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Aid to the Palestinians: The Role of Oil-Rich Arab States

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On December 17, a donor conference will convene in Paris with the goal of bolstering Palestinian governance in the West Bank -- the first such meeting since the 2006 Stockholm conference. Current Middle East envoy Tony Blair has expressed optimism that the international community will support President Mahmoud Abbas and technocratic prime minister Salam Fayad. A sum of $5.6 billion is needed for the 2008-2010 period, and with the price of oil close to $100 per barrel, that target could be reached easily with contributions from the Gulf. But how much are the Gulf Arab states actually prepared to contribute to an issue that would seem to rank as one of their great political priorities?

The Palestinian Economy under Fayad

Fayad, who worked as an economist at the International Monetary Fund (IMF) for fourteen years and later as Palestinian finance minister, has put forward a plan for economic, institutional, and security reform. He has won plaudits from the international community for his efforts to break up monopolies and fight endemic corruption. As finance minister, he halted Yasser Arafat's noxious practice of giving security officials meager sums while higher officials received paper bags filled with cash. He has also managed to pay current and back salaries to Palestinian employees while preventing West Bank mosques from transferring funds to Hamas -- all significant achievements that could assuage the Gulf states' longstanding concerns about misappropriation of their funds.

Palestinians have noticed that Fayad is someone who delivers. Many regard him as the first Palestinian leader intent on raising the living standards of his own people. Recent Palestinian polls show his support is double that of Hamas, whose Gaza government has been financially crippled since the January 2006 elections because of its inability to break international sanctions.

Political Context, Post-Annapolis

Of course, economics alone will not solve the Israel-Palestinian conflict -- a credible U.S.-led diplomatic effort is needed in the wake of the Annapolis summit. On-the-ground measures by both Israelis and Palestinians could enhance confidence among the people and, like the growing rapport between leaders witnessed at Annapolis, signal that something is changing. Such measures -- whether it is banning incitement on Palestinian state-run media or curbing Israeli settlement activity -- could spur the ongoing decline of Hamas and the reorientation of Palestinian attitudes toward peace with Israel. Indeed, economic progress coupled with continued reform could help convince Palestinians that they have a stake in the peace process.

The Need for Gulf Aid

Many nations will be assembled at the Paris donor conference, but unfortunately the countries that could contribute the most -- the Gulf states -- have done the least. It will be interesting to see whether Paris marks a new departure for these countries. For all their statements on behalf of their Palestinian Arab brethren and how important the peace issue is to progress on other regional fronts, the Gulf Arabs have contributed very little financially to the Palestinians in recent years. According to World Bank officials, the annual Saudi contribution to the Palestinian Authority has been $84 million for most of this decade, while the other Gulf countries have given less or nothing at all. Despite their joint pledge of $660 million per year at an emergency Arab League summit in 2002, when oil prices were a fraction of what they are today, little has actually happened. Similarly, a Saudi promise last year to provide $300-$500 million was never fulfilled, according to U.S. and Arab officials.

Huge Surpluses

The shortage of Gulf aid to the Palestinians certainly does not result from a lack of wealth, which has reached staggering proportions due to the quadrupling of oil prices since 2002. According to the U.S. Department of Energy and the IMF, oil revenue for the six Gulf Cooperation Council states (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Oman, and Bahrain) should reach about $400 billion this year, half of it belonging to the Saudis. This would make their joint contribution to the Palestinians only 0.04 percent of their annual oil revenues. Adding to that wealth is their cumulative current account surplus since 2003, which will reach $700 billion this year.

Individual examples of this wealth from Saudi Arabia -- which just projected a 2008 budget surplus of $10.7 billion -- are equally staggering. For example, the *Wall Street Journal* reported that former Saudi ambassador to the United States Prince Bandar bin Sultan has just sold his third house in Aspen, Colorado -- a mountain home with eleven-and-a-half bathrooms and sixty-seven acres of property -- for $36.5 million. He has also taken his main Aspen residence -- previously listed at $135 million -- off the market. Fellow prince al-Walid bin Talal, an investor and entrepreneur, has meanwhile just bought the first private version of the new double-decker European Airbus A-380, which holds 900 passengers, for $320 million.

Other Gulf states can boast similar wealth. The Dubai-based Emirates airline has ordered more than fifty of the same aircraft al-Walid purchased, while the Abu Dhabi Investment Authority (ADIA) -- the sovereign wealth authority of the lead emirate of the United Arab Emirates, which alone has an estimated 10 percent of the world's oil reserves -- recently usurped the Saudi prince's role as the largest individual shareholder in Citigroup. ADIA reportedly holds assets surpassing $800 billion, and its recent much-publicized investment of $7.5 billion in Citigroup actually represents a pittance of its overall portfolio. And neighboring Qatar, with an indigenous population of only 200,000 and the largest reserves of gas after Russia and Iran, is currently advertising itself as the world's fastest growing economy.

Investing in the Palestinian Future

Do Gulf Arabs really think that the U.S. mortgage market and similar opportunities represent better investments than funding the economic infrastructure and future well being of the Palestinians, for whom they have campaigned for decades? Or will they now decide that the time has come to create employment and fund decent living conditions, breaking with the tradition of subsidies and handouts? Traditionally, most Arabs believe that the West is responsible for the Palestinian refugee problem, and that the West should therefore fund these kinds of efforts. But this logic is increasingly challenged and widely considered untenable.

Given the amount of U.S. political and diplomatic capital deployed for the Annapolis summit, Washington needs to put pressure on its oil-rich Arab friends to donate considerable funds. Resistance to the idea is likely, but there has seldom been a better time to use the dichotomy between the needs of Palestinians and the wealth of their Arab supporters as an example.

Pushing such a policy will require further efforts by both the White House and the State Department. It will also require harnessing the different visions of various players and convincing them that now is the time to seize the opportunity for peace, or at least a substantial step on the road toward it.

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