

DEMOCRACY

Israeli and Palestinian groups pushing for economic cooperation

By Nicky Blackburn February 07, 2007

A new report which shows that Palestinian-Israeli economic cooperation could lead to a huge growth in prosperity, a leap in exports, and a wave of lucrative tourism to the region is now being distributed to Israeli, Palestinian and international policy makers.

The research, which was carried out by Israeli and Palestinian economists at the Peres Center for Peace and the Palestine Trade Center(PalTrade), showed that more than \$10.6 billion in exports and 465,000 jobs for Palestinians, and \$17.3 billion in exports and 375,000 jobs for Israelis in agriculture, textile, construction and tourism could emerge within five to 10 years, once political stability is achieved between the two sides.

The report, *The Untapped Potential - Palestinian-Israeli Economic Relations: Policy Options and Recommendations*, is the first joint study of its kind. It was initiated in an attempt to examine the largely untapped economic benefits of economic cooperation between Israel and the PA for both sides, and to look at the potential economic damage that would result if such cooperation were eliminated.

"People are unaware of the huge economic significance the Palestinian economy has on the Israeli economy," says Smadar Shapira, the head of business and economic development at the Peres Center for Peace.

The researchers began work on the report eight months ago in response to growing calls in Israel for economic separation from the PA. The scope of this separation could be anything from a 'friendly' one, where economic and trade relations are encouraged, to a 'hostile' one, where economic and trade relations are cut, and the only coordination is on humanitarian affairs, according to Shapira.

Last year, Palestinian exports to Israel reached \$500-550 million (90% of overall Palestinian exports), while exports from Israel to the PA stood at \$2.5-2.7 billion (some 70-75% of Palestinian imports).

The study, which is based on past experiences, Palestinian VAT figures, and personal interviews with Palestinian and Israeli businesspeople, suggests that these figures are well below the potential for trade. The report notes that in 1990, Palestinian and Jordanian exports were identical. By 2005, however, Jordanian exports were 10 times greater.

The researchers note how dependent the Palestinian economy is on Israel and show how Israeli exports to the PA have fallen as the conflict has intensified because of the negative impact it has had on the Palestinian business sector.

The authors of the study predicted that full economic cooperation between Israel and the PA would increase Palestinian GDP by \$8 billion, from today's figure of \$4 billion to \$12 billion in five to 10 years.

While it was no surprise to the researchers that Palestinian-Israeli economic cooperation would have a huge and positive impact on the Palestinian economy, what did come as a

surprise was the impact it would have on the Israeli economy.

The report suggested that the cumulative contribution to Israel exports, estimated at over \$17 billion within five to 10 years of stable political conditions, would be generated by Christian tourism to the 'Holy Land', which is projected to develop into a \$5 billion business for Israel; and a rise in direct exports to the PA to \$7.5 billion.

In addition, the report suggests that under conditions of Israeli-Palestinian economic cooperation, the Arab economic bloc would develop into an important export market for Israel, worth in the region of \$5 billion. In value-added terms, the contribution of such economic cooperation to the Israeli GDP would reach about \$12 billion.

"The biggest surprises were the amazing contribution such cooperation could have on the Israeli market, the high value of Israeli inputs to Palestinian products and the strong linkage between growth rates of the Palestinian economy and Israeli exports magnitude to the PA," says Yitzhak Gal, senior economist and research consultant at the Peres Center, who helped author the report.

Shapira insists that the report's predictions are only a "cautious estimate" of the advantages that could be gained in the wake of political and military stability.

"The Palestinian Authority is Israel's second largest export market after the United States," Shapira told ISRAEL21c. "When people talk about separation they need to know that it will have a very serious and damaging impact on both the Palestinian and the Israeli economies."

The report suggests that a hostile separation would mean the immediate loss of more than 5% of Israeli exports (without diamonds), a loss that would hurt sensitive sectors such as agriculture; and the loss of tens of thousands of jobs.

For the Palestinians, it would be even more severe. "Severing economic ties would be destructive to the economy and the shock that it would cause would lead to a sharp rise in unemployment and a deepening of the severe economic crisis the PA is already suffering today," the report stated.

The report adds that according to the World Bank, economic separation would lead to a 25% drop in Palestinian GDP, from \$1,000-1,100 per capita today, to \$800. Unemployment would rise from 23% to 40%. The inevitable result, according to the report, would be a renewal of the violent conflict between the sides.

In addition, Palestinian exports would lose any potential advantages they might have gained in Arab markets by incorporating Israeli technology, marketing and infrastructure into their own products.

PalTrade and the Peres Center for Peace are now engaged to ensure that policy makers, decision-makers, ministers, and key businesspeople in both Israel and the PA read this report. The two organizations have already sent out 1,200 copies and are undertaking extensive advocacy activities to promote the main findings and recommendations of the paper. Meetings have already been held with international representatives in the region, and with the Israeli Ministry of Defense.

"The economic benefits for both the Palestinian and Israeli economies are very clear. This research is very significant. It has shed a great deal of light on the different possibilities for cooperation on both sides," says Shapira. "We hope this report will help increase awareness among decision makers in Israel, the PA and the international community regarding the potential for trade between the Israelis and the Palestinians. We hope it will help them understand the implications of what they are doing."