Chapter 6
Fair Share: The Economics of Partition

> *In view of the limited area and resources of Palestine, it is essential that, to the extent feasible, and consistent with the creation of two independent States, the economic unity of the country should be preserved.*
> —UN Special Committee Report on Palestine (September 3, 1947)

Conflict resolution theory, emulating developmentalism and the "guns or butter" argument against military industrialization, often presents defense and economics as competitive, certainly different social values. Historian Paul Kennedy goes a step further, posing the two goals as contradictory, with great powers traditionally trying to buy one, security, at the expense of the other, domestic welfare, only to overstretch their capacity. So, too, are security studies and business management invariably treated in academia as specialized, even self-contained disciplines, each with a language, a code, and a methodology of its own.

More a matter of subjective perception than empirical observation, safety and security are unmeasurable and, therefore, eternally, maddeningly elusive. Whereas economic well-being would appear to rest upon hard statistical evidence: per capita income, GNP, export-import ratios, annual growth rates, and similar numerical indices. Seemingly, this quantitative data base should make standards of living and prosperity more readily verifiable than security—also easier to furnish in ending conflicts. Any xenophobic or moderately fervent nationalist will think twice before consenting to binding defense pacts, or before relying upon international guarantees. But what self-respecting Israeli, or Palestinian, is going to spurn liberal doses of international investment capital or other foreign assistance?

As a political and diplomatic practice, partition is singularly notorious for ignoring the economic fall-out from splitting lands, nations, or states. One must resist the tendency, however, to compartmentalize these two realms: defense and economics. Likewise, the temptation to distance one from the other. For there is a great deal that binds them together.

This is certainly true in Arab-Israeli peacemaking, where the links between defense and economics are nonetheless closer than meets the eye. For instance, in today's world it is fashionable to speak of "economic security." Similarly, economic satisfaction, material well-being, and international trade relations are presently seen as components of national security. Also, consistent with the overarching theme of this study—connectedness even in the final act of partitioning case-specific Palestine—because of the shared territorial dimension.

Land and physical space still comprise the basic infrastructure determining Israeli and Palestinian economic health as much as national security. Similarly, the economic negotiations, including those covering resource allocation, are certain to be no less sensitive or fiercely contested than those over territorial adjustments and security arrangements. On such grounds alone, economic peace prospects are more bleak than promising.

This somber assessment need not call upon super-sophisticated econometric models for validation. Suffice the simple and straightforward observation that the Holy Land, whatever its inestimable spiritual value, is a far cry—in temporal terms—from the prophetic vision of a land flowing with milk and honey.

By any objective standard Palestine's economic foundations are weak. Even if viewed as a single entity and one ecosystem, Israel-the territories-Jordan possesses few natural resources. It is not blessed, for example, with oil deposits. And while copper, phosphates, potash, manganese, and sulfur are present to some extent, these are hardly the strategic raw materials upon which to base a modern industrialized economy. Irrigable land is also at a premium. Water, now emerging as perhaps the most important natural resource in the Middle East, is also a scarce and contested commodity. Indeed, there is every reason to believe that water, its allocation and control, are going to be a key issue in any final bilateral settlement between Israel and the Palestinians, just as it already occupies a central place in the separate Israeli-Jordanian peace treaty.

That there will not be enough of anything material to go around at the start of the twenty-first century is already cause for concern. Add two further economically dysfunctional considerations of a distinctly political nature. One, the exclusive and, in effect, exclusionary demands by each side for proprietary control over the contested area's limited physical capital. The improbability of devising an acceptable "fair share" formula for an equitable division of both land and assets is the other.

Again, purely from an economic standpoint, the declared interest of both communities (at this stage of the dispute) to cut the proverbial Gordian knot, to disengage physically and politically, and pursue independent nationalistic policies makes absolutely no sense. On the contrary, a course of unilateralism, if actually embarked upon, stands to be economically costly for everyone concerned.

Which is further proof of the deeper affinities between security and economics. Any "new world order" advocate of jointness in the realm of defense and security is going to have a hard time selling the idea to Israelis and Palestinians. But neither is the very same integrative notion necessarily any easier to market in the field of economics and commerce, even though the argument and the imperative for economic collaboration among residents of geographic Palestine may be more compelling by far.

It is difficult enough to sustain a single vibrant economy, let alone two, possibly even three autarkic economic systems, depending upon whether Jordan is included. So illogical and inevitably wasteful the economics of partition that already in 1947 the United Nations plan, treating the whole of the Palestine mandate as one unit, expressly called for political partition but with economic union.

If anything, the argument for a concerted Palestine-wide economic community and a pooling of resources has greater resonance today than it did fifty years ago. But then rationality and a cooperative spirit have always been the rarest of all commodities in Arab-Jewish relations. Which is why the economic relationship could go either way: progressive or regressive. Where it ought to go is toward a special kind of connectedness: political *division* but economic *union*.

The Porous Green Line

Most of 1996–1999 was spent waiting for the final status and permanent boundary negotiations to get off the ground by getting to the ground, i.e., compromising on claims and partitioning the West Bank. Life, however, does not stand still. Even in the midst of the tactical maneuvering the interim phase managed to highlight some fascinating verities about symbiotic Israeli-Palestinian interconnectedness and interdependence. Many of these verities offer a portent of what the future has in store; indeed, they inadvertently strengthen the argument for partition plus.

No greater insight can be had than from developments taking place along, over, and on both sides of the arbitrary line of demarcation dating to the 1948 cease-fire. And no message delivered by it is more instructive than how this so-called green line distinguishing Israel proper from the similarly so-called occupied Arab territories and West Bank really stands for where geography, borders, security, economics, politics, and diplomacy do themselves meet and interconnect.

Among those truths just alluded to I would begin by noting the green line's arbitrariness. It has never had any basis other than where the Israel-Jordan armistice lines were drawn. Still, the green line served, however unsatisfactorily, as Israel's temporary border until 1967. Thereafter, and until very recently, this line for all intents and purposes was thought to have been obliterated; permanently wiped off the map and destined to be replaced by more secure, and rational, demarcations. Either, ideally, by the Jordan River as Israel's permanent political and security border or, alternatively, by a broad, generous territorial compromise shifting the final line of Jewish settlement and possession considerably eastward. Indeed, between 1967 and 1987 Israelis moved comfortably and freely across the discarded de facto partition fences.

It now turns out that not only has the green line not been demolished but for many people it has been reinstituted as the line of separation. This includes a growing number of Israelis themselves, joined overwhelmingly by Palestinians eager to push back Israel's physical presence, and by the international community at large as well as successive U.S. administrations. Indeed, the impression gains that, mutatis mutandis, the old green line could very well serve as the permanent line of repartition should Palestinian negotiators get their way and force Israel, and Israeli settlers, entirely out of the West Bank.

Bearing these possibilities in mind, in the course of the last several years Israeli civilian, military, and police authorities increasingly admit their inability to seal off Israel from daily encroachments of one sort or another from West Bankers. In other words, even once redeployed west of the green line, for Israel this "seam" will be anything but seamless.

One vivid confession of failure and illustration of just how porous the 324-kilometer-long green line is likely to remain is a painful rash of car thefts already plaguing Israelis. In 1997 alone over forty-six thousand motor vehicles were stolen and driven across the green line into areas under Palestinian jurisdiction, often with collusion between Israelis and Arab mechanics in cannibalizing the "imported" cars and then reselling expensive spare parts in Tel-Aviv.[1] Projected figures for 1998 and 1999 show a further increase.

Although brazen and costly in terms of automobile insurance rates, this phenomenon does not impact directly on Israeli security. Indirectly, though, the sense of vulnerability, only magnified rather than assuaged by government efforts at stanching this flow, ominously revives symptoms of the earlier national "fortress," or siege, mentality, with Israelis once again feeling trapped—which hardly bodes well for postpeace security.[2] Especially if Israeli-Palestinian security cooperation even on this seemingly secondary problem does not materialize or, perhaps worse, fails to provide minimal security. Economically, too, inability to close the seam, whether by unilateral or joint preventive measures, suggests Israeli-Palestinian illicit and criminal activity ironically may pay handsomely, while, conversely, perfectly legitimate joint enterprises might be discouraged for political or economic motives.[3]

Nor is any operational solution frankly in sight. Among the more serious, if costly and less than foolproof ideas: building physical obstacles in four areas, including ditches, sand works, walls, tunnels, safety railings, electronic devices, and fences, supplementing natural obstacles such as ravines and cliffs.[4] However, the height of absurdity was the proposal by the minister for internal security affairs, Avigdor Kahalani, who threw in for good measure the use of detonating land mines as the ultimate deterrent against continued illegal cross-border activity.[5] In addition, the government was asked to approve recruiting, training, and funding of an additional two thousand armed police and security forces to monitor the green line supposedly "separating" Israel, and Israelis, from the West Bank. Such measures, covering only 80 of the 324-kilometer seam, were likely to cost more than NIS 100 million a year. Each successive proposal has only made the situation of permeability along this projected "new" green line security zone almost as ludicrous as it is deplorable.

Separate But Together

Israelis and Palestinians have basically three economic paradigms to choose from: (a) interdependent, perhaps even closely integrated economies, (b) a separate Israeli and Palestinian economic existence, possibly modeled along the lines of the Czech and Slovak experience, (c) some intermediate form of parallel yet "open" economies that will enable cooperation in some fields of economic enterprise but not necessarily in all areas.

Doubtless motivated by a combination of self-interest, unilateral advantage, and pride, Palestinian and Israeli leaders are as one in wishing, ideally, to strike out on their own. And yet there are a number of objective factors that cannot be sidestepped.

TABLE 6.1. Gaza and the West Bank, Key Economic Indicators, 1993–1997

1997*	**1996**	**1995**	**1994**	**1993**	
2,670	2,554	2,454	2,361	2,271	Population (m)
3,546	3,233	3,222	3,077	2,557	GDP ($m)
3,713	3,438	3,469	3,463	3,109	GNP ($m)
31.5	34.2	29.0	24.7	18.0	Unemployment (%)
8.1	7.9	10.8	14.0	11.0	Inflation (%)
355.9	335.8	342.0	328.9	316.2	Palestinian workforce (000)
35.0	25.1	32.1	53.0	83.0	Workers in Israel (000)

Source: *Middle East Economic Digest*, cited in IISS, *Strategic Comments,* vol. 3, no. 9 (November 1997).

The compelling logic of the situation will in all probability dictate the third option: a special kind of economic regime. A framework that facilitates bounded functional cooperation where necessary, and when mutually profitable, even while permitting political separation into two otherwise formally independent states. Not power sharing so much as resource sharing and developmental burden sharing.

Nothing better captures this reality than the entry each morning of thousands of Palestinian day workers dependent for their jobs and livelihood inside Israel. Whenever security concerns dictate closure of the Gaza border checkposts the result is profound dislocation on both sides, leading to the spectacle of PLO spokesmen in common cause with Israeli building contractors, pressuring government authorities for a speedy return to the normal flow of traffic. Thus the argument for “separate but together” is compelling, starting with the fact that this pattern of economic relations has been in existence now for over three decades.

The current intermingled economy began with occupation and administration of the West Bank and Gaza Strip in 1967. Not only were the territories affixed to Israel in military and political terms but the Palestinian economy was also increasingly brought into Israel’s economic orbit.

Reminiscent of President Harry Truman’s prayer for a one-armed economic adviser, virtually every aspect of the entangled relationship has an “on the one hand” and an “on the other hand”; i.e., a beneficial as well as a detrimental side, both for the Palestinians and the Israelis.

Example: the standard of living of individual Palestinians has improved markedly since 1967 because of unprecedented employment opportunities in Israel. In 1996 the average daily salary of a Palestinian worker was $12.50 in Gaza, $14 on the West Bank, and $23.50 in Israel.[6] Not surprisingly, the number of Palestinians working in Israel rose overall from

5,000 in 1968 to 70,000 in 1974, and 95,000 in 1986. By 1993 the numbers reached some 110,000, with an additional 7,000 laborers employed by Israeli settlements over the green line.[7] However, the price has been undue dependency upon Israel and, to be sure, vice versa.

Example: the main sources of income—anywhere from one-fourth on the West Bank to one-third in the Gaza Strip—originate outside the areas, either from Palestinians working in Israel or remittances from those living in the gulf states. These monies have largely gone to improve private housing, living standards, and purchasing power, especially of manufactured goods and consumer items imported from Israel and abroad, but have not generated any appreciable growth within the territories themselves.[8]

Example: in terms of collective opportunity costs, clearly, even a fraction of this capital might better have served to stimulate local businesses, industry, and modernization had the Palestinians been in control of their own affairs. On the other hand, Israeli manufacturers, expressing fears of unfair trade practices, argued that with the competitive advantage of cheaper labor costs a strengthened Palestinian economy might actually undercut their firms by offering Israeli consumers cheaper Palestinian-made products, besides undermining the marketing of Israeli goods and services to the territories.

Example: this protectionist argument was regularly endorsed, in turn, by Israeli civil and military authorities. Regarding an independent Palestinian economy as a corollary to political claims, they sought to forestall Palestinian industrial growth by withholding licenses for projects duplicating or possibly competing with Israeli companies, so that by 1990 the total industrial plant throughout the territories was perhaps not much more than 1.5 to 2 percent of Israel's national industry.[9]

Example: in agricultural output as well there have been restrictions on Palestinian development. After 1967 some 52 percent if not more of the total land area of the West Bank and Gaza Strip were brought under direct Israeli governmental control for purposes of settlement construction, highways, and military installations.[10] Coupled with exclusive management by Israel of water resources on the West Bank, this policy too has limited Palestinian farm production, adding to the general picture of Palestinian dependence upon Israel in virtually every economic sphere.

Postintifada Economics

The 1987 Palestinian uprising somewhat reduced this stifling economic dependence on Israel.[11] As part of the wave of militant protests, Palestinian activists imposed a boycott on Israeli goods, including food, cigarettes, soft drinks, shoes, and furniture. But because the Palestinian population had neither an industrial base of their own nor alternative sources of supply for heavy machinery, electronics, and other manufactured items, the sanctions were less successful in the long run.

On the one hand, the intifada brought economic hardship on the Palestinians. In response to the violent protests, stone throwing, and anti-Israel terrorist activity originating in the territories during most of the nineties, the military curfews and economic closures imposed by the Israeli government resulted in fairly widespread economic stagnation. Most notable: the marked drop in capital liquidity and standard of living as Palestinians lost their jobs or had to compete with foreign laborers brought in by Israel from eastern Europe, Africa, and the Far East. The lesson is not lost. A large portion of the income entering the territories continues to be generated by Palestinians with work permits. Which still allows Israel to bring timely economic pressure to bear on the Palestinians, at times opening and at other times denying the Israeli job market.[12]

Yet, on the other hand, the intifada made its point as well. It gave local manufacturers and farmers the impetus to begin substituting for Israeli products. Industrial production on the West Bank rose by 9 percent in the initial stages of the uprising and by 13 percent during its later stages.[13] Notice was thus given that the Palestinian community is no longer resigned to the passive role of "hewers of wood and drawers of water." Events of the past decade certainly confirm the Arabs' disruptive capability: to play havoc with Israeli harvesting, building, and production schedules, to increase Israel's defense burden, to destroy confidence in the Israeli economy, to dissuade travel agents, international investors, and banking firms from assigning Israel a high rating.

Which is the main point of this brief survey into Israeli-Palestinian Arab economic relations from 1967 to the present via the intifada. The conclusion is salient and inescapable: as of now both sides retain the capacity to neutralize and, should they choose to do so, to retard each other economically and commercially. Under the workings of this double economic veto, Palestinians and Israelis can continue to impede each other's development, to inflict pain, deprivation, and inestimable economic opportunity costs.

If the object is to satisfy some primordial need for retribution, then the price may be worth it. Otherwise, in immediate and policy-relevant terms economic sanctions and sabotage offer neither community any real hope.

Certainly no prospect for getting on with the goal of improving the quality of life for their respective peoples.

A Reason for Hope

The 1993 Declaration of Principles gives further credence to the argument for a larger collaborative economic paradigm. For it goes beyond the existing mutual dependency, unplanned and unrationalized, legitimating the de facto situation as well as institutionalizing it. Conceding the Israeli and Palestinian economies to be hopelessly intertwined in several vital areas, the DOP mandates that the interim and prospective final status blueprints actually build upon these shared foundations.

Pursuant to the DOP, the *Protocol on Economic Relations* signed in Paris on April 29, 1994, sets down actual guidelines for meaningful ties between Israel and the autonomous areas during the interim period. Subject to coordination with Israel, it grants Palestinians for the first time the freedom to determine customs rates, to establish a monetary authority for the purpose of regulating banks and maintaining foreign exchange reserves (with the possibility left open in the future for issuing a Palestinian currency), to undertake their own taxation policy, and to establish a social security system.[14] In addition, the agreement specifically calls for joint economic cooperation between Israel and the Palestine Authority on labor, agriculture, industry, tourism, taxation, imports, insurance, and monetary policy.

Moreover, under the terms of the 1994 economic pact Israel commits itself (1) to maintain import quotas on only five agricultural goods imported from areas under Palestine Authority administration, (2) to facilitate the free movement of manufactured goods, the establishment of a Palestinian tourist board, and PA licensing and supervision of insurance (with policies issued by the PA valid in Israel as well), and (3) to "maintain the normality of movement of labor" (including an Israeli pledge to transfer 75 percent of revenues from the taxed income collected from Palestinians employed in Israel).[15]

Consistent with the gradualist-functionalist approach, if fully honored by both parties, this formula ought to set into motion a reinforcing mechanism for encouraging still higher levels and forms of expanded cooperation propelled more by carrots than sticks. Again, if rational economic behavior by Israelis and Palestinians can be taken as the norm, then the incentives are certainly there. At which later point the argument of economic self-interest supplants that of economic necessity as the final, most formidable prop supporting the prescriptive solution of qualified interdependence. A common customs system, a single currency, a countries-wide communications and transportation grid bespeaking integrated postal, telephone, and telegraphic services as well as an interstate network of roadways and railways, a master plan for the rational utilization of airports and seaports—the list goes on almost interminably. Land reclamation, soil conservation, nature preserves, water and electrical power facilities merely hint at the potential for joint economic development projects.

To cite one case in point: the labor market. It seems fairly clear that long into the future Palestinian day workers are still going to remain important for Israel while at the same time continuing to provide a primary source of income for thousands of Palestinian families.

It now turns out that the emergency stopgap measure permitting substitute foreign laborers into the country has created a deeper problem for Israel: the presence of a growing *Gastarbeiter* underclass, with social, racial, and ethnic consequences similar to those Germany and other European societies are presently experiencing. Palestinian workers, by contrast, offer the advantage of commuting to work in Israel and returning home at night, without burdening Israel's health and educational services. So that, while down from pre-intifada levels of 100,000–130,000 Palestinian laborers, nevertheless the number for 1996 still averaged between 30,000 and 70,000 per day. Furthermore, from an Arab standpoint the salaries and wages taken home from Israel and then either spent, saved, or invested in the territories enter the economic balance sheet as a plus, contributing, first, to the standard of living and, second, to political stability in the West Bank and Gaza.

Tourism is another of these so-called peace dividends holding out unlimited economic potential for all sides. It is one of the sectors where Israel and its Palestinian and Jordanian neighbors share perhaps the highest degree of complementarity. And it also nicely illustrates how cost-benefit analysis might work in combination with the ecopolitical imperative to underpin copartitioned Palestine.

The Holy Land, writ even larger, and defined as further encompassing the ancient Near Eastern biblical reference points east as well as west of the Jordan River, is in a manner of speaking itself a priceless natural resource waiting to be exploited. It provides a "natural" attraction luring foreign tourists and pilgrims of all faiths and denominations. The more so if advertised and packaged by Israel, the Palestinians, and Jordan as a moving experience in a "zone of peace," with visitors offered not only spectacular geological, climatic, and scenic diversity but a "bridge of civilizations."

Israel, and to a lesser extent Jordan, have long geared themselves for tourism, viewing it as an important contribution to GNP, domestic employment, and foreign exchange. Palestinians, too, are right to seek inclusion and to project tourism as one of their most promising areas for strong economic development. Other comparable examples where the fruits of peace and jointness might benefit both Israelis and Palestinians in the future include computer software, food processing, building materials, machinery, plastics, and clothing.[16]

The Economic Down Side

Middle East economists demonstrate remarkable agreement as to the wisdom and the need for cooperation if politically partitioned Israel and the Palestinians are going to have even an outside chance at fulfilling their separate longer-term economic and national aspirations. And also any prospect at all of holding their own in a competitive global market that puts a premium upon innovation, interdependence, and regional integration.

Precisely because it is so impressive and eminently rational, this logic of interconnectedness and its Middle East proponents dare not ignore pockets of resistance to change and to the very idea of "separate but together."[17] Nor can we afford to minimize the seriousness of parochial and even xenophobic nationalism's hold over people, which traditionally tends to discourage cross-border cooperation in favor of trade barriers, tariffs, and other similar forms of discrimination.

Some ten obstacles are certain to be encountered in converting prescription into actual Israeli-Palestinian economic practice.

First, "ivory tower" game-theoretic blackboard exercises and complex economic algorithms are not readily applicable. They show a proclivity toward levels of abstraction while positing "rational actor" and "rational choice" models that do not always allow for "soft" variables such as an *emotional*, parochial nationalist sentiment that is prepared to sacrifice economic well-being on the altar of nationalism.

Second, *excesses* of economic utopianism. Like the wave of new world order and "new Middle East" thinking after Oslo that gave free reign to premature flights of fancy about open borders, a Benelux-like Middle East customs union, an Israeli-Palestinian-Jordanian economic confederation and a free-trade area between Israel and its Arab neighbors.[18] Clearly, there are no shortcuts or convenient detours in striving to go from pure enmity to partnership and trust.

Especially because, third, the crisis of *confidence* between Arabs and Israelis still prevails. Indeed, prospects for functional, businesslike cooperation have yet to recover from the triple setback inflicted. By the intifada initially, then by the wave of violence in September 1996. And, more recently, by the decision of Arab world leaders to put multilateral conference decisions in favor of collaborative trade with Israel "on hold" as part of their quid pro quo diplomatic war of nerves in extracting concessions from the Netanyahu government on peace process–related issues.

Just prior to the intifada there had actually been encouraging signs of spreading Arab-Jewish business contacts in Jerusalem and across the green line, even of business partnerships in auto repair, restaurants, tourism, and textiles. Now such otherwise praiseworthy jointness is unfortunately confined almost exclusively to nefarious enterprises. In yet another of Palestine's supreme ironies, the principles for cooperation and the profits from collaboration are thus far best seen in the drug trade, prostitution rings, smuggling, and, as discussed above, car theft!

Also, fourth, because economic convergence and true partnership are hardest to achieve in *asymmetrical* situations marked by extremes in basic power capabilities. Which is precisely the case here, where the two prospective partners begin from opposite starting points. The reader need only contrast the different levels of development, industrialization, and technological sophistication between the Israeli hi-tech and the Palestinian agrarian economies.

For one thing, many economists take issue with the call for collaboration, arguing that the Israeli and Palestinian markets overlap, duplicating rather than complementing each other, and that, besides, Israel's natural trading partners lie outside the Arab Middle East and Palestine—in North America, western Europe, and East Asia.

Even then, to the extent proximity is conducive to economic good neighborliness, when dealing with Palestinian clients Israelis will have to guard against an air of condescension. Superiority or merely the impression of superiority on Israel's part is likely to feed preexisting Arab stereotyped fears of Zionist imperialism and economic hegemony that are in themselves full of insight into Palestinian self-perceptions and feelings of economic inferiority, technological backwardness, and dependency on Israel.

Fifth, *economic* separatism needs to be seen as a derivative form of a still larger *political* separatism that in the instance of Arab-Jewish Palestine has a long record of rivalry, competition, and unadulterated, "pure" conflict. In other words, the traditional politics and economics of exclusionism, premised upon narrow self-interest, have prejudiced nationals on both sides to see themselves as two peoples pitted against each other in a winner-take-all struggle. These attitudinal patterns are deeply ingrained; they will not easily be given up in exchange for a new value system keynoting "collective goods" and "fair share." Moreover, it is a struggle made worse by limited, finite economic resources.

Speaking of resource deficiencies re: Palestine, *time* and *patience* are in their own way a sixth and seventh obstacle. Restructuring, reeducation (the hearts-and-mind school of conflict resolution), and socialization toward economic collaboration are precisely those deeper and extensive processes that most require ample supplies of both time and patience.

Yet asking Arabs and Jews to show forbearance is, like seeking an extension of time, certainly an option. But really more in the nature of a luxury—one that Middle East peacemakers can ill afford. There are simply no reserves of time or surpluses of patience from which to draw. In fact, impatience and the failure to receive instant gratification is one suggested explanation for expressions of disillusionment by both sides over the slow pace of the Oslo process in the initial years 1993–1997: by Israelis intent upon "peace *now*" and on the part of many Palestinians and Jordanians dissatisfied at the slow pace of their leaders in satisfying rising expectations and material demands attendant upon a peace with the Zionist state.

An eighth economic concern traces to *external* rather than internal factors. Namely, the prospect that international private and governmental aid is going to prove a case of too little and too late. Reconstruction of the Gaza Strip, with its refugee camps, inadequate sewerage system, and unemployment, is, just by itself, a project of staggering proportions. It represents an immense undertaking that captures the imagination yet can only be achieved through a global consortium capable of mobilizing foreign expertise, management skills, and, not least, funding.

But this is not going to happen. And not only because of Yasir Arafat's questionable administrative talents. Billed as the premier forum for promoting regional cooperation and attracting international private and government investment capital, little of real substance has emerged from the publicized annual Middle East–North Africa (MENA) economic conferences held thus far under the aegis of the World Economic Forum at Casablanca (1994), Amman (1995), Cairo (1996), and Doha in Qatar (1997).

Sad to say, potential investors are not going to wait for Israel, the Palestinians, and the Arab countries to get their act together in agreeing to minimal regionalism. Especially when so many pressing and no less worthy humanitarian causes exist around the globe. Also more promising formerly war-torn countries and undeveloped regions presently vie for world media attention, for America's conscience, and for the limited financial assistance that is available internationally. And which probably offer much better prospects for handsome shorter-term returns on investment. The 1998 Asian financial and economic crisis has only made matters worse, both by reducing the list of wealthy donor countries and by some of these same countries, like Indonesia and South Korea, themselves becoming candidates for international bail-out efforts.

Deferred Gratification

Ninth, conversion to a peacetime economy *does not come free*. It will extract a heavy price; it calls for sacrifices from Israelis and Palestinians alike and is going to be accompanied by short-term dislocation.

Since the existing Israeli-Palestinian economic structure has overwhelmingly favored Israel, the act of creating a new and more equal relationship will involve some painful readjustments for Israel. The need for accommodation means fostering rapid economic development in the postpartition West Bank and Gaza, after years of stagnation, and learning to live with an independent Palestine national authority that has given notice it will be pursuing a social and economic agenda of its own. Sharing rather than predominating is called for on Israel's part, especially in the future utilization of water resources on the West Bank.

When next applied to the Palestinians, the principle of mutual accommodation and reciprocal tradeoffs raises a no less sensitive albeit unavoidable question. Whether a Palestinian entity, even one declared to be politically independent, can be a truly viable economic entity given the fact that it will be sandwiched between Israel and Jordan, limited in size, and operating from a narrow resource base. More likely the post-settlement Palestinian Arab polity will be forced to acknowledge Israeli economic preeminence: to accept aid from any quarter, including the Jewish state, to operate in the shadow of a larger and more robust Israeli economy, and to strive for closer coordination with Israel. The price for the Arabs of Palestine, nationalist ideology aside, in short, involves somehow reconciling economic interdependence with political sovereignty. Possibly smoothing the way is the realization that under the present international economic system no state can be said to exercise 100 percent directorship over its economy and national economic policy.

Tenth, and left for last, are recent experiences that caution against underestimating the terrible *complexity* of the economic-related peace issues. Few problems lend themselves to easy solutions; many, like the fate of the Arab refugees or water supplies, require both urgent attention and radical treatment. Yet the first rounds of economic talks held thus far both at the bilateral level and in the multilateral regional track are less than encouraging. While political economy may offer one set of conventions, Israeli-Palestinian economic politics have a set of their own, with little early evidence to indicate that either side has undergone a true change of heart and has turned to liberal economic theory.

Surely refugees and water have got to be the two most outstanding—and contentious—topics. They also offer a depressing study in contrasts: the sedentary immobilism of the refugee camps versus the fluid liquidity and alarming evaporation of life-sustaining Middle East water.

The Festering Refugee Problem

Regarding the first, the manner by which the final status and fate of the Palestinian refugees are determined is going to have a direct bearing on Israeli as well as Palestinian economic development. Just as their exact number, dating back to 1948, is unknowable, so is there clearly no panacea for the refugee problem, however defined.

More readily apparent is the vulnerability of the Palestinian economic institutions, which all but precludes large-scale absorption of the refugees in the West Bank or Gaza, at least not initially. And certainly not without a massive scale of Arab, U.S., European, and World Bank relief aid that may not be forthcoming. Although mindful of the symbolic importance of what the PLO claims as “the right of return,” this observation is dictated entirely by economics.

When studies suggest unemployment rates of 50 percent by the year 2010, under prevailing and foreseeable conditions Arafat’s Palestinian Authority will have the hardest time ensuring a livelihood, decent housing, education, social services, and improved living standards for those already residing in the territories.[19] Nor should Israel be expected to cave in on its long-standing objection to admitting substantial numbers of Palestinian Arabs on the refugee rolls for economic, cultural, and security reasons, by its own hand upsetting the demographic balance of the Jewish state.

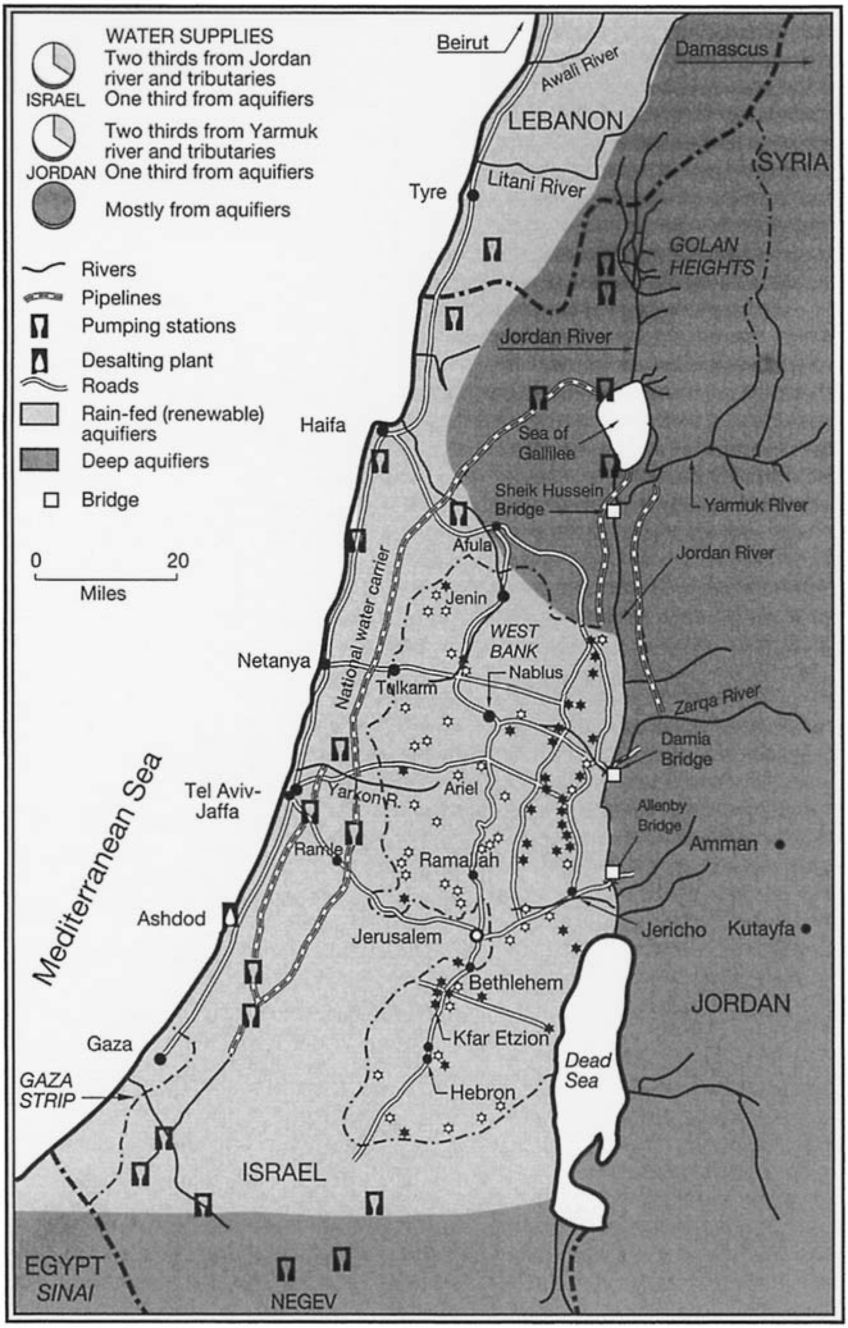
Over the long term, however, an incremental process of refugee absorption could have a beneficial effect similar to what Israel has experienced historically with its waves of immigration. Particularly if talented professionals from the Palestinian "diaspora" are attracted by economic opportunity or patriotism to take up residence on the West Bank or Gaza. Ultimately, though, the most promising approach is the one outlined above: an Israeli-Palestinian collaborative effort offering imaginative solutions that can only be implemented within a collective framework. Like putting together a package of measures combining modest refugee repatriation by Israel as a humanitarian gesture and admission of dual responsibility—along the lines of a family reunification scheme—with indemnification, monetary compensation, and the option of repatriation and resettlement under Palestinian rule for those in refugee camps in Jordan, Lebanon, and Syria or living in the Persian Gulf and elsewhere. The objective being, of course, to allow these people real hope in place of despair, a sense of permanence—a "homeland" in the literal sense, instead of homelessness—and the opportunity to get on with their lives.

The Looming Water Crisis

Sorely testing Israeli-Palestinian economic statecraft as much as the refugee issue is the question of assuring adequate water supplies. Of such overriding importance is water that the failure to come up with an agreement governing its distribution could jeopardize the final status talks in the same way that the breakdown in any negotiated water accord would endanger the subsequent state of peace.[20]

Preventing such a Middle East "water war" from originating in geographic Palestine already looms as a top-priority item on the partition agenda, thrust there by growing demands for irrigation and drinking water in inverse proportion to diminishing supplies. And, in addition, the Hashemite Kingdom of Jordan's long-standing claims to a full, equal share of water resources by virtue of being a neighboring riparian state.

Within this trilateral construct Israel, Jordan, and the territories rely on but two primary sources of water, one being short seasonal rains brought in by the winter jet stream. The single most important and consistent source, though, is the Jordan River system, whereby the flow of water from tributaries located in Lebanon and Syria (making this a regional matter) discharges some 1,500 million cubic meters (mcm) annually into the Jordan River. While crucial, this is relatively meager by world standards—about fifty times less than the Rhine, sixty-five times less than the Nile, and four hundred times less than the Mississippi River.[21]



13. Hydrostrategic Map and the Yarmuk River System

Subterranean water actually provides over fifty percent of the available renewable supply of drinking water for Israel and nearly all the water presently consumed by the Palestinians. The main groundwater basin of the region, the Mountain Aquifer, originates in the West Bank. Its waters flow in a westerly direction underneath the green line into Israeli territory, along the Mediterranean coast, or northward, toward the Jezreel and Beit Shean valleys. Israel (including West Bank settlers) utilizes nearly 80 percent of the waters in this aquifer, thus leaving the Palestinians with some twenty percent. A second aquifer, the Eastern Aquifer, both originates and discharges entirely within the West Bank, where, again, most of its waters are utilized by Israeli settlements.[22]

In general, the respective levels of current water consumption (including all three categories: irrigation, industrial, and personal use) show the average Israeli consumes approximately 275 liters per day—comparable to the European standard of 250–350 liters per person per day. Whereas Palestinian water consumption estimates tend to be considerably lower—ranging from 68–96 and 63–104 liters per person per day for the West Bank and the Gaza Strip respectively.[23] And still water rationing is necessary. The situation is made acute by demographic projections showing a substantial increase in the Palestinian population in an atmosphere of peace and with any influx of former refugees. In which case, barring the development of alternative sources—a cheaper Mediterranean water desalinization process, for example, a peace pipeline extending all the way from Anatolia, or sea-borne purified drinking water transported by tankers or by Medusa containers from Turkey—the ratio of water available per person can only decline to alarming proportions.

Nowhere is the water shortage more alarming than in the Gaza Strip. With a population of over two thousand people per square kilometer (0.6 mile), Gaza City and the surrounding land represent one of the most densely populated areas in the world. Its extension of the Coastal Aquifer has been overexploited for decades, resulting in high levels of salinity and contamination, leaving the strip and its inhabitants almost totally dependent on rainfall as their principal source of water.

Already today the water situation in the Gaza Strip has reached crisis proportions—a crisis that, if left unattended, is guaranteed to worsen with time. Gazans currently consume 50 to 100 percent more water than the natural replenishment rate, thus causing a further drop in underground water levels and seepage of sea water into the aquifer.[24]

Israel has gone on record at Oslo as recognizing the need to replace the uneven distribution of potable water with a more equitable and effective water conservation and allocation regime equally sensitive to legitimate Palestinian needs.[25] But, at the same time, official Israeli policy treats the water question in pragmatic terms. Dependent as it has become on subterranean water supplies located beneath the West Bank, and with Israel's population expected to double in the next thirty years, national leaders will not permit these waters to be diverted by Palestinians drilling wells immediately above the aquifers and claiming exclusive sovereignty.

A way needs to be found to ensure against unilateral water exploitation and for Israeli access while negotiating fair share criteria. One possibility: Israel holding out for permanently retaining direct control over areas where these aquifers are located, and labeled vital for security.[26] Tantamount to annexing substantial parts of western Samaria with large numbers of Arab inhabitants, this option is doubly problematic. Besides being unacceptable to the Palestinians, it makes a mockery of any pretensions for a "clean cut" separation and a rational partition. No less a stalwart opponent of territorial concessions from Israel as Ariel Sharon has come to realize that water supplies are humanitarian needs and, as such, "We need to divide the water equally."[27]

Another possibility, therefore, is creating a bilateral Israeli-Palestinian administrative board (possibly even a trilateral commission that includes Jordan) to oversee the efficient use of water, to regulate distribution and patrol the aquifer sites against illegal drilling, while seeking cost-effective means for augmenting the available water supply.

Assuming Israel's priority is assured access rather than territorial control per se, and that the joint authority would actually exercise powers of enforcement, Jerusalem might find merit in the proposal, adopting it as the fall-back position and basis for compromise. Except that a Palestinian view of the water issue goes beyond hydrology and "just allocation" flow charts to "inalienable rights." Hence peace sponsors should be prepared for the possibility that Israel's endorsement of a joint water regime could very well be turned down by suspicious PLO negotiators, at least in the first round, as an infringement upon their sovereignty and territorial integrity and an attempt at continuing to deny what is rightfully theirs.

This does not preclude broad agreement on a formula for equitable distribution, nor the creation, more specifically, of a joint water regime.[28] What it does mean is that Arab-Israel peacemaking must take into account national sensitivities as well as water liquidity, in keeping with the politics of economics. What this single issue of water signifies, and as the heat and water crisis in the summer of 1998 poignantly underscored, is that predicted water shortages constitute a shared enemy and threat in coming years for all the people of this region.

Water distress frames the basic dilemma—and the two options. In keeping with the traditional approach to international and interstate disputes, Israelis and Palestinians can go on telling each other, "*I* have *my* needs and *my* demands; *you* have a problem." Or, citing the dictates of economic, physical, and climatic necessity, they can rise above the mindset parochial nationalism inculcates and begin the slow reeducation and conversion process in thinking of and addressing each other, along the lines of "*We* have a problem."

The choice is theirs, and theirs alone. But, then, the right to choose is what lies at the heart of historic Zionist and Palestinian Arab nationalism—the right to determine their own separate but now collective destinies.

Economic and geographic imperatives dictate guaranteeing fair distribution of water quotas while improving the water distribution system and undertaking joint emergency steps to diversify and increase reliable steady sources of drinking water for the future. For Israeli and Palestinian officials to play politics with this liquid, trying to show who is boss and who dependent, is more than shortsighted and petty. In a very real sense, delaying on water is tantamount to playing with fire.

But, rather than decoupled, discouraged, or denied, this economics-politics nexus might well be utilized for peace-building purposes. Acute water adversity can and should be turned into an advantage. Everybody understands, and everybody needs, life-sustaining water. This single fact of life, if seized upon by respective leaders, offers the perfect sought-after foundation for pragmatic, functional joint effort. Indeed, experts on the politics of water insist neither bilateral (Israeli and Palestinian) nor trilateral (Israeli, Palestinian, Jordanian) cooperation is going to suffice but that alarming projections of Middle East water scarcity dictate regional-wide coordination.[29] Basing himself on the analogy that "if roads lead to civilization, then water leads to peace," Shimon Peres, in and out of public office, has been one of the more outspoken prime movers in pioneering and selling the vision of a regional water policy that would call for a regional water regime managed by all affected (and potentially beneficiary) countries.[30]

Israelis, like Palestinians, must therefore be encouraged to bear in mind one powerful economic verity. Call it enlightened self-interest, economic opportunism, or whatever. But only by economic cooperation and coexistence is it possible for a partition-based peace construct, no matter how artificial and however inefficient, to be made workable. Rising prosperity for both resident communities is arguably the best guarantee that the settlement finally negotiated will ultimately be honored. Like physical, communal, and national security, economic growth can, and has got to be, redefined as "common" in the specific sense of sharing.

This said, however, it remains true that, above and beyond "turf wars" and "resource wars," the Middle East and Palestine in particular are known for their "holy wars." The Arab-Israel conflict has its temporal and territorial side, but also its spiritual dimension. There are borders and land claims and water rights. And then there is Jerusalem.