies

Editors: Paul Rivlin and Joel D. Parker

Vol. 12, No. 1, February, 2022

Zero-Sum versus Win-Win in the Middle East

Paul Rivlin

A zero sum is a situation (such as a game or relationship) in which a gain for one side involves a corresponding loss for the other side. This concept has been at the center of Middle East politics for many years. It has dominated the relations between states and relations within states. The most lasting example of the first is the Arab-Israel conflict. Examples of the second are the dominating role of the state in most Arab countries and the corresponding weakness of the private sector and civil society. Another example is Lebanon where the state is weak but the failure to cooperate (share power in a meaningful way) has resulted in economic collapse. Iraq, Yemen, Libya, and Somalia are also failed states where the lack of cooperation has resulted in conflict and massive economic losses.

A win-win situation (known as a win-win game or non-zero-sum game in game theory) is one in which cooperation, compromise, or group participation leads to all participants benefiting. Peace treaties can be seen as the most dramatic examples of win-win situations because they reduce the loss of life and damage due to conflict and all sides gain. Radicals, both political and religious, have sometimes objected to win-win peace treaties or moves in that direction because, in their view, they obfuscate underlying injustices. This has been at the basis of opposition to the peace treaties between Israel and Egypt and between Israel and Jordan. It has also been the reason for opposition to attempts to make peace between Israel and the Palestinians.

The Arab-Israel conflict and much other activity in the Middle East has been dominated by zero-sum thinking, but there are signs of change. The low level of interaction between Israel and Egypt after their peace treaty of 1979 and that between Israel and Jordan after 1994 contrasts with the Abraham Accords signed in 2020. The Abraham Accords represent the triumph of win-win thinking and one of their unplanned benefits has been to partly resuscitate Israeli-Jordanian and Israeli-Egyptian relations.

Table 1 shows the dramatic increase in trade between Israel and the UAE since 2019. These figures exclude trade in services which include tourism and many hi-tech products. Tourism has mainly been from Israel to the UAE thus boosting the latter’s exports. Hi-tech services have largely been in the opposite direction, increasing Israeli exports. On this basis it is reasonable to assume that two-way trade exceeded $2 billion in 2021, a major achievement given that the Abram Accords were signed in September 2020.

Table 1: Israel-UAE Trade in goods, 2019-2021 ($ millions)

	Israeli imports from UAE	Israeli exports to UAE	Total trade
2019	0	11.2	11.2
2020	114.9	74	188.9
2021	771.5	383.2	1,154.7
December 2020	28.9	23.0	51.9
December 2021	82.9	29.7	112.6

Source: Central Bureau of Statistics, Israel

Table 2 shows the extent of Israel’s trade in goods with Egypt and Jordan. While these figures exclude services, Israel’s trade in services with these countries is much more limited. This is because tourism has been limited in recent years and the level of economic development in Jordan and Egypt means that they are not significant markets for Israel’s hi-tech service exports. The volume of trade in goods is small given geographic proximity and the length of time that they have had diplomatic relations: Israel and Egypt: 43 years, Israel and Jordan: 28

years. In 2021 total trade in goods between Israel and Jordan and Israel and Egypt came to $702 million, 40 percent less than that between Israel and the UAE.

Table 2: Israel's Trade in goods with Egypt and Jordan, 2019-2021 ($ millions)

	Israeli imports from Egypt	Israeli exports to Egypt	Total trade	Israeli imports from Jordan	Israeli exports to Jordan	Total trade
2019	75.9	110.5	186.4	292.5	99.2	391.7
2020	80.5	91.4	171.9	210.2	39.4	249.6
2021	126.7	119.4	246.1	391.4	64.4	455.8

Source: Central Bureau of Statistics, Israel

In November 2021, Israel, Jordan, and the United Arab Emirates (UAE) signed the largest energy and water deal since the neighbors' peace treaty of 1994. The UAE government-owned company, Masdar, will build a solar power plant in Jordan to supply electricity to Israel by 2026. This will enable Israel to increase its use of renewable energy and provide Jordan with revenues that it will share with Masdar. Israel will supply desalinated water that Jordan badly needs from a new plant with 200 million cubic meter annual capacity.[1]

Saudi Arabia was reported to have objected to the deal in that it undermined Crown Prince Mohammed bin Salman's plans to lead the region on climate-change technology through his "Green Middle East" vision. They proposed an alternative deal without Israel. The Emiratis notified the US, Israel and Jordan of the Saudi pressure and asked for cosmetic changes to the language of the agreement to appease the Saudis. The other parties agreed and after a short delay the tripartite agreement was signed.[2]

The Saudi objections were another example of the "you win, I lose" syndrome. The announcement of the deal resulted in demonstrations in Jordan against the country's collaboration with the Zionists. A clear example of "you win so we lose" thinking is the comment by Mazin Qumsiyeh, founder and director of the biodiversity center at Bethlehem University, that the deal strengthened colonization and violations of human rights (including apartheid) within Palestine. For Jordan it ensures burdening its government with debt that cannot be repaid, and thus forcing it into an indentured servitude paradigm removing sovereignty and taking over other natural resources.[3]

The UAE also shows signs of change in the internal game, moving away from zero sum to win-win. Recently the government has told some of its biggest business families that it intends to remove their monopolies on the sale of imported goods as it strengthens reforms to attract more investment. The proposed reform would end the social contract between the government and influential merchant families replacing decades of protection for local interests in favor of foreign entities. Family-owned businesses, including small companies and large conglomerates built over the decades by leading merchant groups, account for 90 percent of the UAE's private sector, which itself accounts for around three-quarters of employment.

The changes are part of the UAE's drive to attract more such as long-term residency programs and fewer restrictions on cohabitation and alcohol. The pace of reform has accelerated in the wake of a nascent economic rivalry with Saudi Arabia. The Saudis, as part of their plans to diversify away from hydrocarbons, have put tariffs on Gulf imports and are pressuring multinationals to relocate their regional headquarters to Riyadh.[4] As a result of international competition with Saudi Arabia, the UAE is trying to stimulate competition within its economy. If this succeeds, it may provide an alternative model to the zero-sum game.

Zero-sum thinking dominates interstate relations as the frequency of war demonstrates. Given that it also dominates economic policies within states, this is perhaps not surprising. It has also dominated Arab economic development. At least until recent years, governments did not want thriving private sectors, and since a wave of nationalizations of 1950s and 1960s, they have been seen as potential enemies or rivals.

Since independence, Arab countries have pursued a development model that has been unable to match aspirations with opportunities. As a result, many have been largely excluded from the benefits of economic growth. This system was based on providing welfare for citizens and privileges for firms but has increasingly come into conflict with aspirations for social mobility. It offered subsistence, but not mobility for people or firms. While the system has improved human development, it has trapped many with education in unproductive jobs and kept social classes dependent on the state and immobilized. With growing claims on state finances, it is no longer possible to accommodate an ever-growing pool of educated unemployed in the public sector. This has generated ever larger numbers of "outsiders": young people, women, and those lacking connections or influence in government and private sector networks. A crisis of expectations was created for young people who were encouraged to look for public sector jobs, turning them away from more competitive, low-wage, and high-effort employment in the private sector when it was available.

The private sector depends on privileges that allocate economic opportunities through deals restricted to regime insiders. There are few growth opportunities for firms outside the inner circle. Business survives either when it is very close to the state, or very far away. This creates a lopsided distribution of firms, marked by large, politically connected firms at the top of the pyramid and much smaller firms, in the informal sector, at the bottom. As a result, the region suffers a lack of productive medium-sized firms that are crucial for job creation and exports.[5]

Why does such a dysfunctional system prevail? Because it maintains control in the hands of the rulers. They view change as a zero-sum game: a reformed economy would change the balance of power and they would lose out. Long-standing traditions of state intervention and control have left little space for independent collective action by Arab business. Business associations in the regions are weak, unrepresentative, and not independent, with little space for less well-connected businesses to organize. Given the prevalence of insider deals and favoritism, businesses often find individual, informal strategies more effective in pursuing their interests and dealing with an interventionist state.[6]

Zero sum thinking has not been confined to the Arab side in the conflict with Israel. At least until the Oslo Accords, Israel limited the development of industry in the West Bank and Gaza because it feared competition from producers with lower costs. This had severe effects on the Palestinian economy making it more dependent on the export of labor which was a very insecure source of income. When, as a result of terrorist attacks, Israel restricted the entry of Palestinian workers, they had no other sources of employment. As a result, unemployment rose as did socio-economic pressures and the appeal of the Hamas and other rejectionists increased. Israeli policies designed to protect its economic from competition restricted Palestinian development with political and security implications for Israel.

Zero sum thinking applies in the conflict between Israel and the Palestinians. The Israeli government and many citizens want to maintain control over the West Bank, where hundreds of thousands of Israelis have settled since 1967. This is justified by security, ideology, and religion. The Palestinians reject this, and many reject the right of Israel to exist. A compromise has not been reached as both sides view it as a zero-sum game.

A two-state solution and an end to conflict would bring huge economic benefits. Opposition is political, ideological and security related, but does not allow for the political and security benefits of economic gains. According to a study by Rand, a two-state solution provides the best economic outcomes for both Israelis and Palestinians. Israelis gain more than twice as much as the Palestinians in absolute terms—$145 billion versus $59 billion over ten years, in current prices. The Palestinians gain more proportionately, with average per capita income increasing by approximately 36 percent over what it would have been in 2024, compared with five percent for the average Israeli. These are the benefits that are foregone by the lack of a settlement.[7]

Limited integration has stifled the Middle East's ability to use its potential for economic growth and job creation. Several economic and integration blocs include one or more countries, but the region lacks an overarching cooperation and integration agreement. As a result, intra-regional trade is below its potential; it represents about nine percent of the Middle East's total exports—a smaller share than nearly all other regions, and a fraction of the region's trade with Europe and East Asia.[8] The reason for this lack of integration is the prevalence of intense mistrust between the countries of the region and the desire to protect domestic production.

Lebanon, which once had a flourishing economy, was traditionally considered the exceptional Arab state because there was no dominant ruler who with the army, or other security forces, controlled the country. Its political system was pluralist with no dominant religious or ethnic group. Lebanon is, however, an example of the zero-sum game played between parties in the confessional system some of which have support from abroad.[9]

According to the World Bank, the cause of Lebanon's failure to generate inclusive growth and jobs are two mutually reinforcing and dominant constraints. The first is elite capture of government and economic assets hidden behind the veil of confessional governance. The second is the prevalence of conflict and violence due, in part, from conflicts in the Middle East.[10]

This resulted in a fragile and dysfunctional political system, and a state that was unable to regulate political conflict and exercise authority. In 2016 the World Bank estimated the losses caused by the system of confessional governance at nine percent of GDP annually. Lack of political consensus on national priorities limited the government's ability to implement long-term development policies. Inaction added additional constraints to development. In 2016, these were identified to be macroeconomic instability, the weak business environment, insufficient investment in infrastructure (especially in lagging regions), skills mismatch with labor market needs, and weak institutions and regulatory framework. These contributed to poor public services and to weak economic development outcomes. In 2020, this list of constraints also included defaulted public debt, an insolvent banking sector, high inflation, and multiple exchange rates.[11] In a recent glaring example of the zero-sum game in Lebanon, the Maronite League, an elite sectarian group, sued the Lebanese labor ministry to block its decision in December 2021 to allow Palestinian refugees to work in a number of professions they have been barred from entering for decades.[12]

Lebanon's economic and financial crisis has pushed individuals and families towards extreme vulnerability. Many can no longer afford basic commodities and services. An estimated 2.3 million vulnerable Lebanese, Palestinian refugees, and migrants, including 700,000 children, are facing a humanitarian crisis and multiple deprivations. The country's water infrastructure is reaching breaking point, threatening access to safe water for more than four million people, or 60 percent of the population.

Public water supply and wastewater treatment systems have drastically reduced operations all over Lebanon. Water shortages force households to rely on unsafe and expensive alternatives such as collecting untreated water from springs or the use of water trucking. People are likely to decrease infection prevention and hygiene practices to reduce water consumption, leading to increased risk of COVID-19 and waterborne diseases, with babies and young children especially vulnerable.[13] All this is due to the failure of government which in turn is due to the unwillingness of Lebanon's elites to abandon the zero-sum game.

For previous issues of *Iqtisadi*, go to our website, http://dayan.org/journal/iqtisadi-middle-east-economy.

[1] Bruce Riedel and Natan Sachs, "Israel, Jordan, and the UAE's energy deal is good news," *Brookings*, November 23, 2021.
[2] Barak Ravid, "Saudis tried to stop UAE-Israel-Jordan solar energy deal," *Axios*, November 24, 2021.
[3] Daoud Kuttab, "Jordanian public unhappy with Israel water deal," *Al-Monitor*, November 25, 2021.
[4] Huynh Nguyen, "UAE pushes merchant families to open to competition," *The Financial Times*, December 26, 2021.
[5] Adeel Malik, "A Requiem for the Arab Development Model," *Journal of International Affairs*, Fall/Winter 2014, Vol. 68, No. 1, pp. 95-115.
[6] Steffen Hertog, "The Role of Cronyism in Arab Capitalism" in Ishac Diwan, Adeel Malik, and Izak Atiyas, *Crony Capitalism in the Middle East: Business and Politics from Liberalization to the Arab Spring* (Oxford and New York: Oxford University Press, 2019).
[7] *Rand Corporation*, The Costs of the Israeli Palestinian Conflict, 2015, and author's calculations.
[8] Shahrokh Fardoust, "Economic Integration in the Middle East," *Middle East Institute*, 2016.
[9] Paul Rivlin, "The Politics of Lebanon's Economic Collapse," *Iqtisadi*, Vol. 9, No. 11, November 2019; Paul Rivlin, "Lebanon, Iraq, and Syria: sinking together?" *Iqtisadi*, Vol. 10, No. 5, July 2020.
[10] Eric Le Borgne, Thomas J. Jacobs, "Lebanon Promoting Poverty Reduction and Shared Prosperity," *World Bank*, 2016, p .11.
[11] *World Bank*: Press Release, "Lebanon Economic Monitor, Fall 2020: The Deliberate Depression," January 25, 2022.
[12] Tzvi Joffre, "Palestinian professionals banned from work in Lebanon for second time," *Jerusalem Post*, February 13, 2022.
[13] *UNICEF: Humanitarian Action for Children*, "Report: Lebanon, 2022," PDF.