

## Hostile or Friendly Separation? Israeli-Palestinian Economic Relations at a Crossroad

Highlights of the Public Event Held on Thursday, May 31, 2007,  
Tel Aviv University

The Peres Center for Peace together with the University Institute for Diplomacy and Regional Cooperation and the Friedrich-Ebert-Stiftung held a public meeting entitled: "Hostile or Friendly Separation? Israeli-Palestinian Economic Relations at a Crossroad" to discuss the future of Palestinian-Israeli economic relations.

The panel was composed of: **Mr. Saeb Bamyia**, Former Deputy Ministry of the Palestinian Ministry of National Economy, **Mr. Shraga Brosh**, President, Manufacturers Association of Israel and Chairman of Federation of Israeli Economic Organizations, **Mr. Basem Khoury**, Chairman, Palestinian Federation of Industries (PFI), **MK Dr. Ephraim Sneh**, Israeli Deputy Minister of Defense and **Mr. Arie Zief**, CEO, Dubek Ltd. and Vice President of the Federation of Israeli Chambers of Commerce.

Below are highlights of the five panelists' speeches.

**Dr. Ron Pundak**  
**Director General**  
**The Peres Center for Peace**

The entire Oslo thinking was built on the importance of economy and the win-win approach. We should all keep in mind that economy is the basis upon which to connect the Israeli and Palestinian sides. Therefore, our goal is to find a way to foster cooperation between the two private sectors.

The Disengagement, carried out in August 2005, is a bad example of cooperation – carried out unilaterally – as it planted the seeds for hostile separation. We must work toward a friendly economic separation and stability for both economies. Not only will the Palestinian economy grow from separation, but the Israeli economy will also benefit from such an arrangement. For example, the economic growth can reach 17 billion a year within 5-10 years' time and 400,000 jobs in Israel will be generated.

Investing in and supporting the Palestinian economy, and the Palestinian private sector, is in our best interest as Israelis. We have to guarantee both sides that peace is still possible.



**Dr. Ephraim Sneh**  
**Israeli Deputy Defense Minister**

The word "separation" must be deleted from our political lexicon, simply because it is impossible. Due to five main factors, Israelis and Palestinians can not be separated: Trade; Water; Energy; Environment; and Health Concerns. Separating the two entities would mean, in this regard, acting against nature – which we can not do. Naturally keeping Palestinian workers out of Israel is possible, however it is unnecessary – and will not contribute, but rather, will disadvantage both sides.

The economic bond is essential to both sides. The Israeli economy can gain from a better purchase of the Palestinian economy. It is stronger than the Palestinian economy (\$20,000 GDP per capita compared with \$1,000 on the Palestinian side) and can serve as a lever to the Palestinian economy. Both Israelis and Palestinians must understand that only through cooperation can a prosperous Palestinian economy be built.



Over the last couple of months, we have seen some positive signs in this regard – Karni was opened, new technologies were introduced, and the number of trucks passing via the border crossing has greatly increased. We are currently opening Erez border crossing for goods as well, and the northern exit of the Jordan Valley has also been opened, allowing Palestinian exports to the north.

In parallel, there have been many new initiatives to build new industrial zones, supported by foreign investments (Germany, Turkey, Japan) in the area of Jalameh, Erez (old industrial zone), as well as in Taybe and the Tul-Karem area.

The real enemy of the economy is terrorism. The Israeli measures undertaken are essential to protect ourselves. The relief in terms of closures, provided by the Israeli government, means taking a risk on security.

We find ourselves in a very critical time, in which we should decide where the Middle East is currently heading – toward negotiation or deterioration? Critical in this regard is the defeat of Hamas – in all measures – economic, security and political.

**Shraga Brosh**  
**President, Manufacturers Association of Israel and Chairman of the Federation of Israeli Economic Organizations**

When businesspeople sit together, and leave their political views aside, most issues are resolved. The business sector should aim at "privatizing" the peace process, and increasing its impact on the politicians, thereby accelerating the peace process.



The political relations have a direct impact on the Israeli industry; for example, Atarot industrial zone employs thousands of Palestinian workers who undergo many difficulties obtaining permits.

Accordingly, the Israeli companies, which have no certainty, can not establish stable businesses there. On the contrary – the industrial area of Barkan provides work for 5,000 workers in 100 different factories, out of which 2,500 are Palestinians, who hold permits and come to work on a daily basis. This area is very quiet – everybody has an interest in keeping this area alive and prosperous.

Cooperation: many Israeli industries, such as the textile industry, can no longer compete with costs and prices. Nevertheless, instead of shifting their production lines to the Far East (which they can do), they should re-locate them to sub-contractors in the Palestinian Authority – it's cheaper and it is close.

Helping the Palestinian economy means helping the Israeli economy. The two economies are not competing, but rather, they complement each other. Sub-contracting, and not only in the traditional industries, but also in the fields of IT, is currently being developed.

Moreover, the Palestinian Authority opens new markets for the Israeli industries. Physical separation should not mean disconnection, but rather continuance of economic cooperation.

The business sectors in Israel and the PA should be the leaders in this process to strengthen and encourage mutual relations, for the benefit of both economies.

### **Arie Zeif**

**CEO, Dubek Ltd. and Vice President of the Federation of Israeli Chambers of Commerce**

The best model that we should aspire to must exclude the possibility of separation between the two economies. The Palestinian budget is mainly based on cooperation with Israel. Israel makes 75% of Palestinian imports. Ninety percent of Palestinian exports are directed toward Israel. The neighboring economies – Jordan and Egypt – have the same character of the Palestinian economy, making it hard for the latter to compete in these markets. The cooperation between the governments of the two sides can and should be accompanied by the business communities of both sides. Nevertheless, investing in such cooperation without the support of the governments is very risky. Economic separation would cause tremendous chaos in our region. Meetings between businesspeople can serve as the engine for future harmony and cooperation.



### **Basim Khoury**

**Chairman, Palestinian Federation of Industries (PFI)**

Instead of talking about separation, we should use the term withdrawal, with the aim of becoming two equal partners. The Palestinian Authority is currently characterized by poverty, low employment rates and opportunities, isolation, high-living costs, brain drain and no political horizon.

The social structure is collapsing, and there is an increase in crime, drug abuse and prostitution. Talented people,



including businesspeople, leave their factories and companies and move outside Palestine. The "peace fruits" were not felt in the PA; the gap between rich and poor people has increased, and we shouldn't wonder why Hamas gained power in the last elections.

On the other hand – the Palestinian economy also has a positive side – the structure is stable, corruption is not so spread out, there is a large, educated work force, a stable financial system and accessibility to money.

Nevertheless, the Palestinian economy does not grow – there is no growth in employment or in foreign investments. There are various problems, such as access to technology, movement and transportation. There are more than 500 checkpoints within the West Bank and the transportation to and from Gaza is totally paralyzed. There are regional problems, as well – no access to high-end markets, and all other impediments related to Israeli measures, and such obstacles are creating economic segmentation, making it impossible for the Palestinian economy to recover.

Jerusalem: we can say that the de facto Jerusalem is divided into two, and that discrimination between the Israeli and the Palestinian side is clear, in regard to employment, budget, mortality rate and living standards.

### **Saeb Bamya**

#### **Former Deputy Ministry of the Palestinian Ministry of National Economy**

Separation is a nightmare for the Palestinians – linked, once again with unilateralism. Unilateralism only supports extremists on both sides, and will not serve Israel. Extremists are the enemies of the Palestinians and of peace.



There are three important pillars that need to be addressed: security, economic growth and development, and the political horizon. Unless these three pillars are addressed in parallel, an end to this conflict will not be available. Security and economy should be addressed at the same time; we must create a balance between the legitimate security needs of Israel and economic needs. I believe it is possible to have a common agenda.

The Palestinian people have the right to diversify their trade, and look for other and additional partners – not only Israel and the Arab world. Palestinians have never really benefited from any Free Trade Arrangements they have signed, due to Israel's misrecognition.

Another issue is the Territorial Link between Gaza and the West Bank. Not only is there no political unity for Palestinians, but we also don't have economic unity. Israeli measures have lead to an extreme increase in transaction costs, which again disable any trade activities between the two parts.

We have only one option – to work together. Don't support the extremists around us!

