

MIDDLE EAST CONFLICT

Counting the costs

A peaceful settlement to the Israeli-Palestinian conflict would give a huge boost to the economies of the entire region

ASSESSING the true cost of a war is nearly impossible. The human losses are incalculable. The casualties of the long Palestinian-Israeli conflict have been especially devastating, both for the region and for the world as a whole; the many who have lost their lives since the conflict began might have lived to be artists, scientists, inventors, great thinkers and contributors to humanity's ascent.

But the economic effects of the hostilities are also seldom considered. Indian economist Sundeep Waslekar estimates that individual incomes for Israelis and Palestinians are half what they would be if the 1991 Madrid conference to kick-start peace negotiations had been successful, largely because of the consequences of physical destruction, displacement, unemployment and missed opportunities to develop the region. The direct and indirect damage to economies in the wider region as a result of various conflicts since 1991 is valued at a staggering \$12 trillion, according to the Strategic Foresight Group (SFG), a think tank in Mumbai, in a report that attempts to quantify the cost of regional wars.

The impact of the Israeli-Palestinian conflict has been tremendously damaging to the economies on both sides. The Palestinians have lost over 100 million hours waiting at the checkpoints between Ramallah and Jerusalem since 2000. Unemployment in Gaza has reached over 50 per cent, with the suspension of 95 per cent of industrial operations, even before the Israeli invasion last December. The Israeli economy has also been hurt, particularly by heavy losses in tourism revenue. An average Israeli family would increase its income by \$4,429 per year in 2010 in the event of a peace

by Regan E Doherty

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agreement – even if Israel paid compensation to Palestinian refugees and moved more than 150,000 of its illegal settlers out of the West Bank, according to the report.

“The Palestinian private sector has paid, and continues to pay, the highest bill,” said Abdul Malik al Jaber, chief executive of PalTel Group, a mobile and land-line provider which operates in the West Bank and the Gaza Strip, at the World Economic Forum's Middle East meeting near the Dead Sea, Jordan, earlier this month. PalTel is the largest telecoms operator in the Palestinian territories – and the only operator on earth that has its equipment on one continent and its customers on another: its equipment is in London and its customers are in the West Bank and Gaza. Every phone call is sent all the way to London and then rerouted back to the West Bank and Gaza. “If this happened to other nations, how would they react?” Al Jaber asked.

A comprehensive peace agreement would spark growth that would stretch into the Gulf. An accord would open the gates for a number of projects, including gas deals, railway lines and the much-discussed Red-Dead Sea Canal. It would also boost household incomes across the region, according to the SFG.

Gulf companies have made it clear that they would welcome the additional market. Kuwaiti telecoms operator Zain acquired PalTel through a 56.3 per cent share swap in a deal announced in Jordan in mid-May. Zain will merge its Jordanian operations with PalTel, a publicly listed entity on the Palestinian Stock Exchange and Abu Dhabi



Palestinian girls traumatised by Israeli military/Reuters



‘If this was to happen to other nations, how would they react?’

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Securities Exchange, to create a firm expected to have about \$1 billion in revenue and a mobile phone customer base of nearly four million. The Zain acquisition “represents a strong endorsement of the Palestinian economy and its capital market,” said Sabih al



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Gulf firms have some involvement in the Palestinian economy. Kuwait's Global Investment House has a mutual fund devoted entirely to the Palestinian territories, which has historically been one of its best performers. A peace agreement, however, would dramatically increase the flow of funds from the region. "Dubai Ports will be more than happy to build Gaza ports. Emaar will be more than happy to build in Ramallah," said Saeb Erekat, chief negotiator for the Palestinian National Authority, at the Dead Sea conference. "But how can they build if developers can't come, can't visit [because of Israeli restrictions]?"

The adage that "politicians build walls and businessmen build bridges" rings true for some who see economics as a critical mechanism for conflict resolution. "We are living in an age where governments give billions to bail out banks and failed companies. I suggest we allocate about \$4 billion a year for five years to relocate settlers in the West Bank back to Israel," said Ephraim Sneh, former Labour leader in the Knesset, who also attended the conference. An additional sum, he said, would go towards job creation, education and housing for the Palestinians. By doing so, Sneh said: "We will remove the two basic obstacles to peace: the settlements and the [plight of Palestinian] refugees."

Such a cost would be "negligible vis-à-vis the price of the conflict, even to the US. In practical terms, money can help solve the problem," said Dan Gillerman, former Israeli representative to the UN. Before the US-Jordan Free Trade Agreement, US exports to Jordan were \$13 million. Today, they are about \$2 billion, Gillerman said, citing the figure as "an example of what can be done when there is co-operation." Others, however, disagree. "To hell with economics. Our problem is a political one. We want our land back," said one member of the audience.

Al Jaber also pointed to the moral dilemma that could come with compensatory funding. "Money from Europe and the US to go to the illegal settlers? I don't think illegal

Masri, PalTel chairman. "This development will restore investor confidence in Palestine and is proof that the telecoms sector is still buoyant and growth oriented."

The acquisition of PalTel also allows Zain to expand its services among members of the Palestinian diaspora in countries served by Zain's networks, including the six members of the Gulf Co-operation Council and Iraq. The Kuwaiti company, which moved its corporate headquarters to Bahrain last year, has rapidly expanded into 24 countries in the Middle East and Africa. A second Palestinian mobile network, Wataniya, is expected to come into operation this year, owned by Qatar Telecommunications Company (Qtel) and the Palestinian Authority's Palestinian Investment Fund.

Palestinian banks have not suffered from the global financial turmoil, largely because deposits are made into the local financial market which has limited exposure to the world. Similarly, the Palestinian Securities Exchange (PSE), launched in 1995 with headquarters in Nablus and a branch in Ramallah, has been minimally affected, primarily because of its small size and relative isolation; there are few major foreign investors or investments at the PSE. Some 38 listed companies have few or no external investments, do not rely on exports and have limited foreign contacts. The exchange's Al Quds index has experienced some volatility since October 2008, but there is no evidence that the contraction corresponds to the crisis in the global financial markets.



Arab public protest calling for an economic boycott of Israel after its invasion of Gaza/Reuters

► acts should be compensated by anybody.”

So economics cannot be viewed as something separate from a political agreement. “Better economic conditions are not a substitute for a two-state solution, but addressing the needs of the refugees is indispensable in arriving at a solution, and money will help that,” Gillerman said. He described the meeting at Jordan’s Dead Sea as “a horribly missed opportunity by the Israeli business community not to be here in greater force, greater numbers”. Progress on resolution of the conflict, he said, “will send a message to the rest of the world: this

region is open for business”.

Which is all the more reason why politicians should seize the window of opportunity. “I believe the time factor is essential. We are not prepared for an open-ended process. In the next four to five weeks, if there is no new plan or offer, we need to start rethinking,” said Amr Moussa, secretary general of the Arab League. He said that King Abdullah of Jordan also emphasised this point in his recent meeting with US President Barack Obama. Regional unity on the issue is most evident, the king said, in the Arab Peace Initiative, which

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offers recognition of Israel by 57 countries in return for the establishment of a Palestinian state.

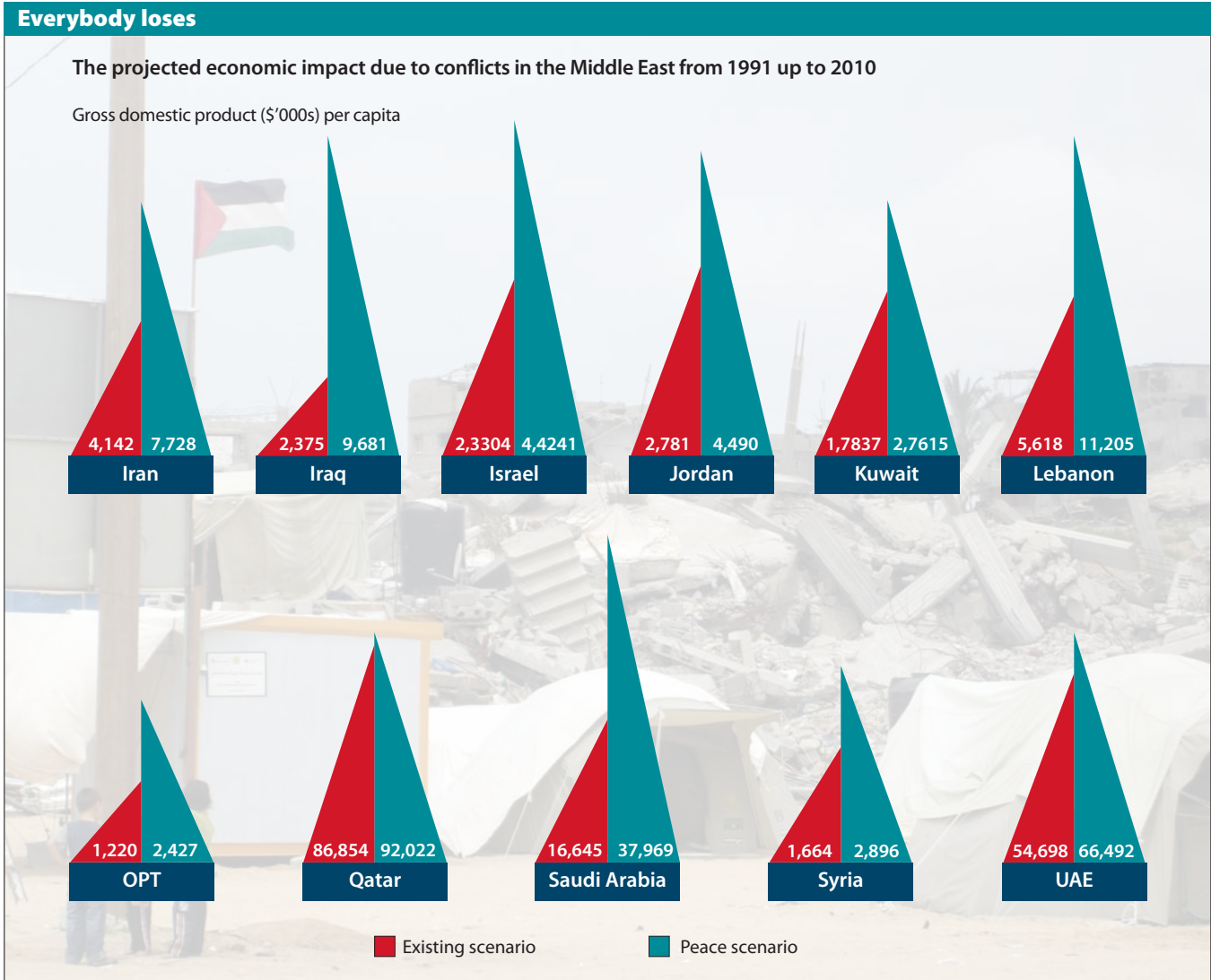
“In the US, there is huge energy for change. I saw it in the Jewish leadership and in members of congress. You can see it everywhere you go,” Erekat said. The Jewish voice in the US in particular, he says, is becoming more open to negotiation. “They’re no longer going to support everything that Israel does, particularly the building of extensive infrastructure in the West Bank. They understand that it should be stopped. Immediately.”

There is also now a realisation in the US, Erekat says, that establishing a viable Palestinian state is in America’s interests as well. “If the Americans apply double standards, this region is going in the direction of Bin Laden and failed states. But I hope the Israeli government will distinguish between dictation and negotiation.” Israeli leader Benjamin Netanyahu in particular, he said, “has proven himself to be a master non-negotiator.” Netanyahu, in his recent meeting with Obama and since his return, has tried to shift focus from the peace process to Iran’s nuclear programme.

“We don’t see Iran as the main issue. The vast majority of Arabs don’t, either,” Moussa added.

The Obama administration “must not hesitate using the much-needed financial aid to Israel and economic and political influence elsewhere as pressure to exempt concessions and ensure restraint,” says Riad Kahwaji, chief executive officer of the Institute for Near East & Gulf Military Analysis, based in Dubai. “Merely talking and advising the Israeli government in the hope of full co-operation will not bring about any tangible results – as has been the case over the past 18 years. Economic and financial muscle must be used effectively.”

Leaders around the world have called on Israel to stop the illegal settlements. “There are no more new settlements. No more are being built,” Israeli President Shimon Peres claimed at the conference. “We have accepted [the Arab Peace Initiative], as the French say, en principe,” Peres said. “But in order to agree, we have to negotiate. In Israel,



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we cannot understand the reason for the rockets from Gaza. We left completely, not a soldier, not a civilian. They [Palestinian militants] say they're fighting occupation, but we're not there," Peres said.

Significant sums will be required to repair the destruction in Gaza. "Every cent [previ-

ously] invested in Gaza is gone," Erekat said. Some efforts have begun. Dubai private equity group Abraaj Capital in May donated \$10 million to a trust fund it has established to finance the education of more than 1,200 Palestinian children and youths who lost parents during the violence in Gaza in December and January. The Welfare Association, known by its Arabic name, Taawoun, a 26-year-old Palestinian non-profit development foundation, will manage disbursements, for which it has identified 1,257 children and youth, from infancy to age 22, who lost a parent in the 23-day conflict. Most of the orphans now live with extended family, and 120 live in orphanages in Gaza.

"The whole world is paying for this tragedy," Gillerman said. "Not only are we

calculating the costs of the past, we're losing the promise of the future." Any resolution, he said, "must be a 23-state solution: normalisation of relations between Israel and the rest of the Arab world. The Palestinians having a state and Israel living side by side in security is not enough. Without the support of normalised relations with the Arab world, we are doomed to live in conflict forever."

"If companies were operational in Palestine, imagine how many jobs could be created? We don't want to be dependent on donors," Erekat said. "Since Eve negotiated with Adam, I am the most disadvantaged negotiator in history. I have no army, no navy and no air force. But I have to bring the Palestinian people a fair agreement." ■