THE ECONOMICS OF PEACE IN WEST ASIA: THE ISRAELI PERSPECTIVE

Dissertation submitted to the Jawaharlal Nehru University
in partial fulfilment of the requirements
for the award of the Degree of

MASTER OF PHILOSOPHY

GAUTAM CHEEMA

WEST ASIAN DIVISION
CENTRE FOR WEST ASIAN AND AFRICAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI-110 067
INDIA

1995.

जवाहरलाल नेहरू विश्वविद्यालय
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI-110067

WEST ASIAN STUDIES DIVISION
CENTRE FOR WEST ASIAN AND AFRICAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES.

CERTIFICATE

Certified that the dissertation entitled **THE ECONOMIICS OF PEACE IN WEST ASIA : THE ISRAELI PERSPECTIVE** submitted by **Gautam Cheema** in partial fulfillment for the award of the degree of **Master of Philosophy** of the University, is a bona fide and original work to the best of our knowledge and may be placed before the examiners for evaluation. This dissertation has not been submitted for the award of any other degree of this university of any other university.

Prof G. DIETL
Chairperson

Prof. G. PANT
Supervisor

GRAM : JAYENU TEL. : 667676, 667557 TELEX : 031-73167 JNU IN FAX : 91-011-6865886

ACKNOWLEDGMENTS

I am grateful to my supervisor Dr. G. Pant of the Centre for West Asian and African studies, School of International studies in helping me this dissertion. I own my gratitutde to him for showing a lot of patience towards me, and constantly enocouraging me to prepare this draft.

I owe my sincere gratitude to my dear friend Ms. Sujata Ashwarya for her ungrudging help and constant inspiration.

Here I take the opportunity to remember my family members; my Dad, my Mom, Bhai and Didi for boosting my moral and for being source of constant inspiration.

I thank all my friends and hostelmates especially Narmadeshwar, Sulogna, Sudhir and Alok for showing a lot of concern for me and my work.

I am equally thankful to other faculty members and staff of the Centre for West Asian Studies for extending their valuable help in preparing this dissertion.

Lastly, I thank Mr. Jitender Kumar, Mr. Ranjit Kumar, Mr. Ved Prakash Malhotra and Mr. Sanjay Gaur of the Cosmos Services for preparing the type script of this dissertation.

I am solely responsible for the defects left in this study.

G. Cheema

GAUTAM CHEEMA

TO *BULBUL*

CONTENTS

CHAPTER I

THE ECONOMICS OF PEACE IN WEST ASIA.

The five decades of cold war has left the world reeling under its impact. While we can trace the shaping of the contemporary world geography to the colonial era, we can see the emergence of the current world political order in the cold war period. The impact of this phase between 1940's - 90's has been diverse and mounmental. Post cold war ear has thus brought in its wake a number of significant changes that has effected the world politics, economics and diplomacy alike.

The new world order has, however, been designated as a uni-multiploar one, the significance of which is not far to see. While America remained as the sold military power, it is significant to note the economic powers such as Japan and Germany.[1] Thus we see that the world as it approaches the 21st century has a shifting focus from military hegemony to economic domination, and control. While a variety of causes, strategic, military, political etc. can be ascribed to the down fall of the Soviet Union, the importance and immediate relevance of the economic reasons can be noted. As the break down of the economic order in maintaining strategic military overseas expeditions can be viewed as the last straw on the camel's back. Thus the vital equation can be seen in maintaining the rough balance between the competing demands of defence, consumption and investment in the absence of which "a Great Power i.e. unlikely to preserve its status for long".[2]

Thus the cold war had to serve some ruthless lessons on the world. Taking cue from such a Global environment, let's focus on what the 1990's has in store for West Asian region. West Asia can easily be earmarked the most volatile region of the world. As has been apply pointed out the temperament of the region is quite a tune to its enviors, namely-sand. Whereby the quality of rapid heating up and cooling down is analogous to both. Since the creation of the State of Israel in 1948 this region has experienced at least six major wars. Of these, four have seen the participation of Israel itself. Followed by a rather

(1) This is while not attempting to place China in any one category as well. Though strong indications exist in either directions.

extensive war between Iran and Iraq and the last being a rather short one, the second Gulf War. This last round of fighting was the involvement of all the major powers of the world under the auspices of United Nations'

By the end of the 1980's both superpowers were experiencing major resource constraints; both were becoming aware of their growing inability to control clients and allies; both were coming to terms with the emergence of a multipolar world in which economic power was becoming more important, even as military power retained its important role. These changes had their concrete manifestation in the end of the cold war and a movement toward settlement of a number of regional conflicts in the third World. At the end of the 1980's, violent conflicts in South east Asia, Southern Africa, Afghanistan, and central America which had dominated US-USSR relations for the better part of a decade, moved toward resolution with varying degree of success. In the Middle East the 1991 war against Iraq, precipitated by Iraq invasion of Kuwait, provided a compelling example of the complex nature of the international system after the demise of the cold war.

In the Middle East, economic issues are dominated by oil, and political issues by the Palestinian cause.

The ultimate monoculture economy has, as a consequence, unique implications for regional conflict. Oil means that, for many of the countries, foreign exchange is not a major constraint on military buildings or recoveries from war losses. It means that the outside world will continue to have a deep and abiding interest in the affairs of the region. It means that there is a natural trade-off between haves and have-nots in the region in the form of oil revenues and jobs for security guarantors. And it means that (unlike Vietnam's Cambodia occupation) the where-withal for continued confrontation with Israel should be

(2) P.Kennedy: The Rise and Fall of Great Powers, Random House, N.Y. 1987, pp 446.

available for decades to come. In such a situation, a statement punctuated by occasional wars became the norm.

The "ending" of the cold war has had a dramatic effect on current superpower involvement in the region. The soviet union's Joining of the United Nation coalition against Iraq represents a timely surprising turn in Soviet American relations. Of perhaps comparable significance, if lees surprising, is the massive emigration of Jews from the Soviet Union to Israel. Unfortunately, in the longer run this cooperation may be hard to sustain. The Soviet Union borders Turkey and Iran, is only 150 miles from Iraq, and contains a large Moslem population. Before, many years have passed, the Soviet Union (or some of its constituents parts) may become net importers of oil. West Asia, with its Israel, its Soviet borders, its Moslem, and its oil, is a major Security issue for both United States and Soviet Union, and there remains a powerful competitive dimension to that issue. In this case, the ending of the cold War does not necessarily imply a lessening of Super power interest in the conflict. Nevertheless, with respect to the prospects for some forms of settlement in the region, the change in Soviet attitudes and capabilities is a very positive step.

Such a global change not only saw the break up of strategic alliance, but also the termination of support, aid, arms etc. to the member in the Middle East, such as Syria, Iraq, Jordan. The situation further worsened with the crisis in the Gulf which had a devastating impact on economic conditions. The loss of remittance income of the Palestinians working in the G.C.C. states amounted, as Palestinians were reparation owning to P.L.O.'s open support to Iraq in its occupation of Kuwait. Direct aid from Kuwait and Saudi Arabia especially were terminated. In 1989, total remittances emanating from the Gulf equaled at least $ 170 million while direct aid amounted to $ 140 million.[3] By April 1991, the loss of remittances and other direct aid, in addition to the loss of exports, already amounted to $ 350

3. Bishara A. Bahbah: The Economic Consequences on Palestinians, in the Palestinians and the war in the Gulf, Washinton D.C., Center for Policy Analysis on Palestine, 1991. pp 18 & 21
4. ibid pp 17-20.

million.[4] Direct aid from the Gulf States to the PLO amounting to $ 480 million was also terminated, monies that were inpart sent to the occupied territories. The PLO also lost an additional $ 62.5 million in its taxes and donations from Palestinians living in Kuwait and others Arab countries.[5] The termination of Saudi assistance was especially significant because Saudi Arabia contributors to the PLO had equaled ~~10~~ percent of the occupied territories GDP.[6] The rapid erosion of PLO revenue has had a particular, and has resulted in their breakdown and closure across several sectors.

While bankruptcy was a demoralizing factor for the PLO, the Israeli's were facing their own set of compelling problems. Israel has been engaged in recent years in a program of economic liberalization intended to introduce new levels of competition and efficiency into the country's domestic market and its ability to trade at international level. The problems that Israel has faced in implementing this policy, however, have been quite different from those faced by other countries. The Israel economy has several unique features, and is heavily influenced by equally specific factors. While some aspects of economic liberalization have been introduced successfully (if gradually others such as privitization, have been effected only partially and with little substantial benefit to the economy as a whole.

The State of Israel

Israel is one of the smallest sovereign states in the world. Its population in 1985 came to about four and a quarter million not including the Arabs in the occupied territories.[7] Since its inception in 1948, Israel's population has grown seven folds. It's over 5.3 million citizens today comprise a mosaic of people with varied ethnic backgrounds, lifestyles, religions, culture and traditions. Today Jews comprise approximately 82% of the country's population. In area, Israel together with the occupied territories of the West Bank and Gaza strip and the Golan Heights comprise of 7,391 sq. miles. The striking disproportion

5. ibid pp 20-21
6. UNRWA Gaza Strip, May 1991. Also see Sara Roy "Gaza: New Dynamics of Civic Disintegration," Journal of Palestinian Studies 22, no.4 (Summer 91) pp.21

between Israel's small size and its international prominence is most apparent from the ;strategic perspective. Militarily, Israel is considered to be the most powerful state in the Middle East.[8] A region of central importance in international affairs, and one fraught with more regional military conflicts than any other since the Second World War,[9] Israel's combat ready military prowess equals that of certain medium size powers, and exceeds that of certain medium size powers, and exceeds that of some considerably larger and wealthier states. Moreover, Israel is reported to have either nuclear weapons, or at least real nuclear potential, putting it in an exclusive category of state.

Israel's disproportionate International prominence is also linked to the concern for the Holy land shared by Jews, Christians, and Moslems. Relations between the latter two faiths and the Jewish people are somewhat problematic. Christianity's ambivalence to the Jews has deep historical and theological roots, while the moslem world sees Israel as an alien entity in the heart of a predominantly moslem and Arab region.

The centrality of Israel for diaspora Jewry implicit in Israel's self-definition as a Jewish state, assumes wider significance from the fact that the largest diaspora communities are located in the United States and Soviet Union. The prominence of Jews among the elites in Western countries further underline Israel's importance.

These strategic and cultural factors have also influenced developments within Israel. A major conseqauence of the disproportion between Israel's size and its international prominence is the great diversity and intensity of its international ties, particularly its economic, political, and security dependence on the United States.[10] Israel's dependence on others has enabled it to mobilize resources for economic development and political support in its conflict with the Arabs. The adaptation of Israel's institutional structure to the country's need for constant exposure to, and ties with, the outside world is manifest in the security and scientific spheres, as well as in culture and entertainment. Israel's disproportionately extensive and highly centralized bureaucracy owes part of its development to its role as an intermediary between Israel's motivations and citizens and various Jewish and other international organizations abroad.

Occasionally, the disproportion between Israel's size and its needs has added to the burdens of an already overburdened system. These burdens have not been borne equally. From the outset some sections of the population have been alienated from Israel's national tasks. For example the manpower that can be mobilized for security needs does not include Israel's Arab citizens and parts of the Orthodox sector. This reduction of effective human resources further increases the disproportion between effective size and of population and overall state's capabilities.

Israel perceives the Diaspora as its hinterland, a source of human economic, political, and moral support. Least problematic is the one way flow of funds, from the Diaspora to Israel, with the do nor enjoying symbolic rewards or political gains in return. These funds have enabled Israel to finance the absorption of mass immigration, economic development and defence. This capital of inflow made it possible for Israel to invest in economic growth, respond to the demands of various pressure groups and at the same time increase the standard of living. It also had a direct political impact in helping to block the emergence of pressures that might have threatened Israel's democratic pluralistic character.

Israeli society functions under conditions of protracted external conflict. This conflict has two aspects: The first aspect concerns the national defense posture required in order to meet the strategic threat of all out war waged by the regular armies of Arab

7. See State of Israel, Statistical Abstract of Israel No. 36, 1985, p.32

countries and the immediate threats associated with the pursuit of security visa-a-vis acts of terror and border clashes (defined as "current security"). To meet this dual challenge, Israel has developed various mechanisms requiring the mobilization of considerable resources for national security. To mobilize the manpower necessary to overcome the sharp demographic imbalances between Israel and its potential enemies, Israel has developed a system of military service based on a small professional nucleus, supplemented by men and women doing their three and two years respectively of conscript service, and a reserve combat-ready force of men serving until the age of 55. The economic burden imposed by the conflict requires the allocation of a defence budget which is among the highest in the world per capita(covered partly by taxes and partly by American aid). In addition, Israel has also developed the largest military-industrial complex in the world in relation to population and GNP. The threats posed by current security problems have made a considerable impact on Israeli society. Israel was induced to introduce restrictions on civil rights such as the military government imposed in Arab areas until 1966 and take measures such as the emergency regulations that permit administrative detention and limitations on freedom of movement within Israel or in leaving the country.

The second aspect of the conflict is rooted in the political ideological challenge to Israeli society posed by the confrontation between Zionism, the Jewish national movement, and the Palestinian Arab national movement supported by the entire Arab world.

From this challenge stems the problems of delineating the territorial limits on Zionist ideological asperations, protecting Israel's international legitimacy, and regulating Arab-Jewish relations within the state of Israel proper as well as in the territories occupied in 1967.

8. A. Shaw, "The Arms Race in the Middle East in the 1980s" in Z. Lanir (ed), Israeli Security Planning in the 1980s - Its politics and Economics, Tel Aviv, Misrad Habitation and Tel Aviv University, 1985, pp. 15-30.

With regard to the first aspect of Israel's involvement in a protracted external conflict, there is a firm consensus, at least within Jewish population, that this conflict poses a potential threat to Israel's very existence. This accounts for the willingness to accept a high level of mobilization of resources for national defence and the acceptance of the burden imposed by the sacrifices demands by frequent wars. This also accounts for the legitimacy accorded in Israel to limited military actions initiated during periods of "neither war nor peace" such as reprisal raids or the bombings of the Iraqi atomic reactor in Baghdad, the PLO headquarters in Tunis, and repeated air raids in Southern Lebanon.

National Security and Conflict

Indeed Israel has fought more wars, than any other country; and the periods between have been marked by persistent limited conflicts including border clashes, terrorist strikes and reprisal raids. Yitzhak Rabin, once described Israel's security situation since its establishment as "dormant war" erupting every few years into active conflict.[11] This situation has resulted in the issue of national security becoming central to Israeli society and having a major impact on values and institutions as well as on the everyday life of the people. Basic societal contours such as Israel's territorial and demographic boundaries have been shaped by two Arab-Israeli wars. The first overall military confrontation between Israel and the Arab states in 1948-489 concluded with the partition of Mandatory Palestine along lines determined mainly by the fighting. No less crucial was the demographic shift brought about by this war due to the exodus of the vast majority of Arabs living within the boundaries of what became Israel, thus moving it closer to the ideal type of the nation-state. The Second War to have a crucial impact on Israel was the six-day war of June 1967 in which Israel conquered the rest of Mandatory Palestine West of Jordan River, the Gaza strip which had been under Egyptian administration, the Sinai which was later returned to Egypt following the signing of a peace treaty, and the portion of Syria known as the Golan heights. This territorial expansion entailed a reversal of the earlier trend limiting the number of Arabs under Israel's jurisdiction and imposed Israeli rule on more than a million Arabs living mainly in the West Bank and Gaza strip.

These post 1967 territorial and demographic changes have forced Israel to wrestle with the fundamental problems of denying its national and civic identity and the boundaries of the collectivity. The extended conflict has also affected the amount of resources devoted to national security with the share of the GNP allocated to defense steadily rising, reaching a peak in the wake of the Yom Kippur war of 1973.[12] By 1984, Israel had the highest per capita defence expenditure of any democratic state, and among the highest in the entire world. During the mid-and late 1970s and early 1980s, the national security effort consumed between a quarter and a third of Israel's GNP, a fifth of all resources at the disposal of the economy (including imported capital), about half of the government's budget, and a fourth of the country's labour force[13] see table 1., 2. and 3.

In addition to the direct financial outlays for defence, another resource devoted to this and that has had crucial implications is the time consumed in military activity by the average Israeli. The periods of compulsory military service and reserve duty required bylaw of most Israeli males between the ages of 18 and 55 can add up to between five and six years not counting the periods of special reserve duty during wartime or other emergenices.

It becomes very clear from all this that most of the resources and efforts of the state of Israel are directed towards its National security. And without doubt this must have taken its toll on the vitality of the state. The cohesion of Israeli society has also been influenced by the need of maintain a balance between the requirements of security, immigrant absorption and economic development, the amount of resources available for collective needs

9. "Israel was a party to 5 major wars :(1) The war of independence (1948-49) (2) The sinai campaign (1956) (3) The six day war(1967) (4) The Yom Kippur war (1973) (5) The Lebanon war (1982-83) this without taking into account the 1969 -70 war of attrition with Egypt and 1978 Litani operation in Lebanon.

and the ability to utilize them.

A major share of the functional problems of this state of Israel can be explained by the marked imbalance between the level of resources at the system's disposal and the large number of specific goals imposed on its. Specifically, the concept of an overburdened system refers to the imbalance created when the system's capacity to mobilize instrumental resources and normative commitments lags behind the concrete demands placed on the state.

Many of the major problems of Israel are related to the overburdened nature of the system. In the economic sphere, inflation and the balance of payments deficit reflect the failure to balance demands to raise living standards and social welfare benefits, provide adequate defense and promote economic growth with the resources at the disposal of the system.

Israel: Political Economy

In July 1985 Israel undertook a major stabilization program followed by a process of structural reform, which ended a prolonged 12 year period of very high inflation, low growth, and persistent balance of payment crises. Since stabilization, the lower inflation rate of around 15-18 per cent has been maintained[14] though not reduced further, and the external finances have substantially improved. At the same time economic activity went through a sharp cycle of a two year boom (1986-87), followed by a two year slump (1988-89) and renewed take off (1990-91) which was interrupted by the Gulf war. Cumulative experiences, however, shows that the toughest test comes at a somewhat later stage, when the real social and other costs have to be incurred.

were felt as the economy of Lᴊrael had reached a plateau after its initial breakthrough and consolidation. The limitations of the state controlled, small size economy appear to be obstructing the realization of further potentials of the country. The need to change the economic agenda was felt.

The Israeli economy, thus for the past four decades came to be increasingly top heavy, operating under stigled conditions. But for the massive U.S. aid aid, and unilateral from of funds from other international sources such as the Jews Diaspora, German reparations), it would have been impossible for Israel to complete its process of nation building. In the process the Israeli debt burden has mounted very high (see table 4) Israeli massive defence expenditure, programme of demographic restructuring, military adventurism and the occupation of West Bank and Gaza strip left the system heavily overburdened.

On the other hand the US aid (which forms the bulk of total aid received by Israel) was not beginning to be received with strings attached. The 1985 aid allotment of $ 1.3 billion was tied to Israeli governments commitments to devaluation, a half to injections of government money into the economy, and an erosion of index-linked wage system. Further U.S. aid of $ 1.5 billion, was likewise mode conditional.

National unity Government introduced new economic policy in 1984 with a package of austerity measures to make realistic cuts in the budget. It was realised that the real problem lay in the institutional structures that prevented market competition and allowed circulation of capital to determine the standard of living rather that production.

Therefore the Government declared its intention to introduce liberalisation of economy and capital markets, and reduction in government's interventionary role in the economy.

10. The sum total of United States foreign aid since the end of the Second World War is $250 billion. Through 1984 Israel had received about 10% of the total i.e., about $ 25 billion. See D. Horowitz & M. Lissak, Trouble in Utopia, New York Press, Albany.

The influx of Soviet Jewish immigrants beginning in 1990 gave new impetus to the privatisation process. The public sector would be unable to provide new jobs for the massive influx of immigrants. At least 600000 new jobs would have to be created over the following 5 years to provide them with employment. Exports would have to be increased, gross domestic product would have to be increased by 8.5 per cent a year if the economy is to accommodate the immigrants.

The Bank of Israel believed that economic growth was especially dependent upon further privatisation and rapid liberalisation.

Absorbing one million immigrants productively would mean an expenditure of $ 60 billion and Israel has to mobilise the financial resources externally estimated at least $ 20 billion above the current flow of aid and grant. That will enhance its debt burden by 60 per cent.

Finances have to be generated internally also. For mobilising resources domestically, additional taxes have to be levied on already heavily taxed public. Public expenditure has to be cut down. A cut in military expenditure can be possible only in the conflict between Israel and PLO is resolved. Structural changes in the economy and growth of the economy at a faster pace becomes necessary and that requires conflict management.

Demographic changes, protracted external conflict put Israel's system under heavy pressures. Absorption of mass immigrants, defence needs and social welfare policies of the state made the system so overburdened that it was felt that the institutional structure which contributed to the growth for first twenty five years needs to be changed. Welfare state institutions and policies outlived their justification. For further growth of the system advanced,

11. Rabin's lecture in "Academy in Memory of Y. Sadeh". September 21, 1967 (Hebrew), taken from D. Horowitz & M.Lissak, op.cit., p. 195.

competitive and autonomous economy is required. Public expenditure needs to be cut down. Cut in defence expenditure requires Israel-PLO dispute to be settled.

All the above formulations therefore, come to the logical conclusion that both the parties of this two generation deep conflict had no choice but to settle things and have peace. Peace in this case would also result in further economic gains emergins out of regional co-operation and harmonization of domestic economies to global ones. This being twice especially in the case of the Israel the conflict situation weighing down it's national growth. In this context the occupied territories become the bone of contention.

The central hypothesis thus are that:

1. The entire scenario is emerging in the post cold war era, and the forces of peace may be seen generated out of the process of the disintegration of the Soviet Union. Whereby the entire power balance is of the region has been altered, reallocating priorities.

2. The occupied territories have become an economic liability and hence dispensable from the Israeli point of view.

3. The current status of the Israeli economy is evolving whereby the economy has graduated from one stage to another. Thus, requiring more regional and global interaction, so as to allow it to grow and sustain itself.

The dividends of peace in the Israeli context are emmense which may accrue directly or indirectly. Directly through the cessation of a war like state between the Arabs and the Israeli's and indirectly through the potential of economic development created once

12. In the post 1973 war perod security expedditures amounted to 37-38% of the GNP according to one estimate adn, 34% according to another, see D. Horowitz and M. Lissak, ibid., p. 196.

a comprehensive peace is attained.

In this regard, the second chapter will be dealing with the evolution of the economic status of the occupied territories, i.e. the West Bank and the Gaza Strip. Evaluating it's position under Israeli occupation, in order to see how viable it is for Israel to hold on to them. It clearly flows from there that the conditions in the territories is so poor that an immediate injection of huge investments is necessary in the fields of infrastructure and basic amenities. Question is whether Israel wants to share this burden, which is mostly its own doing.

Chapter three, analyses the current status of the Israeli economy. some trends are enumerated to evaluate the sustaining capacity of the Israeli economy of West Bank and Gaza Strip. Chapter four focuses on the dividends of peace. The basic ground work is economic rather than political or diplomatic. also are seen the future possibilitics of development once peace is achieved.

Peace, has however become the keyword-domestic public opinion, international development economic compulsion and future prospects all spell the same word: PEACE.

The five decades of cold war left the world reeling under its impact. While we can trace the shaping of the contemporary world geography to the colonial era, we can see the emergence of the current world political order in the cold war period. the impact of this phase between 1990's - 90's has been deverse and monumental. Post cold war era has thus brought in its wake a number of significant changes that has effected the world politics, economics and diplomacy alike.

13. A. Mintz, "The Military Industrial Complex", in M. Lissak (ed), Israeli Society and its defence Establishment, London, Frank lass, 1984, pp. 110-11.

The new world order has, however, been designated as a uni-multipolar one, the significance of which isn't far to see. While america remained as the sold military power, it is significant to note the economic powers such as Japan and Germany.

(1) This is while not attempting to place China in any one category as well. Though strong indications exist in either direction.

Thus we see that the world as it approaches the 21st century has a shifting focus from military hegemony to economic domination, and control. while a variety of causes, strategic, military, political etc. can be ascribed to the down fall of the soviet Union, the importance and immediate relevance of the economic reasons can be noted. As the break down of the economic order in maintaing strategic military overseas expeditions can be viewed as the last straw on the camel's back. Thus the vital equation can be seen in maintaining the rough balance between the competing demands of defence, consumption and investment in the absence of which "a Great Power i.e. unlikely to preserve its status for long".

Thus the cold war had to serve some ruthless lessons don the world, Taking cue from such a global environment, let's focus on what the 1990's has in store for West Asian region. West Asia can easily be earmarked the most volatile region of the world. As has been aptly pointed out the temperament of the region is quite atune to its enviors, namely-sand. Whereby the quality of rapid heating up and cooling down is analogous to both. Since the creation of the State of Israel in 1948 this region has experienced at least six major wars. Of these, four have seen the participation of Israel itself. Followed by rather extensive war between Iran and Iraq and the last being a rather short, one, the second Gulf War. This last round of fighting saw the involvement of all the major powers of the world under the auspices of United Nations.

14. M. Burno, "From Sharp Stabilization to Growth", European Economic Review 36 (1992), pp. 310-19, Bell & Bain, Glasgow.

CHAPTER II

THE BI- NATIONAL ECONOMY : THE ISRAELI POLICY TOWARDS THE OCCUPIED TERRITORIES (1967 - 1992)

The West Bank and the Gaza Strip were occupied by Israel in the six day war of 1967. Initially. Israel called for an exchange of these territories in between for peace. This was rejected by the Arab states, hardening the Israeli position. A process of creeping annexation began which twenty years later has transformed Israel into a de facto 'binational state'.[1] Nowhere has this transformation been more visible than in the realm of economic realities.

A bi-national economy is defined here as an integrated economy with a high degree of economic interdependence between the two ethnonational units involved. Obviously, the degree and effect of integration is unequal for each of the natural entities and depends on the level of this development. If the larger unit is economically more developed, then its degree of dependence on the smaller, less developed unit is more limited. It is, this type of relationship that evolved between the developed Israeli economics and the under developed West Bank and Gaza strip, (WB/GS)

More developed economies, whether small or large tend to enjoy to more favorable terms of trade in economic transactions with less developed countries. Some analysts have developed the concept of dependency (whether investment, resource or trade to describe those relations which are characterised by unequal exchange between nations. This dependency is said to be the result of either formal imperialism (Political and /or military occupation by a dominant power), colonialism (control plus settlements by nationals of the dominant powers) or neo - colonialism/ economic control through multinational corporations or other means.

Dependency can be a useful conceptual tool to understand the nature of a

1. Simcha Bahiri, "The Economy of Binational Israel" in Ilan Paleg and Ojira Seliktar (ed.), The Emergence of a Binational Israel, The Second Republic in the Making, Boulder, Colorado : Westriew Press, 1989, pp. 169.

national economy. Economically speaking this relationship may be viewed in terms of core and periphery units. Core territories economically dominate their peripheral areas and may or may not be contiguous. The most pronounced feature of this binational economy is the developmental disparity between the two units. The Israeli economy is over twenty times the size of the West Bank, Gaza strip (WB/GS) economy with a per capita income approaching five times the size of the WB/GS unit.[2]

There disparities explain why the pattern of effect on each of the national units is radically different. The WB/GS as will subsequently be studied, has been overwhelmingly dependent on the Israeli economy i.e., involving over half of their total employement(in both Israel and the territories[3] and consumption, and over a quarter of direct output. The impact of WB/GS on the Israeli economy is more limited and mostly confined to providing labour for the agriculture, construction and some industrial manufacturing.

In order to understand the present patterns of the binational economy, a short historical background is in order. Economic integration of the territories into Israel was originally spontaneous and unplanned and was largely creeping annexation process. Because labour's policy of Jewish 'uninationalism' did not view territories as a permanent part of the state, economic integration developed slowly and almost randomly some economic collaboration stemmed from strategic realities after the 1967 war. The large Palestinian labour force had to find an Israeli substitute for vanished local employement and opportunities in other Arab countries owing to the restrictions imposed by the occupying Israeli authority. Likewise, Israel became a major trade partner of the territories in lieu of links with Arab states severed after the occupation. The process of integration intensified after Begin's second republic[4] and became planned.

2. ibid. Simcha Bahiri pp. 170
3. ibid.
4. ibid. Simcha Bahiri, pp. 171

In working for some functional means of economic cooperation Begin's Israel drew on the pre - state experience. Even in the madatory period there was a degree of economies, Jewish and Arab. During the mandate, Zionist authorities, following a policy of the "conquest of labour"[5] did not welcome Arab labour in the Jewish sector. Nonetheless there were areas of economic exchange. The total output of these informal exchange was marginal compared to the separate economic activity in the Arab and jewish sectors, but even so, it mitigated their autarkic nature.

After the establishment of the state, the Israeli economy was divorced from that of WB/GS, through a small Arab population some 175,000 remained within years were under military government. The degree of their economic integration i.e., labour trade, and services was initially limited. However, because Arab agricultural land was expropriated, many Arab farmers were reduced to wage earners in the often physically distant Jewish sector. Labour origination functionally integrated Arabs into the Israeli economy, a trend that accelerated after the relaxation of military government in the late 1950s.

It was through this process of integration that the economy of Israel became progressively a unitary national economy. The Arabs lost most of the pre-state remnants of an independent economic sector and become fully, albeit dependently integrated in the national ecomomy. For instance, the 4 percent increase in per capita consumption of the Arabs matched the level of Jewish consumption increase until 1967. At the same time, the increase of private consumption among the Arabs was more dependent on their employment in the Jewish sector than on real economic or industrial development in the Arab sector. Likewise, the distribution of the Arab labour force was significantly different from the Jewish labour force, with Arabs predominating in lower unskilled and semiskilled profession.

5. ibid.

In spite of many problems, the integrated Israeli economy has performed quite well during the first two decades of independence. Between 1949 and 1967 the Israeli Gross National Product grew at an annual rate of 9 per cent. the 1966 -67 recession notwithstanding.[6] Investment grew at an annual rate of 6 per cent and other indicators of economy well being showed a promising start. However, this initial impressive rate of development was never equalled in later years.

As opposed to the economic success of Israel. the WB/GS enjoyed a less spectacular fate. The West Bank was occupied by Jordan in 1948 and shortly thereafter annexed by the Hashemite Emirate of Trans - Jordan, thus becoming part of the kingdom of Jordan. Although the Arab sector of Palestine lagged considerably behind the Jewish sector, it had reached a higher level of social and economic development, than that of the East Bank (Trans - Jordan) prior to 1948.[7]

During and after the first war between the Arabs and Israelis, perhaps 450,000 of the roughly 750,000 Palestinian refugees fled eastward. Three fourths settled on the West Bank, joining the already existing population of 400,000 while more than 100,000 went to the East Bank of the Jordan River, which had a 1946 population of 430,000. The annexation of the West Bank meant that two thirds of the population of Jordan was now of Palestinian origin.[8] while causing a severe strain on the economy of Jordan, the influx of the more skilled Palestinian population contributed to economic growth, particularly in the commerce and service sectors. Because much of the infrastructure (railroads, ports,etc.) was concentrated in coastal areas, the formation of Israel cut off West Bank and East Bank hinterlands from their traditional routes of trade and commerce. After an initial period of investment in infrastructure, most notably, the East Hor Canal, Jordan attained an annual growth rate of 10 -11 per cent in the ten years prior to the 1967 war, although admittedly this

6. ibid., Simcha Bahiri, 172
7. J. Metzer and O.Kaplan, Jointly but severally Arab-Jewish Dualism and Economic growth in Mandatory Palestine, Jerusalem : The Mauricefelt Institute for Economic Resuarch in Israel, 1985.

was from a small initial base.[9] However, despite the fact that all Palestinians were granted Jordanian citizenship, the West Bank was discriminated against in the allocation of economic projects.

As a result, the rate of economic development of the West Bank lagged behind the level of the East Bank between 1948 and 1967. This was particularly noticeable with regard to manufacturing as the central Jordanian authority did less to promote the industrialization of the West Bank. According to some reports of the Jordanian Central Bank, the West Bank accounted for only some 20 per cent of Jordan's total industrial output.[10] Others maintain that the value added of the industrial sector in the East Bank was almost triple that of the West Bank.[11] These factors contributed to a migration of West Bank residents to East Bank positions in government, commerce and services.

Moreover, the West Bank viewed as a separate economic entity from the East Bank, had a highly adverse trade balance in commodities. West Bank people tried to balance this deficit by trade in services, tourism and remittances from guest workers abroad and transfer payments.[12]

The Gaza strip was occupied by Egypt in 1948.Its original population of some 190,000 palestinians was augmented by 210,000 refugees from what became Israel. Because of the vast influx of refugees and the separation from the rest of Palestine the Gaza economy was virtually on the point of collapse. The economic marginality of Gaza was further enhanced by the realities of the Egyptian administration, which treated the region as a distinct political entity separated from the Egyptian heartland by the Sinai desert.

The structural features of the Gaza strip economy reflected this political

8. D. pertz, The Middle East Today, New York : Praeger, 1983, pp.346.
9. P. Gubser, Jordan : Crossroads of Middle Eastern Events, Boulder : Westview Pess, 1983, pp.51

and geographic separation. The main economic activity was agriculture which provided employment to 40 percent of the inhabitants and contributed about one third of the gross national product. Due to the presence of military forces Egyptian, the Palestinian Liberation Army, UN observers as well as United Nations Relief and Works Agency (UNRWA) personnel, part of the service sector developed more rapidly that other sectors. Even so, the dynamics of the service sector, based on the transitory nature of a garrison society, was not sufficient to introduce many long lasting structural changes into the economy. Most significantly, with the exception of citrus processing activities, there was little industrial development. largely agricultural and stagnant, with a high level of unemployment, the Gaza strip economy was even less developed than the West Bank economy. Ultimately though, both economies were most unsuited to face the challenge of the highly industrialized and technological economy of Israel after 1967.[13]

Integration without Design = 1967 - 1977.

The extremely rapid chain of events which led to the six Day war and the occupation of the densely populated WB/GS areas left the Israeli Government without any coherent policy towards the territories beyond the hope that would be exchanged for a peace treaty. When Arab states rejected the official Israeli peace plan during the Khartoum Conference of 1967. Labour settled for what amounted to a negative policy of no annexation and no withdrawal. Whatever economic philosophy was involved in this position, it was underlaid by the concern that the territories should not become a "net economic burden".[14]

The concept of " net economic burden" was never clearly or officially defined by Israel, but labour policies in the WB/GS indicate that the government was anxious to offset some of the considerable costs of administering the territories by uprooting local economic activities while protecting the Israeli economy from Palestinian competition. To

10. E. Kanovsky, The Economic Impact of the Six Day War, New York : Prager, 1970.
11. H. Frisch, Stagnation and Frontier : Arab and Jewish Industry in the West Bank, Jerusalem : The West Bank Data Project, 1986.

this end, Israel devised the "open bridges" policy which allowed relative free movement between the West Bank, the Gaza strip and Jordan. At the same time, those products such as cement or agricultural produce which could compete with Israeli goods at home or abroad were curtailed. Conversely, Israeli exports into the territories were encouraged.

This political framework served as a backdrop for the initial stage of integration of the Israeli and WB/GS economy. Any assessment of the true scope of the economic interaction is necessarily hampered by the nature of statistical information. Most of the information is based on data compiled by Israel's Central Bureau of Statistics. Such an accounting system does not reflect the complex economic interaction over the defunct Green Line or the activity of the Jewish settlers which is included in the Israeli economy. One cannot describe the economic interaction between two adjacent localities, such as Kiryat Arba and Hebron, as "international trade".[15] Fruthermore, in the absence of an official census of WS/GS, the last of which was conducted by israel in 1967, the analysis rests on noncensus official population and demographic statistics conducted by the Central Bureau of Statistics and the Bank of Israel. Nevertheless, the data provides some indication of the broad patterns of integration.

The major from of economic integration was based on direct trade - particularly export of Israeli goods to the territories. With the occupation, the general direction of WB/GS trade switched from Jordan and Egypt to Israel, especially with regard to imports. By 1977, 90 percent of the imports came from Israel. The bulk of imports from Israel, (over two thirds of the total) consisted of industrial products. By contrast, the imports from Jordan and the rest of the world reached only 10 percent of Israel's. The exports pattern of the WB/GS was less lopsided, with Israel and Jordan providing the major markets. Even so, exports to Jordan were less then half of that going to Israel.

12. op. cit., see Kanovsky.
13. S. Roy, The Gaza Strip Survey, Jerusalem : The West Bank Data Project, 1986.
14. B. van. Arkadie, Benefits and Burdens : A Report on the West Bank and Gaza Strip Economies Since 1967, New York, 1977.

The trends in trade clearly demonstrate the emerging dependent economic integration. While the WB/GS was almost totally dependent on Israel for imports and exports, Israel's exports to the WB/GS represented only some 7 per cent of its total commodity exports. Imports from the territories represented just about 3 per cent of total Israel's commodities imports. with commodity imports from Israel being roughly three times exports, the WB/GS developed a large negative trade balance, offset by the "export " of labour to Israel.

In fact, the "export" of WB/GS labour to Israel and the subcontracting for Israel become the second major form of economic integration. After the initial disarray of war, the number of Palestinian labourers crossing the Green line daily reached some 10,000 labourers in 1968. Until 1971 most Palestinian workers were employed under a system of official work permits. but the system soon become inadequate as the number of workers burgeoned. Already by the end of that year, 45,000 palestinians worked in Israel. By 1977, the number with work [permits remained constant but total employed reached some 66,000. The rapid growth of the Israeli economy between the 1967 and 1973 wars created a labour shortage at a time when there was high unemployment in the West Bank (12 per cent) and Gaza strip (20 per Cent). Higher wages in Israel as well as traditional "hidden unemployment" in the Territories also enhanced this trend.

As in the case of trade, labour based integration showed a markedly one sided dependency. While one third of the West Bank and 40 per cent in the Gaza strip labour force was employed in Israel, Palestinians accounted for only some 5-6 per cent of the employed Israeli labour force. However, in some sectors of the Israeli labour force. However, in some sectors of the Israeli economy and most notably the construction industry palestinians accounted for over one third of the work force. Overall, (see table 5) cheap and unskilled

15. M. Benvenisti, Demographic, Economic Legal, social and Potitical Development in the West Bank, Jerusalem : The West Bank Data Project, 1986.

Palestinian labour has tended to replace Jewish workers in low level positions.(See Table

In spite of dependency,economic integration has benefited the WB/Gs. While Israel's annual rate of growth between 1967 -77 in terms of GNP and gross investment did not exceed 6 per cent , the comparable figures for the territories were 13 per cent and 26 per cent. Part of this high growth rate is explained by the fact that the territories started at an exceptionally low level of development. In addition, the Palestinian labour force employed in Israel generated a high volume of transfer funds which spurred construction and services in WB/GS. However, the high growth rate of the territories was unevenly distributed. Agriculture, construction and services grew at a faster rate than Industry. The spectacular level of growth lead to a rapid improvement in the standards of living and a reduction of unemployment.

Overall, integration had little impact on Israel. In 1977 the territories represented less than 4 per cent of the combined GNP of Israel and the WB/GS. As a result, in the first decade of the occupation, the integration both in terms of intensity and scope was easily reversible.

The Emergence of a Binational Economy : 1977 - 1987

With the ascendance of Likud to power in 1977 new policies aimed at integrating the territories more fully into Israel began to take effect. This was especially true with regard to the West Bank. It should be noted that although up to now we have been treating the West Bank and Gaza Strip as a single unit, they are of course separate economic entities. There is ~~very~~ little trade between the two territories nor much labour movement from one to another. Aside from some products such as cigarettes and cultural items, both economies are oriented towards an exchange with Israel. Jewish settlements in the West Bank were the major form of integration. By 1985, the Israeli state and the Jewish bodies, private and public, had expropriated some 52 per cent of all land in the area.[16] The number of settlers in teh WB/GS at the end of that year reached 52,000, which is 1.5 per cent of the total Jewish population and 4 percent of the population of the territories (excluding Jerusalem). For legal and statistical purposes these settlers and settlements are treated as if they are part of Israel. This factor makes it difficult to estimate the true scope of integration. For instance, Jewish investors, benefiting from government susidies, have estaablished economic enterprises in the WB/GS which employ Arab labour. Other settlers commute daily across the Green Line t work in Israel but their earnings support the local economy.

For a variety o freasons, the new wave of integration has not resulted in a rapid rate of growth for the GNP compared to the Labour Period of 1968-1977. The previous 12 per cent rate of GNP growth hs declined in the 1977-84 period to around 4 per cent annually.[17] In the past three years, GNP growth has further declined to 2 per cent, slightly above the Israeli rate of 1.5 per cent. Investment declined and official unemployment reached 3 per cent cmpared to the earlier level of 1 per cent. One reason is that in the previous decade growth was disproportionately fast because of the low starting point of the WB/GS economy and its recovery from the war. This growth peaked at a time when the Israeli economy has slowed down considerably. Palestinians also attribute their low growth to government controls over water use and restrictions on crops which compete with Israel agriculture. Whatever the reasons, statistics suggest a stagnant provincial underdeveloped economy. Its greatest "developmental" factor is the large migratory labour force, standing at 37 per cent in the West Bank and approaching half of the labour force in Gaza.

Thus,in 1985 the GNP of the territories was around $1.6 billion while the Gross Domestic Product (GDP = GNP-Net Transfers) was only $ 1.12 billion — the difference being largely due to labour earnings in Israel and to a lesser extent in the Gulf.

16. op. cit., M. Benvenisti.
17. op. cit., Simcha Bahiri, pp. 177.

Table 2, which compares the sectorial GDP shows that employment and productivity (GDP/ employment) for the WB/GS is relatively small compared to that of Israel. Overall in 1985 it stood just about 4 per cent of that of Israel's but in certain sectors like manufacturing WB/GS GNP amounted only to 2 per cent of Israel.

Nearly 90 per cent of the WB/GS imports in 1985 came from Israel (see Table 3). These imports to the Territories were utilized as resources for consumption and investment. The $ 602 million imports represented nearly 36 per cent of resources utilized in the WB/GS and the trend intensified in 1986. As in the previous decade WB/GS is dependent in large measure on Israel for its exports. These exports including subcontracting for Israeli industry were over two thirds of the WB/GS exports, with most of the balance going to Jordan. The Israeli economy is less dependent on exports to the WB/GS, which constituted less than 9 percent of the overall total, Nonetheless, the relationship has some significance. Excluding the diamond and defence industries exports, exports to the WB/GS accounted for 22 per cent of Israel's exports. The territories are second only to the United states as Israel's main overall market and exceed Israeli exports to the rest of Asia and Oceania. (See Table 6)

The emerging binational character of the economy is most pronounced in the labour market. This binationality is best reflected in the very significant difference between the distribution of Jewish and Arab labour including Israeli Arabs (see Table 6) In the productive sectors of the Israeli economy — agriculture, industry and construction, Jewish labour constituted less than one - third of the total. In contrast, Arab labour in those sectors accounted for over three fifths of total Arab labour in the Israeli economy. In other words, Arab labour accounted for over 27 per cent of production labour in Israel.

Table 6 illustrates the structure of Arab labour in Israel. While one sixteenth of the Israeli labour force comes from the territories, where Israeli Arabs are included, Arab comprise more than one sixth of the total. In construction this proportion reaches five eights, although only one tenth of Arab labour force is in the service sector, mainly in menial positions. It should be noted that over two thirds of the Jewish labour is empolyed in this sector.

In the combined binational economy nearly one quarter involves Arab workers; in industry one fifth, in construction two thirds and in services only one sixth. Although the Arab sector involves a smaller percentage of the population in employment, that is one fifth as compared to the Jewish employment of one thirds. Arab labour is especially significant in Israeli agriculture and construction.

The dependence of detailed Arab industry on the Jewish sector, of Arab labour on the Jewish sector and Arab trade on the Jewish sector makes it clear that towards the end of the second decade Israel and the WB/GS moved towards a binational economy with an increasing amount of integration. Nevertheless, the different scale of their development means that the WB/GS economy is more dependent on the Israeli economy than vice-versa. Despite this dependence, the WB/GS economy can still function as a separate unit in characteristic of a binational economy. That , the WB/GS is simultaneously an integral part of the larger (Israeli dominated) binational economy and economic and economic subsystem indentifiably separate from that of Israel.

The Economy of West Bank and Gaza Strip in 1980's

	1982	
	West Bank	Gaza strip
Area	5700sq km	380 sq km
Population	1.22 million	
Labour Force	225000	
GNP	$ 1480 million	
Per Capita	$ 1220	
Workers employment in sector	80,000 (36% of labour force)	

The overall impact of the occupation in the occupied territories of WB/GS is that these economies suffer from heavy, far reaching, and debilitating dependence on the Israeli economy. However, the dependence is special and atypical, one that reaches beyond the bounds of dependency paradigm as otherwise understood. Also, that the economies of the WB/GS have suffered pauperization over the years, notwithstanding some outward appearance of prosperity or Israeli claims of economic well being.

Most of the surveys and analyses of the economies of the West Bank and Gaza strip assert or suggest - by implication, if not explicitly, their heavy dependence on the economy of Israel. Even some Israeli social scientists have underlined the state of dependence and utilized the Israeli motives and policies that have brought it about. But frequently emphasis is placed by Israeli writers on the " interdependence" of the economies of the occupier and the occupied, since the notion of interdependence provides a convenient euphemism for the aspect of dependence.

Trade

It is perhaps the most obvious and measurable area of dependence which, together with the employment of palestinians in the Israeli economy, has drawn the widest attention. This is because the West Bank and Gaza strip constitute virtually a " captive market" for Israel's exports. The occupied territories have been the third largest region of export from Israel.[18] In 1983, these territories imported $ 680.5 million worth of Israeli goods out of total commodity exports of $ 5,574.3 million.[19] Viewed from the West Bank and Gaza strip, commodity imports from Israel constitute just over 90 per cent of total imports.[20]

It is significant to note here that the value of the industrial imports[21] of each

18. 35% of all exports are directed to the European Community (EC) and 30% to United States. See " Facts about Israel Economy", Israel Economy, Israel Information Centre, Jerusalem : Hamakor Press, 1992, pp.5

of the two occupied areas is roughly seven times that of agricultural imports. By itself, this fact suggests the extremely limited development of the manufacturing sectors in the occupied territories. But the situation of this sector takes on even greater significance when placed in the context of deliberate Israeli policies to block the expansion of Palestinian manufacturing industry and to make it extremely difficult for Arab importers to buy goods from other countries. Thus the occupied territories became a convenient dumping ground for shoddy Israeli industrial products.

Dependence in the area of trade can also be seen, though not as dramatically, with respect to exports from the occupied territories. Israel absorbs 73 per cent of the total commodity exports of these territories, with the value of industrial exports six times as large as that of agricultural exports.[22] However the predominance of industrial commodities in the composition of total exports, like the proportion of these going to Israel, is very misleading in itself.

These quantitative indicators however, are misleading because by far the largest part of the Palestinian industrial exports consists of re - exported Israeli goods, originally imported in unfinished form on a subcontracting basis, intended to be sent back to Israel in finished form for sale there or for export. This exchange makes only a modest contribution to the manufacturing process in the WB/GS, and to the value added accruing to them. It thus, constitutes a misleading evidence of " interdependence" between the two parties concerned. It is even more misleading when seen as an instance of dependence by the occupier on the occupied, as the former through such sub contractings, capitalizes on the fact that labour is cheaper in the occupied territories than in Israel and therefore is able to skim off more surplus value from the occupied territories as a result. Thus it becomes evident that the structure of the economies in WB/GS have been so shaped as to suit the interests and

19. Israel : Statistical Abstract of Israel, Central Bureau of Statistics (CBS), No. 35. 1984, pp.212-213.

priorities of the Israeli economy.

Labour

As the occupied economies are forcibly restricted to a very modest size, range, and rate of expansion, and their structure is deliberately warped to serve the purposes of the occupies, employment opportunities grow much more slowly than the labour supply. There are, as a result, several areas of structural deformation. These include (1) agriculture, where land expropriation and confiscation and water appropriation and control by Israel over the years have forced a substantial proportion of the agricultural labour force out of it. (2) Handicrafts, where hundreds of craftsmen have had to give up their traditional occupations, partly because of the stiff completion of cheap Israeli manufactured substitutes and partly because the Israelis have diverted a substantial part of the tourist business away from Palestinian markets and tourist sites. (3) Manufacturing industry, a potentially significant labour absorbing sector, whose growth and diversification have been severely blocked by restrictive Israeli policies. (4) Construction, which would be highly labour absorptive, were the occupation authorities to allow housing activities their full scope in response to the pressure of the market.

Together these structural aspects have resulted in the loss of work opportunities for roughly one half of the work force.[23] About two fifth of the work force has been absorbed in Israel. A total of 87,800 Arab workers from the West Bank and Gaza strip were officially reported to have been employed in Israel in 1983.[24] This constitutes 37.8 per cent of the total number employed persons of 232,500 (32.7 and 46.5 per cent for the West Bank and Gaza strip respectively)[25]. The migrant work force is engaged in menial low skill jobs in Israel,it comprises many technogenre and it is either forced to commute back and fourth between residence and place of work, or else sleep in Israel (illegally). That part of the

20. Y. A. Sayigh, "The Palestinian Economy Under Occupation : Dependency and Pauperization", Journal of Palestinian Studies, vol.xv, no. 4, summer 1986.
21. op. cit., CBS, pp.751.
22. ibid., pp.751.

labour supply not employed in Israel, or in the West Bank/Gaza strip, tends to emigrate after exhausting its meagre servings and its endurance while looking for gainful employment.

Finance

In typical instances of the dependency of peripheral countries on industrial countries at the 'centre' , the former obtain a significant part of their investment finance and working capital from the latter. However, one of the atypical aspects of the dependence of the West Bank and Gaza Strip is that Israeli financial flows to them are no more than a trickle, despite the fact that Israel barred the Arab banks which operated prior to 1967 from reopening for business and has refused permits for new banks, except in one instance. The economies of the West Bank and Gaza Strip have therefore had to depend on financial flows from the East Bank of Jordan, the substantial remittances from nationals abroad, and since 1979, on aid from the Jordanian Palestinian Joint Committee for the support of steadfastness.[26]

Infrastructural Services

The situation hare is one in which the occupied territories must depend on themselves, in most instances, or else suffer serious shortages. For example, there is a wide discrepancy between the very limited road building or maintenance undertaken to serve Palestinian areas and communities and the elaborate highway and the road grid designed and built to connect the West Bank and Gaza Strip, especially the Jewish settlements there, with Israel and to link the settlements together. Same can be said of the inadequacy of the water network to serve Palestinian (especially rural) areas, compared with the water system that serves Jerusalem and the Jewish settlements. As far as electricity is concerned, the occupying power follows a restrictive policy in order in order to force the territories into total dependence on its own system.

23. op. cit., Sayigh, pp.49.
24. ibid., pp.49.
25. op. cit., CBS, pp. 762-763.

Where social infrastructure is concerned, in the fields of education and health are minimal. The performance is more marked in the field of education than that of health. It can be seen that where physical and social infrastructural services are concerned, dependence is much less weighty.

Economy Under Occupation

The evidence shows that Israel has attempted with determination to the economies of the occupied territories to its own economy, and has largely succeeded. From the nature of the policies and by the results achieved, one may discern two major goals; to restrict severely the expansion and to keep them largely as "non-communicating" entities. Thus, to steer the stunted economies so that they become complementary to, and heavily dependent upon, the Israeli economy.

The exploitation of the occupied territories is effected by Israel as a whole — by its government, its capitalists and labour alike. Thus, the palestinians have suffered external colonialism under the British, again at the hands of the Israeli state as an occupier. In this last instance, colonialism is of an internal nature, the effects of which go beyond the purely military or political aspects of the occupation.[27] Internal colonialism is much more destructive than external, because it combines the uprooting, dispossession, and displacement of the national population with the imposition of a stunting dependency on the inhabitants who remain.[28]

GNP Per Capita

1948 - $ 212.24 (Palestine)

1983 - $ 687 (WB/GS)

Source - Sayigh, pp. 59 - 60.

26. Fed by special fund established and financed by the Arab Governments. see op. cit., Sayigh, pp.50.

Impact of Intifada and the Gulf crisis

From the beginning of the intifada, Gaza's economy has suffered precipitous declines, directly attributed to the Israeli governments long standing economic policies and its punitive economic measures in response to the uprising Economic measures demanded by the Palestinian leadership as part of its strategic initiative and loss of revenue from the Gulf states have further damaged the Palestinian economy. The situation is not only critical but unprecedented. For the first time since 1967, hunger in the occupied territories is a problem of growing proportions, especially in Gaza.

In the three years since the uprising began in December 1987, the Gross National Product (GNP) of GAza strip has declined by at least 30 per cent . The fall in GNP resulted from four factors:[29]

(1) A 20 to 30 per cent decline in the value of out put in all economic sectors except agriculture.

(2) A significant reduction in the level of trade between Israel and the occupied territories (35 per cent decline in the value of Israeli exports).

(3) A loss in income from work in Israel, and

(4) A decline of at least 75 per cent in the level of remittances.

Of particular significance for the Gaza Strip is the loss of income from work inside Israel, since well over half of Gaza's labour force is dependent on it. Between 1968 and and 1990, the average number of days worked in Israel declined by 33 to 50 per cent, while income earned by Gaza's working in Israel is officially estimated to have fallen by at least 25 per cent in real terms.[30] Expressed monetarily, this loss amounts to no less than

27. see E.T. Zurei, The Palestinians ifn Israel : A study in Internal Colonialism, London : Routledge and Kegan Paul, 1979, Chapter 5 and 6.
28. Roughly half of Palestinians are in diaspora since the takeover of Palestine in 1948 and rest in 1967.

$300 million. Furthermore, rising levels of intercommunal violence in recent years have created pressures inside Israel to separate the Palestinians and Israeli populations. It is estimated that a total of 10,000 labourers from GS/WB combined were commuting daily to work inside Israel.

In the three years since 1987, per capita GNP among Gaza's has declined from $ 1700 to at most $ 1200, and probably less. Initially, people were able to offset their losses by using their savings, but these have been seriously depleted. For an increasing number of palestinians, net real income is estimated to have dropped by 40 to 50 per cent compared to pre intifada levels. Data collected through the end of 1989 suggest that personal income for many families in the Gaza strip may have fallen by as much as 75 per cent of its 1987 levels.[31]

The serious reduction in the level of private income among Gaza's has resulted in changing patterns of consumption, savings, and investment. It is no longer a question, as at the beginning, of merely reducing consumption of luxury goods, but of dramatic reductions in the consumption of basic goods. Israeli authorities estimate the decline in the standard of living at a minimum of 30 per cent. Among the indicators of GAza's economic deterioration are a doubling of child labour among Palestinian children 8 - 14 years, 75 per cent of whom some from the Gaza strip, a 200 per cent increase in the number of children in UNRWA supplementary feeding programs, from 8,500 to 25,000 and an unprecedented increase in the number of Gaza refugees and non - refugees requiring emergency food relief, by 70,000 and 34,000 families respectively.[32]

Gulf crisis

The crises in Gulf has had, and will continue to have, an immense impact on

29. S. Roy, "The Political Economy of Despair", Journal of Palestinian Studies, xx, no. 3, spring 1991, pp. 61. see for details, S.Roy, "From Hardship to Hunger. The Economic Impact of the Intifada on the Gaza Strip", American Arab Affairs, winter 1991.

the Palestinian economy, particularly through losses of remittances from palestinians living in the Gulf and from the termination of direct aid from the Gulf states, notably Kuwait and Saudi Arabia. In 1987, total remittances from the Gulf countries amounted to $ 250 million, or 10 per cent of the territories GNP. However, given that the GNP of both the West Bank and Gaza strip has declined by over 30 per cent , the proportional value of Gulf remittances has increased to at least 15 per cent, with Kuwait accounting for half.[33] While remittances from above countries have ended completely, the value of those that continue particularly from Kuwait has diminished by over tow - thirds. By April 1991, the loss of remittances and other direct aid amounted to $ 350 million.[34] Direct aid from Gulf states to the PLO amounting to $ 480$ million was also terminated, monies that were in part sent to the occupied territories.[35] The PLO also lost an additional $ 62.5 million in PLO taxes and donations from palestinians living in kuwait and other Arab countries. The termination of Saudi Arabia's contributions to the PLO has equalled 10 per cent of occupied territories GDP.[36]

The steady sealing of the Israeli market to Arab labour, especially since the start of the gulf crisis, proved most damaging for the Gaza economy given its inordinate dependence on employment inside Israel within a few mouths of the gulf war, the number of Gazans working in Israel fell from 56,000 to 25,000 a loss of 31,000 jobs that could not be replaced domestically.[37] The impact of this loss was sever, particularly in light of the 10,000 males who exit the school system and enter the job market in ? Gaza each year. Unemployment rose to 40 per cent.[38]

Economic Crisis in Jordan

The economic crisis in Jordan will also directly effect economies of the Gaza strip and West Bank. The 50 per cent decline in Jordan's GNP will not only weaken the ability of the Jordanian market to absorb Palestinian exports, but will effect, the value of

30. ibid., S. Roy, pp.61.
31. ibid.,
32. ibid., S. Roy, pp.62
33. ibid., pp.62

Jordanian dinar and its rate of exchange. Further, with the closure of Jordan's border with Iraq and Saudi Arabia in 1991, there resulted an estimated loss of 80% in agricultural (citrus) exports.[39]

The March 1993 closure

On march 30,1993, in response to some of the highest levels of Arab - Jewish violence since the intifada began in December 1987, the Israeli government sealed off the West Bank and Gaza strip, barring 130,000. Palestinians from their Jobs inside Israel.[40] While closures are not new in the occupied territories, none have lasted as long as this particular one and none have imposed the same degree of hardships. A large and growing number of people in the occupied territories are once again unemployed, and the structural basis of the economies has shifting from cash to credit.

In order to understand the closure's effect, it is first necessary to understand the context in which it occurred. This context was established long before March 1993 and is the primary reason for the devastating impact of the closure itself. In this sense the closure accelerated rather than initiated the current crisis. especially in Gaza. Between December 1987 and January 1991, the Palestinian economy came under considerable pressures as a result of measures imposed by the Israeli government and the Palestinian Unified National Command in response to the uprising. In that period the per capita Gross National Product (GNP) of the West Bank and Gaza strip fell by 30 - 35 per cent.[41] The fall in GNP resulted from a serious decline in the value of output across sectors, a pronounced fall in trading levels between the occupied territories and Israel, a loss of Jobs in the Israeli market, and a precipitous decline in the level of remittances.

A critical factor affecting local economic conditions in Gaza during this

34. Sara Roy; "Separation or Integration : Closur and the Economic Future of the Gaza Srip Revisited", Middle East Journal. vol. 48, no.1, winter 1994, pp.13.
35. ibid., S. Roy, pp.12.
36. ibid., S. Roy, pp. 14.
37. ibid., S. Roy, pp.14.

period was a series of closures and curfews imposed by the authorities that restricted the movement of the people and good. In may - July 1992, the Gaza strip was closed for five weeks and the United Nations Relief and Works Agency (UNRWA) estimated that losses from wages alone reached $ 500,000 per day between 24 May and 5 July, when workers were per day between 24 May and 5 July, when workers were allowed to return to Israel.[42] Furthermore, during this time farmers were unable to sell their vegetables in the West Bank, an important market for Gaza. Additional restrictions on the export of Gazan produce to Israel were announced by the Ministry of Agriculture, although Israel farmers had unlimited access to Gazan markets.[43]

One indicator of the economic changes taking place in the occupied territories during the post - Gulf war period was the number of families who required food assistance in order to avoid absolute hunger. By June 1991, UNRWA was feeding an unprecedented 120,000 refuges and non - refugee families in Gaza strip, almost the entire population, and 165,000 families in the West Bank. During 1992, UNRWA distributed an additional 430,000 family food parcels in Gaza and 119, 0000 in the West Bank to communities with emergent need.[44]

The degeneration of economic conditions took a dramatic turn for the worse in the fall of 1992 under the newly installed labour led government of Yitzhak Rabin. The security situation after the period of uncertain improvement, began to deteriorate rapidly in September. For December alone. UNRWA estimated that Gazans working in Israel lost income amounting to at least $13 million, while those with Jobs in Gaza (including those in the transportation sector) lost a total of $8 million. Agricultural export losses incurred an additional $3 million, bringing the total losses to $24 million.[45]

38. ibid., S. Roy, pp.14.
49. Sara Roy, The Political Economy of Despair (1991), op. cit., pp.62.
40. Sara Roy, "Separation or Integration, Closure and the Economic Future of the Gaza Strip Revisited", Middle East Journal, vol. 48, no.1, winter 1994, pp.12.
41. ibid., pp.13.

The precipitous loss in income coupled with eroding savings, rising unemployment, and declining wages rates have produced an acute shortage of cash. This in turn has resulted in a pattern, of asset liquidation and a partial return to a barter economy that is most pronounced in Gaza strip.

Blanket export restrictions imposed at the time of the closure created agricultural surpluses,which could not be absorbed by the local markets. The elimination of export markets combined with declining purchasing power caused food prices to plummet between 50 and 90 per cent.[46] Israeli imported foodstuff, on the other hand, doubled in price due to higher transportation costs. The unprecedented loss of export markets in Israel undoubtedly will also affect the structures of local production. Since many production processes require a minimum market size if they are to achieve economies of scale. consequently a number of retail and wholesale establishments can be expected to go out of business.

The small subcontractors working for the Israeli textile industry reported a complete halt in production because the closure prevented them from purchasing raw materials inside Israel. Gaza merchants reported incidents of price gouging by Israeli buyers seeking to take advantage of the restricted access to Israel and increased economic hardship of the closure to force Gaza subcontractors to sell at prices below those for which they had originally contracted. Those larger subcontractors who were not affected by the closure became the object of daily tax raids conducted by Israeli officials.

After wages earned in Israel, citrus production is the most important source of income for the Gaza strip. By the end of may, the peaking citrus sector was in a crisis because of official measures that created serious shipping delays.

42. United Nations Relief and Works Agency (UNWRA), "The continuing Emergency in the Occupied Territory and Lebanon and Structural Socio-Economic Problems", Vienna, March 1993, pp.3.

It is thus not difficult to see that the occupation of Judea, Samaria and West Gaza strip by Israel has led to a state of pauperization and utter despair in the occupied territories. Most of this has resulted from calculated and deliberate policies by the Israelis, over the past 25 years. The situation in the Middle East had so deteriorated in the 1970s and 80s that strict military regulations had to be enforced in the territories. Such restrictions, as sealing of the borders etc., had an automatic crippling effect on the Palestinian economy. Yet one cannot ignore the fact that such secondary effects of security measures, were considered desirable. By confiscating transit permits or sealing borders, Israel could effectively impose economic hardships on a large section of palestinians from the occupied territories. And such proved to be an effecting determent for rioting etc.

While on the other hand economic policies were executed whose main objective were to extract economic gains from the occupied territories. Thus occupation has meant a fair amount of economic benefit for Israel.

The territories of Gaza and West Bank have been heavily populated by Arabs,[47] who have been hard to integrate in the Israeli economy. Therefore, Israel tried to minimize its costs of occupation and realize as many short run economic benefits as possible in the beginning. However as the military political dynamics of the Arab - Israeli conflict changed in favour of Israel, the policy of occupation has become more inclined towards some degree of indignation and long term benefits. In both cases however, the material benefits to Israel have exceeded the material costs of occupation to Israel.

This on the other hand has resulted in economic stagnation in the occupied territories, contrary to what Israelis and Zionists claim. This is easily validated by presenting two sets of data. The first relates to the 1948. The second to 1983. The comparisons made

43. "No Gaza produce to be sold in Israel", Jerusalem Post, July 22, 1992.
44. UNRWA, op. cit., pp.6.
45. see. S. Roy, "Separation or integration", op. cit., pp.15.
46. ibid., S. Roy, pp.19.

are between economic and social performance for each economy at the two dates.

I. COMPARATIVE OF NATIONAL INCOME PER CAPITA, 1948-1950[48]

	Palestine	Trans-Jordan	Syria	Lebanon
1948	$212.24	$60	——	
1950	—	$54.46	$160.88	$187.00

II. COMPARISON OF QUALITY OF LIFE DATA : 1983

	West Bank and Gaza Strip	East Jordan	Syria	Lebanon
GNP Per Capita US dollars at current prices	687[a]	1,640	1,760	1,010.6
Percentage of school-age child sen(?) (5-19)	081	0,091	0,079	0,082
Life expectancy at birth, years	72[b]	0,064	0,067	0.065
Daily calories supply per capita	2,861[b.c.] 2,554[b. d]	2882[b]	3040[b]	3000[b]

a = weighted average for West Bank & Gaza

b = For 1982

c = For West Bank

d = For Gaza Strip

Source : Sayigh,op.cit., pp. 59- 60.

47.

	Area (sq.km)	Population (December 1992)
Judea & Samaria	5,879	1,051,500[a]
Gaza	0,378	0,716,800[a]

a. Excluding Israeli's in Jewish localities. The population in this category in December 1992 was 101,000 and 4,300 respectivelly for West Bank and Gaza Strip.
Source : West Asia and North Africa, 1995.

Several comments can be made of the basis of the above data. The per capita national income data in the base years 1948 - 50 show a clear advantage for the palestinians. However the ranking reversed as one approaches the year 1983.

It has also been very clear that Gaza strip, which is scarce in resources except manpower and used tyres, has come out much worse that the West Bank. Intifada and other terrorists activities also had a greater backlash on the Gaza.

48. See Y.A. Sayigh, pp.59. for details of how the figures are arrived at.

CHAPTER III

THE ISRAELI ECONOMY IN TRANSITION

To begin with nation building was the prime motive of the State of Israel. This economy, so as meet the strategic demands of the time. The state control our resources shaped the production base of the economy. As demography has been of critical importance in making of Israel or Jewish nation state. Israel has been encouraging Jews to immgraty not only to provide human resources but also to keep the demographic parity in favour of the Jewish population to maintain the Jewish character. This has led to a distortion in wage structure, a policy of high welfare expenditure, larger allocation, in favour of public sector enterprises to provide jobs, and control over infrastructure to give subsidesed services. The state could do this largely on the strength of foreign borrowings, particularly from the overseas Jews, and U.S. financial aid. Paradoxically, as the economy has moved to higher stages of development the resource gap has widened.

AN OVERVIEW OF ISRAEL'S ECONOMIC DEVELOPMENT :

During the period of British control of Palestine from 1918 until 1948, the Jewish and Arab sectors developed in large part as separate entities. From 1922 there were periodic calls by Palestinian Arab-leaders for a boycott on 'Zionist goods' but it was not until the mid-1930's that the Arab boycott and general strike led to virtual complete separation of the two economies. The Jewish sector bought land from Arabs, paid rent for housing, employed Arab workers, and bought some goods, mainly agricultural commodities and building materials. The total net payment for factor services by the Javish sector to the Arab Sector gradually decreased from a high of around 3% percent in the late 1930's. Total purchases of products by the Jewish sector from the Arab sector in 1936 were estimated at about 3% percent of the Jewish domestic product and sales to the Arab sector were a bit over 4% of the Jewish domestic product and 5% percent of the Arab domestic product.[2]

During the years of World War II, the Arab boycott was suspended. In this

1. Metzer and Kaplan (ed), op. cit., pp. 140.
2. ibid., pp. 138-39.

period the Jewish economy of Palestine diverted its exports from the traditional markets (mainly great Britain) to the surrounding countries of the Middle East. As a result of the demand by the Middle East supply centre (located in Cairop), which supervisited the economic war effort in the region, industry received a major stimulus. But a total boycott on Zionist goods was declared by the newly formed Arab league in 1945, and came into effect in the beginning of 1946. The war of independence and its after math the emergence of the state of Israel and the de-facto annexation of the Gaza Strip by Egypt and of the West Bank by Jordan-led to a complete separation of Israel economically from both its Arab neighbors in the parts of Palestine not incorporated into the Jewish state, and all Arab territories. Israel's economic development until 1967 therefore took place as if it was an Island separated by seas from its nearest trading partners.

Israel was faced with severe economic problems in the early years of its independence: it had to conduct a ware of survival, absorb mass immigration from the displaced person camps of Europe and the Arab countries (some 700,000 between 1948 and 1952 a number larger than the Jewish population at the beginning of the period)[3] and create a modern economic structure. During the following twenty years Israel successfully absorbed this immigration, created a modern agriculture, industry, and infrastructure, and achieved a very high average rate of growth of real national income: over 10% percent and some 6 percent per capita.[4] These achievements were greatly facilitated by generous inflows of foreign capital: unilateral contribution from Jews living in the Diaspora and from the U.S. government, German reparations and restitutions, and loans(mainly from the United States) and private investments.

From 1973 until the present time, Israel's economic developments has been much more modest. There have been periods of staguations and slow growth-averaging less than half of those of the first twenty five years-rampant inflation (1983-85) worsening balance

3. op. cit., Fischer, Tuma, Rodrik (ed), pp. 89.
4. For detailed surveys of Israel's economic development until the mid 1960's and from then to the mid 1980's, see Helevi and Klinov-Malul(1968) and Ben-Porath (1986), respectively Klinov-Malul.

of payments deficits, and relatively high unemployment. Table I presents some in indicators for Israel economic performance since 1977.

TABLE A
ECONOMIC INDICATORS FOR ISRAEL

	1977-80	1981-84	1985-87	1989-90
Population(000)	3,742	4,053	4,300	4,540
Civilian Labour Force (000)	1,264	1,390	1,471	1,602
Migration balance(000)	18.4	4.6	- 1.3	65.9
Import Surplus	2,517	4,624	4,413	4,675
Net lateral ($ Million)transfers	2,517	2,937	5,049	5,056
Growth of Business Sector GNP (%)	3.7	2.9	6.1	3.6
Business Sector factor Productivity(%)	0.6	0.5	3.8	1.9
Inflation rate (%)	80	193	21	18
Unemployment rate(%)	3.8	5.1	6.6	8.3
Current account balance (% of GNP)	-1.1	-1.5	0.2	0.4
Govt. Budget deficit (% of GNP)	13.1	10.3	1.6	2.3

(a) Excluding $ 1.5 billion in emergency aid

Source: Central Bureau of Statistics, Statistical Abstract of Israel, and Bank of Israel, Annual Reports.

Because of its small size and the paucity of natural resources, Israel has been very reliant on foreign trade, cut off from its Arab neighbors, this trade has been mainly with the industrial world of Western Europe and the United States. Though Israel still has a persistent deficit in the goods and services account of the balance of payments, it has developed a large and varied volume of exports, with sophisticated products such as electronics, replacing in importance the traditional exports of citrus fruit and simpler industrial goods such as foods stuffs, plywood and textiles. IN addition to the protection from competing products from the neighbouring countries, because of political hostility Israel employed extensive protectionist measures to help foster its own agricultural and industrial development. However from the early 1960's it was realized that Israel must be able to compete with the modern world if it wishes to continue to prosper; consequently, protectionism was gradually reduced, at least-for most industrial goods. This process has been aided by trade arrangements, a free trade area agreement in industrial goods with EC (from 1975), and a free trade area agreement with the United States(from 1985).

Demography

Demography became an issue of concern with the annexation of territories in 1967. The demographic ratio changed dramatically with Arab population reaching a figure of 1.36 million, their share went up to 37 per cent from 14 per cent before 1967. Correspondingly share of Jews declined from 86 to 63 per cent.[5] In the eighties the net migration declined to zero and the variation in natural growth rate started projecting disturbing trends. In the 1990, following the easing of travel restrictions in the then USSR, a large number of Jews started migrating to Israel. Given the background the massive inflow of Soviet Aliya[6] was seen as historic opportunity is correct the threat of demographic imbalance. But one million size of Soviet Aliya is a critical mass having far reaching impact on the Israel economy, polity, society and culture. Absorption of the new immigrants demands spatial

5. A Soffer, "Demography in Eretz Israel : 1988 and the Year 2000", The Jerusalem Quarterly, 51 Summer 1989. Taken from G. Pant, "Israel : Demography Economic Reforms and the Political Economy", The Political/Economy of West Asia(ed), G. Pant, March, 1994.

expansion of the country not merely in physical sense but equally in terms of economic capacity and political sustainability.

Absorbing one million immigrants productively in purely financial terms means an expenditure of $60 billion including d$20 billion for housing and infrastructure[7] The annual gross domestic produce of the country has been around $40-50 billion. Obviously Israel has to mobilize the financial resources externally

estimated at least $ 20 billion above the current flow of aid and grant.[8] According to the Exim Bank of the USA, the external finance needed by Israel to absorb one million Aliya in next five years will enhance its debt burden to $51 billion by 1995 which means a rise by 60 per cent.[9]

Mobilization of resources democratically will raise issues like who pays. The policies of resource mobilization hence needs to be radically changed, and cuts in public expenditure can be visualised. And, as the public expenditure leans heavily towards defence, a substantive cut in its cannot be visualised till Arab-Israel dispute is settled. The burden of the cut in social expenditure is likely to be borne by the middle class of the society.

Apart from the financial aspect of im immigration, there is also a physical dimension. Namely that of housing and jobs. The national annual construction average is of 20,000 apartments. Whereas the current requirement to absorb the Aliyas is about 45,000 apartments in the first phase.[10] This further means demand on infrastructure in terms of water, electricity, communication etc. The importance of infrastructure is enhanced by the fact that the region has an acute water shortage.

6. In 1990, alone their number was 181,758, the largest annual figure since 1951, in 1991 about 135,551 came and it is expected that by 1995 they will be 1 million strong. See G. Pant, "Israel : The Changing Economic Agenda", World Focus 164, August 1993, Israel Today, New Delhi, p.7.

The solutions to the problem of immigrant housing were clearly dependent upon money and on time, and there was little doubt than eventually all immigrants would be housed in reasonable conditions. The problems of providing employment for the massive number of new immigrants, however, and especially employment adapted to their impressively high level of skills and professions, was a much more daunting one. Little if anything had been done by the end of 1990 to address these problems, which were aggravated by the fact that the unemployment rate among veteran Israelis stood at around 10 per cent, the highest it has been for decades.[11] The last highest recorded level of unemployment being 1967, which was a year of severe recession.

Year	Unemployment Rate
1967 (year of recession)	10.7%
1990	09.6%
1991	10.6%
1992	11.2%

Source: Horowitz Lissak

And the 10 per cent unemployment rate stood before the first wave of the 1990 immigrants began coming onto the employment market. As subsequent years show the growth in the unemployment rate reached crisis proportions.

The problem was not only in the huge numbers of job seekers which required an energetic priming of the stagnant Israeli economy which had been in recession for the better part of 1980s, but one of fine-tuning the economy got exploit to the optimum the high

7. The ministry of Absorption of the government gives on an average a family of three, 750 Shekels to meet initial expenditure. Abank cheque of 4,500 Shekels is also given as a part of state aid during the first year of stay known as absorption basket. This basket for a family of three is 15,000 shekels(initially 18,000 shekels). See G. Pant, World Focus, p.8, ibid., and G.Pant, The Political Economy of West Asia , op.cit., pp.218.

level of professional skills the Soviet immigrants were bringing with them. In the short term this meant an immediate need for large scale occupational retraining and major investments in economic restructuring to take advantage of this new infusion of skills constituting a major burden on the economy. An example of the professional structure of the Soviet immigration wave was provided by an Absorption Ministry survey of the 100,000 new Soviet immigrants who had come in the first nine months of 1990. Of these 40 per cent were university graduates, a substantially higher proportion than among the veteran Israeli population. The survey showed that of the 100,000 immigrants, 13,609 were engineers or architects; 6,970 practical engineers or senior technicians; 3,566 physicians or dentists; 2,496 primary or secondary school teachers; and 18,627 white collar, clerical or technical workers.[12] While some of these immigrants, such as construction engineers, tgeachers and nurses, could be expected to find work easily, many others were highly specialized in fields in which it was difficult to find work. The government, the Jewish Agency and a number of professional reorganisations began offering retraining courses to help the newcomers to adapt to Israeli conditions and professional requirements.

Most, if not all of the problems discussed above added up to an urgent need for big money. Informed estimates of the sums needed to absorb the 100,000 immigrants fluctuated between $40-60 billion. The sources making these authoritative estimates invariably insist; that they saw not the slightest possibility of Israel mobilizing such gigantic sum anywhere in the world. In early 1990, the Bush administration had insisted on attaching extremely onerous political conditions to Israel's request for US government guarantees for a mere $400 million in private loans to finance the absorption of the 1990 immigrants.

The state budget for 1991 tabled in December 1990 cablled for spending NIS 12.3 billion (about $ 6 billion) on absorption compared to the NIS 5.1 billion spent on

8. ibid., G.Pant, The Political Economy of West Asia , pp.218.
9. ibid., pp.218-219.
10. ibid., pp.220.

absorption in 1990 and NIS 1.2 billion in 1989.[13] The 1991 budget was based on the predicted arrival of 300,000 immigrants. The money for the increased budget was to come from increased borrowings from abroad, the sale of private owners of NISs 2 billion worth of government companies, the borrowings of NIS 1.8 billion from the Central Bank and from plans to cut other government expenditures and to increase taxes.

It is obvious that overcoming the enormous difficulties of the transitional period, until the large number of new immigrants become productive and were transformed from an economic burden to a tremendous asset, would require a combination of economic and political strategies; as much money as possible would have to be raised abroad and from domestic taxation; absorption standards would have to be reduced even more to provide a minimum for all and the veteran Israel population would have to be mobilized, for more intensely than even before, to make up in volunteering for the shortfall in money and to be ready to sacrifice living standards in the short run in order to reap long term benefits.

It can be noted thus that all these aspects are inter-related, like demography adjustment programme, economic vitality, foreignd aid etc. The explanation for the decisive impact of demographic changes on economic reforms essentially lies with the Israeli system which is exhausted and overburdened. The widening gap between the resource base - economics, political, social and the demands of the system to graduate to higher stages of evolution, has underlined its structural limitations which cannot be overcome by quantitative extension. A qualitative change is required to restore Israeli economy its dynamism.

One of the largest beneficiary of the US aid and credit, Israel can no more obtain and sustain the debt burden without improving the productivity of its own economy. Foreign aid is also now available with strings attached. The option of dealing with the

11. 1,10,000 new jobs were needed to reduce the unemployment to 7% by 195. Clearly, the economy with present growth rate and its composition cannot provide gainfully employment to the emerging burden. See G. Pant, ibid., po.221.

situation is thus to internalise the growth process and augment the domestic production. This would require a re-organization of the economy.

Israel : Economy and its Economic Agenda

The Link between economic growth and import of capital and investment is most pronounced in Israel and because of the sustained import of capital, rapid economic growth (10 per cent per annum GNP)[14] was achieved in the first 25 years of the State's existence. Since 1973, there have been difficulties resulting from the Yom Kippur war and the world economic recession of the 1970s. Since 1980 the economy has suffered from the accumulated effects of oil price rises, excessive growth of private consumption and the costs of the Lebanon war— all largely financed by borrowing abroad. As a result economic growth has slowed down considerably: 3.2 per cent GNP in 1980 to -0.3 per cent GNP in 1984.

(See [illegible] 7 & 8)

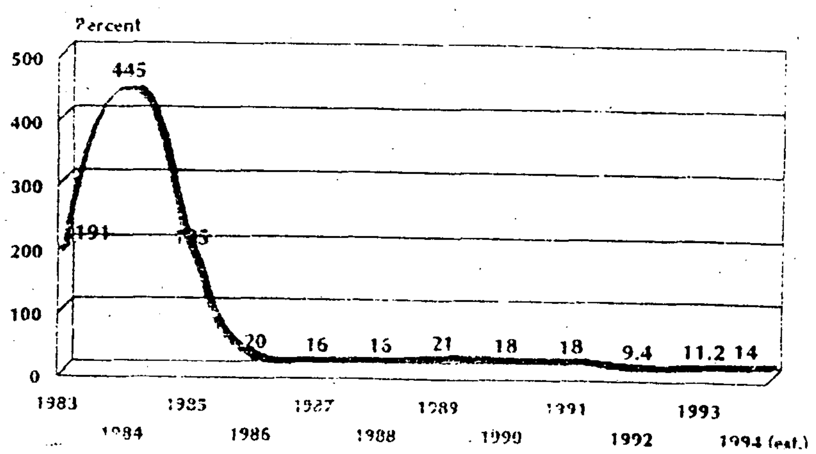
The development of the economy of Israel has taken place under difficult conditions. A central feature of the development has been the transplantation and establishment of whole communities in the country, with the necessary capital, manpower and skill, as well as purchasing power for the creation of an internal market. In the period 1948-84 the population increased six fold.[15] Also the geopolitical and military background hardly favoured development; boycott and blockade were serious handicap; and the political situation entailed heavy expenditure on arms. The country was also faced with a lack of water and a scarcity of natural resources-no coal, iron or substantial oil wells. In addition, part of the new population was accustomed to European standards of living, which had to maintain within the still infant economy. Others, whose occupational structural and cultural background were not adapted to local needs, had to be re-educated and re-trained as in the case of Soviet Aliyas. In all, people have come from 80 countries, with nearly as many languages, and sometimes centuries apart in cultural sophistication, and had to be welded into ethnic and national unity. This has to be done under great strain and inflationary hazards, the six fold increase of population and

12. Yosef Goell; "The Absorption of Soviet Jewish Immigration", in William Frankel, (ed.) Survey of Jewish Affairs 1991; Blackwell, Massachusetts, pp.28.
13. i bid, Y. Goelll. pp.29.

the burden of defense and massive expenditure on development, which in itself created inflationary pressures. Prior to the 1973. Yom Kippur war, inflation was relatively low, but subsequently increased fuel prices, and heavier defense costs have led to rapidly spiralling inflation— 26 percent in 1973 and 445 per cent in 1984.

In the background, the economic reforms and austerity measures were introduced. There were criticized both within Israel and abroad as not being far-reaching enough. The extensive liberalization process instituted during the 1990s must be viewed in the same light. Prevatisation, open market operations and dilution of state role in the economy are the keynotes of the reforms process. Inflation which fell to 9.4 per cent in 1992 following the success of counter-inflation policy adopted in 1985 and had been expected to fall to about 8 per cent in 1993, rose instead to 11.2 per cent and may continue to rise.[16]

(Consumer Price Inflation, 1983-1994 Graph)[17]



Source: Israel Economic Review, 1993-94. PP-10

However unlike the very high inflation of the early 1980s, which was mainly the result of a price and wage indexation system that spiraled out of control before the government froze prices and wages in July 1985, today's inflation is the result of normal economic factors, including the level of the governments budget deficit, the rate at which the

14. Middle East Economic Handbook, Euromonitor, London, 1986, pp.185.
15. ibid., pp.187.

Shekel is devalued against foreign currencies, and the balance of supply and demand within the country.

The Early Role of the State in the Economy

The unique structure of the Israeli economy has its roots in the pre-state yishut, when the Jewish immigrant community established a highly organised and institutionalized framework for encouraging and absorbing new immigrants. The combining of efforts between diaspora Jews and those already in Palestine led to the creation of a bureaucracy around the central institutions of conlonization. These included the world Zionist Organization, the Jewish colonial thrust, and the Jewish National Fund, all of which were granted quasi-governmental powers over the Yishuv, as well as over a number of smaller pioneering organizations in Palestine. These institutions were highly impregnated with Zionist and socialist ideals, emphasizing mutual aid and collective settlement. They also provided the networks from which Zionist political leaders emerged.

While the Jewish economy in Palestine was initially based primarily on private capital and the free market system, institutions such as those mentioned here introduced the concept that the primary ressponsibility of the Yishuv was to facilitate new, mass immigration and that this could be done only by pooling diaspora and yhishuv resources and directing them toward the common Jewish good. Within the socialist political leadership of these institutions, competing factions debated the future role of the private sector. Some leaders aspired to natinalization of all means of production while others believed that the rapid economic development that a new state would require depended on a partnership between private capital and collective resources managed by the state. The one point that most leaders agreed upon was that the land should belong to the nation as a whole and not to individuals, thus preserving it from the threat of sale to non-Jews.

16. Israeli Economic Review : 1993-94 Consolidation of Economic Growth, Israel Export Institute, Tel Aviv, pp.4.
17. ibid., pp.10.

The Zionist Congress established the fundamental principle that economic colonization depended upon public capital supporting collective pioneering settlements. Public capital included funds directed into Palestine via the Palestine Jewish Colonization Association, the American Jewish Joint Distribution Committee, and funds from socialist and religious parties.[18] Upon the establishment of Israel, socialist leaders were quick to absorb the existing institutional framework into the structure of the new state. David Ben-Gurion, in particular, was eager to nationalize those services such as education and employment agencies that previously had been run by political parties or volunteer organizations. The young state was also quick to establish such institutions as a civil service, central bank, national insurance institute, and organizations to administer programs of investment that were dammed essential to absorbing new immigrants. Given the enormity of the task of immigrant absorption, the Labour Party political leadership was unwilling to consider delegating regulation of the economy to market forces. Thus, for example, all natural resources were nationalized in 1949 and state-owned enterprises established to exploit them.

A parallel development was the incorporation into the new state of the Histadrut, the General Federation of Hebrew Workers in Eretz Israel. This body was established in 1920 as the primary Labour Party colonization body. Among its responsibilities were the creation of new settlements, the organization of Jewish labour, and the maintenance of Jewish exclusivism in Zionist enterprises. After 1948, its role became that of Israel's primary trade union, with secondary responsibilities to provide welfare aid, employment, and subsidezation to immigrants. It also increasingly took on the role of employee, as it used government funding and subsidies to establish a business empire of its own.

It might seem unusual to include the development of a trade union when

18. For the impact of these organizations, see Michael Michaely, Foreign Trade Regimes and Economic Development: Israel (Jerusalem: National Bureau of Research, 1975), pp.5. It should be pointed out, however, that most capital imports in the pre-state period were in fact private funds directed into private investment.

examining the growth of the state sector in a new economy, but the relationship between the Histadrut and the Labour governments that dominated Israeli politics until 1977 was unique.[19] In fact, the new state developed a public sectors —and the political forces that underlie those relations—that have obstructed efforts at economic liberalization.

As Israel is a state of immigrants, with its most important resource being the human capital, the main thrust of the nation has been directed towards state building. As the main constituents of the state —the Jewish population — had come from outside, there was this sense of making a new beginning, which was possible only through inputs again from the outside. The flow of capital, technology, defense hardware etc., thus flowed alongwith the human component of Israel's import. Such was justified, as an analogy of a nuclear reactor suggests, whereby the Uranium fuel is bombarded with neutrons till such time that the reactor goes critical and can sustain the reaction on its own.

Israel today stands on such a threshold, when its has now to abandon its dependence on the outside world (the West) and sustain its vitality through the dynamism of its own economic system. It is clear that the Israeli state has evolved in status and its economy has graduated from one stage i.e., to nation-building, sustains and defence through state control, to another i.e., of economic development and liberalization. The program for liberalization was instituted with exactly this in mind. It is an attempt to Lighten the burden of an overburdened system. This shall also in the process, help meet the national objectives more fruitfully in the long run.

Economic Liberalization in Israel

Israel has been engaged in recent years in a program of economic liberalization intended to introduce new levels of competition and efficiency into the country's

19. see Michael Shalev, Labour and the Political Economy in Israel (Oxford : Oxford University Press, 1992) pp. 28-9.

domestic market and its ability to trade at the international level. The Israeli economy has several unique features, and is heavily influenced by equally specific factors. While some aspects of economic liberalization have been introduced successfully, others such as privatization, have been effected only partially and with little substantial benefit to the economy asa whole.

Trade liberalization, which was instituted both as a counter-inflationary measure and in order to encourage investment in industrial equipment and inputs can be seen at a number of levels. First of all, the fact that the peace process has considerably broadened Israel's circle of diplomatic and official economic relations has meant that6 the import licenses needed for goods from countries with which Israel doesn't have trade agreements have lost most of their previous importance. The free trade agreement signed with EETA in 1992, and others trade agreements with countries such as Turkey and China, have remained or reduced tariffs with these states.[20] There have been a series of major reductions in customs tariffs on both investment and consumer goods, in the case of micro-computers and software for example, the reduction of tariffs to 10 percent[21] hasfurther encouraged the very extensive computerization of the economy and high level of computer literacy of the population.

The policy of exposure of Israeli products and services to competing imports has had a clear moderating influence on price increases that perhaps has broader implications for the economy as a whole. According too a price survey carried out by the Federation of Chambers of commerce, a group of products and services opened up to competing imports in 1991 showed price rises of 8.4 per cent, 6.6 per cent and 2.4 per cent in the first, second and third years, while similar products and services still protected against imports experienced price rises of 10.4 per cent, 12.7 per cent and 6.7 per cent during the same period.[22]

20. op.cit., <u>Israeli Economic Review</u> pp. 15.
21. ibid, pp.15.
22. ibid., pp.15-16.

Privatization has so far had fairly disappointing results. Of the approximately 170 state-owned or controlled cooperations, including the largest infrastructure and manufacturing companies in the economy(Israel Electricity Corporation, Israel Aircraft Industries, Israel Chemicals, Oil Refineries, Bezek, El Al etc.), only a handful have been privatised, mainly small and medium-sized companies such as the Jerusalem Economic Corporation and Industrial Buildings. The privatisation of the larger sate companies has begun, with 25 per cent of Bezek, for example, sold through the Tel Aviv Stock Exchange; but other planned sales, such as 25 per cent of Israel chemicals, have at the time of writing of the report (1993-94 consolidation of Economic growth)had not yet been completely formulated.[23]

There are several factors behind this slow progress. One is that there is no consensus within the government about the most suitable way to privates each company, whether through share offerings on the Tel Aviv Stock Exchange or on Wall Street, by open tender, or by closed tender. A second is that there are objections in principle to the sale of several state companies, such as Israel Chemicals and Israel Aircraft Industries, that are regarded as of strategic economic or military importance, and especially objections to their being sold to foreign shareholders; at present it seems likely that individual divisions of these companies will be sold, with 'golden shares' held by the government to ensure continued state control of strategic interest. A third factor is that the Israeli capital market has not been liquid or confident enough during the last year to enable major privatisation of this kind: with the Tel Aviv Stock Exchange below its January 1993 level, there is no likelihood that the public would fully take up a privatisation offering at the desired price, and Israeli underwriters would therefore be left holding the surplus; at least three planned privatisation sales planned for early 1994 have been delayed because of the state of the market. Similarly, the sharp price falls of Israeli shares in New York over the last year is not presently conducive to IPOs

23. ibid., pp.16

there.

In the case of the re-privatisation of the four bank groups brought under government control following the 1983 share crash, the situation is even more complex: in addition to purely economic considerations, the government and the courts had to consider questions of public policy. For example, only one bidder has remained in the negotiations for the controlling interest in Bank Leumi — Edmund Safra, who owns Republic National Bank Leumi — Edmund Safra, who owns Republic National Bank of New Yourk — but both because he is a sole bidder and because his brothers own First International Bank of Israel, there are objections to his candidacy. There were strong fears that the Histadrut labour federation, which had previously controlled Bank Hapoalim, would try to regain control via other companies it owns; this was one of the main reasons for the open sale of a portion of its shares on the Tel Aviv Stock Exchange. Similarly, the Recanati family that founded and controlled the Israel Discount Bank group banned from repurchasing a controlling interest, because of the findings of a commission of inquiry into the bank share crash as well as criminal charges against them resulting from the crash.

The role of the Histadrut in the economy has also been reduced significantly during the last few years. Whereas in the early 1980s the Histadrut, like the government, controlled about one-third of the service and manufacturing economy through a broad network of holding companies, this holding was reduced radically both by the forced state take over of Bank Hapoalim and by the near-bankruptcy of the Koor industrial radically both by the forced state take over of Bank Hapoalim and by the near-bankrubtcy of the Koor industrial holding group(which controls the Tadiran and Telrad electronics groups, Nesher Cement, Makhteshim Chemicals and other major companies).. Koor has ended up controlled by the banks that were its main creditors and by the public, and has also returned to profitability after several years of major losses. The Histadrut itself has also undergone a major structural change that will further reduce both its strong influence on the economy and its inherent contradictions as both the national trade union federation and one of the largest employers in the economy: following the elections in early 1994 in which former Health Minister Haim Ramon was elected on a reform platform as the new secretary-general, Ramon decided to cut still further the organization's non-trade union functions. (It should also be noted, however, that as the Histadrut's internal conflict of interests between its roles as an employers and as a labour federation is resolved, it is likely to become more militant in pressing for across-the-board wage increase; and this, together with the current trend towards almost full employment, is likely to create strong inflationary pressures.)

The other main area of structural reforms is the general reduction of monopolies and cartels and the consequent increase in competition throughout Israel's domestic market. As mentioned above, the state-controlled Bezek telephone company has lost the monopoly on cellular telephone services that it enjoyed in partnership with Motorla, as well as on the supply of end-user equipment and on digital data services. Although foreign banks have not yet entered the domestic or retail banking market, the five main commercial banking groups have lost their monopoly position in several other finacial service fields, such as mutual and pension fund management, stockbroking and underwriting, and in any case have lost their monopoly position as a long-term provider of working capital to industry, because of the rapid development of the stock market.

Problems and Prospects of the Neaa Future

As the 1980s were roming to a close, Israel was facing problems that required major reforms in the economy. Though the rampant inflation of the first half of the decade had been brought under control, Israel had not yet found a way to reduce the inflation rate to the one digit level. More critical was the fact that growth was sporadic, and nowhere near that of the earlier periods, or of the rates achieved by other newly industrial economies after the of the 1970's Unemployment was at a higher (close to 9% 1989)[24] than Israel's Social and political structure used to consider acceptable. The persistent balance of payments problem were not decreasing. Moreover, some of Israel's proudest achievements- the cooperative agricultural settlements and the industrial complex of the Histadrut (Israel's all inclusive labour union) were in dire economic states as a result of mismanagement and reckless expansion during the inflationary period.

These problems led to a widely held belief that major reforms, if not restructuring, of the economy were necessary. Chief among these was a reduction of the role of government in the economy. Even after some decrease from the high levels of government expenditure attained in the inflationary first half of 1980s, total public expenditures were equal to some 50% of national product in 1988 & 1989.[25] These figures reflect not only high defence expenditures but also use high level of civilian consumption and transfer payments attained during the period of prosperity. Moreover, government non-budgetary interference in the economy was still strong: the capital market was still dominated by the government, and there remained and in fact reintroduced elements of domestic protectionism in the foreign trade regime.

The year 1990 witnessed a change that will have perfound effects on Israel's social political and economic structure. This was the renewal, on a large scale, of immigration from the Soviet Union, In 1990 the total number of arriving immigrants was 200,000 more than ten times the annual averages during the previous decades. Renewed immigration toward the end of 1989 led to forecast of much larger numbers in the following years. At first the estimates for 1990 were some 40,000 these were later raised to 100,000. The actual doubling

24. Ref. Chapter III.
25. All national aggregates in the late 1980s are taken from the Bank of Israel (1991).

of that estimate meant that Israel's initial planning and budgeting for absorption of immigration was woefully inadequate.

Studies carried out by the research department of the Bank of Israel in 1990 on the economic requirements for absorption of 100,000 immigrants annually for a period of fairly optimistic. this levels of immigration is far smaller in absolute terms, and much more so in relative terms than that of the earliest years of statehood, and more closely resembles the situation in the 1960's. The Israeli economy in the 1990's is muchmore developed and sophisticated than that of the 1960's. It is starting from a less satisfactory macroeconomic environment, however, with inflation still not completely under control and unemployment at a high level. The studies conclude that there is to be expected a time tag between the immediate financial requirements for housing, interim consumption, and investments, both public and private, for the integration into productive employment of these immigrants and their ultimate contributions to economic product (and through taxation of their product on the balancing of budgetary expenditure).[26] However, it is shown that streamlining of housing activity cutting of other budgetary expenditures, and reforms of the capital and labour markets in order to stimulate private investment should minimize the immediate inflationary effects of immigration absorption and speed the attainment of its expected stimulation of economic growth.

In actuality the arrival of a much larger number of immigrants in 1990 than expected and the failure to adopt many of the reforms suggested, meant that adhoc measures were taken, leading to considerable inefficiency and lack of coordination between housing and employment requirements. Whereas the housing needs were met, by and large, the problems of employment are still to resolved, and are not yet fully felt because of the lag between arrival of immigrants and their entry into the labour force. The flow of immigrants in 1990 led to expectation of even larger flows in the immediate future: an additional 1

26. Bank of Israel 1990.

million immigrants form the Soviet Union were predicted, with as many as 400,000 arriving in 1991.

Obviously, a much larger influx of immigrants changes the dynamics of the economy. Another study carried out at the Bank of Israel examined the interim effects on the economy of this larger immigration.[27]

While it was still expected that the long range effects of the mass immigration would greatly benefit the economy, especially in view of the fischer, Duma and Rodrik(d) pp93. fact that these immigrants bought with them an unusually high level of skills and education, the transitional problems would be formidable, and would essentially result from the lag between the arrival of immigrants and their contribution to output. The transition period could last as long as eight to ten years, during which there would be a much higher than normal level of unemployment. The severity of unemployment and the contribution of the new immigrants will depend primarily on the level of capital inflow and on the possible wage flexibility in the economy. With no limit on borrowing potential-specifically, the possibility of increasing the foreign debt by as much as 40 billion over a five year period- and with wage flexibility (Being most optimistic) the problems of transition would be manageable. However, as has been suggested earlier, the economy still face extremely strong weather before the beneficial effects of new mass immigration will be felt.

The absorption of the highly skilled new immigrants will entail a reversal of the trend in recent years towards relative expansion of services, and will shift Israel's economic development to manufacturing. But to do so Israel will have to intensify its trade liberalizations efforts, that is, adhere to its recently announced goal of forcing its manufacturing to be competitive not only with that of Western Europe and United States but also with that of the newly industrialized countries. If such a challenge is successfully met, Israel will be able to

27. Nadar Halevi: "The Israeli Perspective", in opcit Fischer, Duma and Rodrik (ed) pp.93.

concentrate on export led growth, and in this way tackle its perennial balance of payments problems, which of necessity will be intensified in the interim period.

Israel has been very fortunate in being able to mobilize very large sums of foreign inflows to augment its own national product, thus making it possible to allocate large sums to defence investments, and public services without the need to drastically curtail private consumption. Much of this inflow came in the form of unilateral transfers from Jewish philantrophy, from Germany in the form of reparations and restitutions, and from the US government in civilian and military aid. The growth of US aid after 1972 significantly reduced the relative importance of the other sources. Most years the total of unilateral transfers was not sufficient to cover the defit in the goods and services account of the balance of payments (i.e. the import surplus), and long term and short term capital flow, were needed to make up the difference. Here, too the major source has been loans from the US government. The latter were drastically reduced from 1986, and eliminated from 1989, when US aid was given entirely in the form of grants. By the end of 1990 Israel had built up a gross foreign debt of some $32 billion, about half of which was covered by assets held abroad by Israeli banks.

The increases in the import surplus from 1991 to 1995, as a result of the needs of immigrant absorption, have been estimated at no less than $ 25 billion over and above the expected inflow of unilateral transfers. This implies that Israel will have an external debt of $40 billion at that time. Even the most optimistic assumptions about Israel's ability to attract private investments inescapably lead to the conclusion that such large sums must come from governments and banks, the latter with governmental loan guarantees. Thus, at the end of the interim period, Israel will be so heavily indebted that further development will in all likelihood have to be based on much less reliance on new foreign borrowing.

In summary, we are making the more optimistic assumption that the Israeli economy that will be facing the new peace opportunities is one that has already been successful in absorbing a substantial inflow of Soviet Jews. It will have attained, by the close of the interim period, an income per capita level comparable to the less affluent of the industrialized countries, will have an unusually skilled labour force, and will be an economy more heavily concentrated in modern, high-tech industry.[28] However, it will still have formidable balance-of-payments problems and a heavy debt burden. These problems will require Israel to rely on export-led growth, if it wishes to resome and maintain a respectable rate of welfare improvement.

West Bank & Gaza Strip

Israeli reforms process is premised on market based economy. With market determining the allocation of resources and defining the rules of exchange, a new relationship is being negotiated between market and the State. The state is disengaging itself from the production processes. In positive terms this implies that the economy has to enhance its global interaction that is diversifying the trade basket and direction, grow out of the U.S. hegemony. Such a process shall be possible if the regional conflicts are resolved, which also involves a renegotiated relation with the economy of the occupied territories i.e., Judea, Samaria and Gaza.

These territories which have been under Israeli occupation since 1967 have become the bone of contention between the Jews and the Arabs. While, peace is spelling out the basic premises which can encourage structural economic reforms in Israel, making them a success, it becomes necessary that some kind of rethinking is done about the occupied

28. Agriculture, of great importance idelogically, has been a declining sector (accounting for 4% of national income in recent years). Even with the most optimistic forecasts about regional water arrangements, water resources will not be sufficient to permit Israel to put under cultivation all its arable land before the day debalirisation becomes relevant. Existing agriculture will be hard pressed to compete for water with other sectors.

territories. Not only the fact that the return of occupied territories becomes to a large extent a pre-requisite for peace, but also that an environment of peace envisions immense economic gains to the region as a whole. Thus the continuance of the occupied terrioties have become a burden in the face of Israel's changing economic agenda.

CHAPTER IV

PEACE DIVIDENDS :
THE ISRAELI PERSPECTIVE

"Consider that military expenditure in the countries neighbouring on the Arab - Israeli conflict exceed an average 15% of national income (compared to 5% in all developing countries). Consider that political instability and the prospect of original hostilities are the prime deterrent to private investment in the region, both domestic and foreign. Consider that continuous threat of war has legitimized and entrenched inefficient as well as authoritarian political regimes. consider finally the huge loss of human life as well as of human and physical capital, in the recurring conflict of the region can anyone seriously doubt that real, durable peace will be an economic boon to the countries of the Middle East."[1]

Peaceful relation between Israel and its Arab neighbors can have far reaching effects on Israel's economy. The specifics of the economic implications for Israel of peace are of course dependent, to a large extent, upon the type of political solutions achieved, however, a rough picture of the broader possibilities can be considered, with emphasis on issues and directions and not on quantitative predictions.

Two types of effects are considered, those resulting from the fact that Arab - Israeli conflict is officially resolved, and those relating to possible economic relations between Israel and its neighbours. Resolution of the conflict can improve Israel's relations with non-Arab countries, encourage investment in Israel, and make it easier for Israel to deal with its more immediate economic problems. However, it will be argued below that no substantial peace dividend should be expected in the near future.

Economic relation with the Arab world are harder to predict, because Peace does not imply a particular scenario. Some of the alternatives considered suggest that there is room for considerable trade between Israel and its neighbors, which should be mutually beneficial.

1. S. Fischelson, D. Rodrik, E. Tuma (ed.), The Economics of Middle East Peace, Cambridge: MIT Press, Ma., 1993, pp. 1-2.

A reasonable assumption is that there will be a substantial interim period before peace is achieved. during at least much of which the Israeli economy will continue to develop in ways little affected by the ultimate peace arrangement. The first part of this chapter will survey the past development and the structure of the Israeli economy during the next few years, ignoring any effects the negotiation process itself may have on development in say, the next five years. Also considered are the factors resulting from the negotiations that may effect - Israel's economic development during this transition period but are unrelated to the ultimate solutions adopted as a result of the negotiations.

Various long term implications of peace will also be discussed. The team long here means a period of a decade or so after the interim period. During this time the peace will be tested, with measures dependent on greater trust being attempted slowly. It is here assumed that this process will be a long one; it is unrealistic to expect an over night transition to relations similar to countries which have a less protracted history of hostility. Consequently, the possible economic effects of far reaching cooperation, of the kind that requires, considerable mutual dependence and the forfeiting of economic soverighty, among the present belligerents are not considered here. There may be great advantages for Israel in being Part of an economic union of the Middle East, but that possible seems remote at this time.

Some Possible Interim Effects:

The mere entry into a process that is intended to lead, or give promise of leading, to a resolution of the Arab - Israeli conflicts, can have a no. of effects on the economic development of Israel. Here two such effects are considered: The response of foreign governments and investors to the peace process and the possible decrease in activities associated with the intifada.

The response of foreign goverments may be felt first of all in the readiness to lent Israel funds needed for immigrant absorptions. Whether or not loans and loan guarantees are formally tied to Israel readiness to push forward the peace process, there is no doubt that such progress will do much to lossen to purse strings in the United States and Europe. Thus, Israel may benefit in being able to absorb the immigrants in line, with the predictions of the more optimistic forecasts, mentioned above, regarding the availability of foreign loans.

Of perhaps no less importance in this respect is the possible influence of the peace process on private foreign investement. Israel's records inattractive foreign private investement has been mixed, and on the whole, disappointing. During the 1960 s many in Israel believe that private investement inflows would grow to be more important than philanthropic funds or inter-governmental inflows. Though many hundereds of foreign companies found it profitable to invest in Israel, the net inflows from private investements never reached in large numbers: in recent years foreign investement in Israel did not exceed $ 200 million annually.[2]

Many reasons have been advanced for this disappointing record. One is the Israel's bureaucracy :despite many liberal terms in the tax and foreign exchange systems designed to encourage and facilitate foreign investement, the bureaucratic maze that must be navigated has remained formidable and discouraging. But it is probable that two other factors must be given grater weight. The first is political unrest in the region: the frequency of outright war, and the always present possibility that political instability may have adverse effects on economic conditions and on economic freedom. This risk cannot but deter many potential investors. The expected returns on investements in Israel must be very high relative to competing locations to compensate for the additional risk. Peace in the region,

2. Central Bureau of Statistics, 1990.

if it is expected to be lasting, will surely reduce significantly this risk factor and will give much greater prominence to purely economic calculations in estimating profitability of investement in Israel. Although this more far- reaching effect will necessarily have to wait an actual peace agreement, the mere prospects of peace may elicit some greater readiness to invest in Israel.

The second and probably more immediated factor is the Arab secondary boycott, whereby foreign firms have been threatened with loss of Arab business if they do more than "normal" business with Israel, especially investing in Israel. Some countries have passed antiboycott legislation. Among these, the united states take the most drastic action, whereas some European countries are less active. Some countries (e.g., Great Britain) do not take any antiboycott action. The most extreme cases are Japan and Korea: they have tended to bend over backward, avoiding economic ties with Israel that could antognize Arab countries even if not specifically banned. There is no reliable estimate of the deterring effects of these boycotts on investement in Israel.[3] As mentioned, many of companies have not been deterred; however, the fact tnat many of the major multinational corporation are noticeably absent from the list of companies investing in Israel suggests that the effects of the boycott are significant. It is to be expected that the earliest stages of peace negotiations will lead to (perhaps be contingent upon) official concelation of the boycott and threat of boycott of foreign companies (though probably not of the primary boycott, that is, direct Arab trade with Israel).

The Israeli economy will have much to offer foreign investors, who will be relieved of the fear of Arab boycott. Its wealth of scientific and engineering expertise should encourage the inflow of investement, particularly of companies wishing to take advantage of Israel's prefrential trade arrangements both the United States and the EC. No attempt is

3. For a Survey of Arab boycott activity and Israel's response, see Rolef, S.H., Israel's Anti-Boycott Policy. Jerusalem : The Leonard David Institute, 1989.

made here to give a quantitative estimate of these investements. Though it would probably be over optimistic to expect that such flows will be of a magnitude resembling the governmental transfers of earlier years, their impact on capital formation, improved productivity, growth, and export creation should be much greater than equivalent unilateral foreign transfers or government loans. "A given balance of payments deficit financed by private investement from abroad tends to go more to capital formation and less to increasing consumition, private and public, than unilateral transfers and government loans. Moreover, Israel will need to develop close contact with firms in the United States and in the EC to complete there, foreign investment will create these contacts".[4]

The EC has indicated that Israel's requests for special arrangements to negate the possible deterimental effects on Israel's trade with the community resulting from the expected reform of 1992, perhaps the same status accorded the EFTA countries, will recieve favourable response once there is significant movement towards peace. If such movement does indeed lead to more favourable arrangements with the EC, for example, easier acceptance of Israeli standards as compatible with the new European ones, Israel's exports will benefit, and the stimulation to foreign investement mentioned above will be more pronounced.

It is possible that progress in the peace negotiations will reduce the militance of the intifada, an thus mitigate its economic effects on Israel. The economic costs to Israel of the intifada arise from four sources: loss of income from reduced exports to the territories, dislocations in the economy because of the absence of part of the Arab labor working in Israel, additional direct military expenditures, and loss of tourist revenue.

Israel's exports to the territories decreased by an estimated $322 million (28%) in 1988, and by an additional $83 million in 1989, it has been estimated that more than

4. see. N. Halevi, "The Effects on Investment and Consumption of Import Surpluses of Development Countries", Economic Journal, 86, 1976.

half of these decreases were recouped in 1990.[5] These decreases reflect both voluntary boycott of Israeli products and reduced spending capacity resulting from reduced income. Whereas GDP in the territories is believed not to have decreased substantially in 1988 and in 1989, income from employment outside the territories (from work in Israel and elsewhere) is estimated to ave decreases by more, after substantial growth in the previous period.[6]

Employment of workers in Israel in 1988 fel considerable from restrictions on the supply side, increased slightly in 1989. It decreased drastically again in 1990 and the first half of 1991 to perhaps less than half the pre-intifada level because of restrictions from the demand side as a result of rears generated by acts of violence and the Gulf war. Disruptions of output and inefficiendies arising from sudden decreases in employment from the territories have been severe in some industries, particularly in construction. Additional defense expenditures have not been large-they have been estimated for 1988 at no more than 0.2% of GNP and have probably not risen in the more recent period.[7]

The effects on tourism have been more significant. after record year in 1987 the number of tourists drooped by 15% in 1988. Although there was no decrease in foreign exchange receipts from tourists, the expected increase would have been about $200 million more, considering that the value added in tourism is higher than in exports of goods, this implies that the loss from the fall in tourism was greater than from the decreased exports to the territories. Tourist receipts picked up in 1989 but fell in 1990 as the tourist industry was severely hit by the Gulf crisis; there seems to have been a substantial recovery in 1991.[8]

Various estimates have been made of the total income loss from all these factors. One estimate is that the loss of exports and tourist receipts alone reduced GNP by about 1% in 1988.[9] A more comprehensive estimate for 1988, based on partial data and

5. Bank of Israel, Annual Report, 1991, pp.220.
6. Central Bureau of Stastistics, 1991, pp. 8.
7. see op. cit., Fisher, Tuma, Rodrik pp. 98.

projectios but taking in to account all the indirect effe^ts of reduced exports and imports, arrived at a new loss to Israel of 1.7% GNP.

It is possible that dissident groups seeking to sabotage the peace efforts will try to keep the intifada active during the interim period; but in any event its economic costs have decreases significantly in the past two years. Over time the economy has adjusted the decease in Arab labor, Israelis and foreign workers from other countries, such as hosusing construction, more capital-intensive (labour-saving) methods are being employed. Tourism will probably increase at a faster pace if violence is reduced, but exports to the territories will not expand substantially until the income in the territories resumes rapid growth. a reasonable estimate of the net gain resulting from a complete end to the intifada cannot be more than 1% of GNP.

Defence Burden and Possible Peace Dividend

Israel has always had to devote a very large part of its resources to defense; in the truest sense, it is the inability to allocate these resources to other user-investment and private and non defense public consumption - that constitutes a defense burden. Examples often cited - Germany and Japan - Suggest that much higher rates of growth of income and well-being could have been achieved had the defense burden been smaller. The importance attached to the role of the high cost of the arms race in the deterioration of the Soviet economy has led to foreboding about the economic dangers Israel may face if the defense burden cannot be reduced. In fact, the potential peace dividend from reduced defense expenditures is frequently cited as the major economic benefit of peace.

In order to make any appraisal of the possible magnitudes of such a peace dividend, it is necessary to consider (1) what is included in defense spending; (2) in what

8. ibid., pp. 98.
9. Bank of Israel, 1989, pp.153.

ways the defense burden should be defined; that is, consider different assumptions regarding the availability of foreign resources and their allocation; (3) what are the factors that determine whether defense spending is likely to change; (4) what these changes can mean in terms of a defense burden.

Published estimates of defense spending refer to expenditures made in accordance with the defense budget, and usually distinguish between domestic expenditures and expenditures in foreign exchange for imports of military equipment. However, the budgeted expenditures do not include all the costs to the economy. Among the major additional costs are the true alternative costs of reserve duty, future pensions, stockpiling, construction of civilian shelters, and land set aside for use by the military. These additional expenditures, not included in official statistics, have been estimated as equal to no less than half the half the official domestic expenditures.[10] Table (A) presents various measures of the defense burden, defined as defense expenditures as a percent of some relevant magnitude. The figures are arithmetic averages for the 1988-90 period. The second column of the table, presented for illustrative purposes only, arbitrarily adds 50% to the offical domestic expenditures; these inflated estimates of domestic expenditures are then added to the imports to arrive at total defense expenditures (the numerator in the computed percentages).

After a prolonged trend of rising to new plateaus after each war, the defense burden was substantially reduced in the 1980s. But as shown by line 1 of table (A) defense expenditures as a percent of GNP averaged close to 15 in recent years; adding the unofficial components raises the percentage to about 20. Even the smaller figure is extremely high by any international compression.

10 . A comprehensive analysis of defence burden is found in, E. Berglas, "Defence and the Economy" in Ben-Porath (ed.), The Israel Economy: Maturing through Crises. Cambridge : Harvard University Press, 1986

Table (A)

Measures of the defense burden

		Budgeted	INflated[a]
1.	Defense expenditure, as % of GNP	14.7	19.9
2.	Defense expenditure, as % of GNP puls all unilateral transfers	13.6	18.4
3.	Defense expenditure, as % of GNP plus unilateral transfers minus U.S.military grants[b]	14.0	18.9
4.	Defense expenditures, as % of GNP plus all non-U.S. unilateral tansfers[c]	14.3	19.3
5.	Defense expenditures minus U.S. military grants, as % of GNP	11.8	17.0
6.	Defense expenditures munus all U.S. grants, as % of GNP	9.8	15.0
7.	Defense expenditures minus U.S. grants, as % of GNP plus all non-U.S. unilateral transfers	9.5	14.5

a. Based on figures "inflanted' by assuming real domestic costs 50% higher than budgeted items.

b. Unilateral transfers in source table converted to domestic currency by use of effective exchange rates.

c. Unilateral transfers in domestic currency allocated between U.S. military grants, total U.S. aid, and others by dollar ratios of these items in balance-of-payments data.

Source: Computed from data in Bank of Israel (1991) pp. 274, 221, and 239., taken from Fishcer, Tuma, Rodrik(ed), PP 101.

It has been argued that these figures exaggerate the true burden on the Israeli economy, because Israel has been fortunate in having at its disposal large annual sums of unilateral transfers, which added to its national income have given it total resources for allocation among alternative uses, including defense, larger than its product alone. Line 2 shows that measuring the defense burden in terms of expenditures as percent of GNP plus net unilateral transfers reduces the estimates somewhat; but they remain extremely high.

Since the yom Kippu War, Israel has been the recipient of generous U.S. military and and additional economic aid.[11] The U.S. military aid shifts part of the burden of defense from the Israeli to the United States taxpayer. Line 5 therefore deducts this aid from the total defense expenditures; as a percent of GNP, the budgeted expenditures are close to 12, a level still twice as high as that of the United States. Even if one adopts the position that all U.S. aid is intended to reduce Israel's defense burden, and would not otherwise be given - surely an indefensible expenditures, the ratio to GNP (line 6) is close to 10% Using GNP plus non-U.S. unilateral transfers in the denominator (line 7) does not lead to a low burden: the budgeted defense burden, at 9.5% is still high compared to the industrial countries; adding the arbitrary amount for nonbudgeted items gives a ratio extremely high by any international compression.

To What extent will Israel reduce its defense expenditures if there is a peace agreement? Only some ideas on the subject can be suggested. As already mentioned, an end to or substantial reduction in hostile activity in the territories may reduce defense-related expenditures somewhat in the interim period. Whether further reductions in this area are forth coming depends on what is done with the territories : if Israel withdrawn from the territories, it may be able to save all the expenses associated with maintaining order there - but not if Jewish settlements remain there, and Israel retains some responsibility for their defense. Removal of any existing settlements - in fact the realization by settlers in the territories that they may find themselves under foreign control - would involve substantial costs for the relocation of settlers.

11. The military aid is mostly tied to purchases in the United States. Though there have been years when total direct military imports have excluded this aid, the totals of both components are roughly similar.

Immediate costs will be associated with the construction of military installations to replace those those exist in any territory relinquished. The more substantial expenditures relate to building and maintaining a military shield. To what extent this cana be reduced depends on Israel's perception of the dangers to its security that remain after a peace accord is signed. As in any investment decision involving risk, one must take into account both probability and payoff. The most widely held belief in Israel is that there is an asymmetry between victory and defeat in war : hweareas Israel can hope to defeat any single Arab attack, it cannot win decisive, permanent, military victory over the Arab world; but Israel cannot afford to lose even one war, for that could end its existence. After the peace treaty with Egypt, then viewed as 'Israel's potentially most dangerous enemy, the probability of war declined, and also the potential danger to Israel's existence from any foreseeable war. This does much to explain the declining trend in defense expenditures during the 1980 s. However, the Gult war changed perceptions dramatically. The possible devastating effect of use of weapons sof mass destruction, combined with the possibility that their use may come from hostile canaries not immediately adjacent to Israel (e.g. Iraq, Iran, or Libya) have raised the estimated cost of war even wile the probability of its breaking out may have declined. Whereas the signing of a peace agreement with Syria, until recently considered to be Israel's most implacable foe, may reduce tensions substantially, the possible support that dissient Palestinian groups may garner, particular among groups contending for power in the (until now) far-from-united Arab world, will inevitably force Israel to be very cautious for many years after the peace accord are signed. Considering the extremely high and relatively rising costs of defense against weapons of mass destruction, such as early warning systems and antimissible missiles, not to mention replacing the entire network of air-raid shelters, it now appears highly unlikely that Israel will make any further substantial cutbacks in its defense expenditures in the foreseeable future. At best, a peace accord will prevent an escalation in, these expenditures.

But defense expenditures are only halg of the equation for defense burden. What about the financing of these expenditures ? Even assuming that expenditures do not rise relative to national income, one must consider unilateral transfers. It is here assumed that Israel will continue to get the same level of financial support it now receives from the Jewish Diaspora. However, in recent years these amounts have been overshadowed by U.S. aid. Whatever Israel's perceptions concerning the dangers to its security following a peace accord, there is little doubt that the United States will consider these dangers to be substantially reduced. If so, it is likely that U.S. military aid will be drastically curtailed, even if other economic aid is not.[12] If ISrael continues to spend the same relative amounts of GNP on defense while U.S. aid is curtailed, the effective burden of defense will be much higher, not lower, for a least a substantial period of time. [Rough indicators are shown in lines 2 and 4 of Table (A)] only after a relatively long period of time, during which relations with the Arab countries have developed in such a way that Israel will no longer feel threatened by the possibility that the peace will collapse, can on erealistically hope for any significant peace dividend in terms of reduced burden of defense. This pessimistic conclusion regarding the financial peace dividend in no way diminishes optimism regarding the more important peace dividend; the reduced threat of war and its costs, maily in human lives.

Economic Relations with the Territories

The effects on the Israeli economy of relations with the Arab world can vary from negligible to significant depending on the economic policies adopted by the parties to the peace accords. There is a basic difference between relations with the territories and with external Arab states: the latter relate to possible relations between areas until now officially completely isolated, that is, the creation of trade between previously belligerent states, whereas the territories have been part of a nonvoluntary economic union, entirely subject to Israel's desires.

12. Except for special equipment given as a result of the Gulf War, Israel has been getting an amount fixed in nominal dollars; thus, in real purchasing power and even more in terms of GNP, U.S. military aid has been on a declining trend.

A major consequence of Israel's political control has been the settlement of Jews in the territories. Any relocation will involve costs, and even with limited relocation the peace arrangements will probably entail reallocation of land and water resources in the territories. However, the importance of land and water use by Jews in the territories is primarily political; the economic significance is not large. In fact, contrary to a belief frequently voiced, the territories are not an economic asset for Israel of a magnitude to have any significant bearing on Israel's willingness to divest itself of them.

Israel was the major source of imports to the territories, but the share of the territories in Israel's exports was not very large: 11.3% of goods, and only 8% of goods and services sin 1987, and only 5% in 1990.[13] Some of this trade was border trade, that is, trade in goods for which transaction costs (mainly transportation are so high that they do not enter significantly into international trade expect to very close neighbors). However, much of the trade was what is called trade diversion: goods that would have been bought from other countries had not Israeli products been given special protection by triffs of other measures. As mentioned above, as a result of the intifada exports to the territories fell at first, and even after resuming growth reached only 5% of total exports. Capital investments have been negligible, in fact perhaps negative, with the main netting item being pension commitments by Israel of workers from the territories. As far as the territories are converted, a most significant economic factor has been labor employed in Israel. Here, too, the significance for Israel was slight in the overall, only some 7% of total employment in Israel before the intifada, though in particular industries the percentage was much higher, reaching 45.6% in construction, 18.1% in manufacturing, and 15.5% in agriculture in 1987[14] As a result of the intifada, these fell drastically, as discussed above.

What further relations can be expected ? Three alternative are considered;

13. Bank of Israel, 1991.
14. E Kleiman, "Some Basic Problems of the Economic Relationships between Israel, the West Bank and Gaza", in op.cit., Fischer, Rodrik and Tuma (ed.) pp. 310 and 313.

an economic union, normal trade, and compete segregation of the two economics.

For the territories purely economic consideration would dictate enhanced relations. A voluntary economic union (whatever its legal structure) between Israel and the territories that provides for generally unrestricted access to both goods and factors of production would clearly be to is usually the main beneficiary, and given the major role of Israel in the territories employment and income, the closing of Israel is borders completely to workers from the territories would have severe economic consequences; it would take many years of development to provide alternative sources of employment.[15] Of course, a voluntary union would differ from the present arrangement in that provisions would probably be made to provide some selective infant industry protection from competitive Israeli industries, and Israel would have to abolish its present restriction on imports from the territories. As far as Israelis concerned such an arrangement would retain Isreal's preferential status vis a vis other countries. thereby encouraging trade diversion in the sense that a relatively higher share of new trade, generated by growing economies, wiH come from Israel, this factor is not of major importance, though a return to the per-intifada level of exports to the territories is not inconsequential. Israel itself is undergoing a process of trade liberalizations, at least as far as industrial products are concerned, that will be will advanced, if not completed, by the end of the interim period. Consequently Israel will not have significant protection, and in a union with the territories, a highly protective external tariff wall cannot be expected. Only if the territories have a high protective wall exclusive of Israel will the latter enjoy enhanced trade diversion.

A union means that Israel will have to open its borders to capitation from the territories: this would be felt immediately in agricultural products and in some labourintensive industries, which can be expected to expand in the territories. Thus, the

15. The problems of employment of residents of the territories have grown as result of the Gulf War and would be much more extreme if a peace accord would result in substantial reparation of Palestinians now living abroad.

balance of trade with the territories resulting from an economic union will not be great impotence, though the Israeli consumer will certainly benefit from cheaper imports.

Israel will be unlikely to greatly exand its implement of workers from the territories in the near future. recently having been burned by the necessity for quick adjustment; but in the longer run employment of workers from the territories may in increase; given Isreal's relatively large and gowing proportion of highly educated workers, there will be a demand for both unskilled and specialized skilled labor. The geographic proximity to the territories makes possible commenting to work; thus these workers would be much cheaper than migrant workers form other countries who have to be housed. Availability of such a labor force would make the development of Isreal's industry more efficient.

Capitial flow between Israel and the territories have not been large: most of Israel's public investment expenditures there have been covered by taxes, total private investment by Israelis in the territories (exclusive of jewish settlements) has been slight, and there has been some net accumulation of pension rights in Israel by workers form the territories.[16] An economic union would make investments by Israelis in the territories less risky, and surely there will be many cases where it would be more economic to move capital tot he territories rather than have labor commute to Israel; however, the economic benefits of this must outweigh the subsidy element that Israelis now get, and presumably may continue to get, when investing in Israel. A return to larger volumes of employment of workers from the territories in Israel will increase pension deduction. All in all, the net capital flows with a complete union would not be of significant size relative tot he Israeli economy.

Taking all the factors into account, it is reasonable to conclude that though particular Israeli industries would be hurt and therefore strongly lobby against a mutually

16. op. cit., Kleiman.

beneficial economic union, the net economic benefits for Israel of such a union would be positive, though probably not of major magnitude.

Political and emotional considerations are likely to pay a dominant role in determining economic relations with Israel on the part of the territories. Lingering hostility will surely negender pressure to restrict relations to a minimum and strengthen the position of those who will argue that a growing economy must have a high protective will against more-developed neighbors. In the extreme this would mean complete separation of the economies, as existed before 1967. For Israel this would mean loss of the future benefits that could be attained by union, but not very large benefits that could be attained by union, but not very large losses compared to the existing situation. Exports to the territories would stop, but as already stated they have not been large in recent years. THe process of adjustment to decreased labor from the territories, carried out in 1990-91, would be taken to its ultimate conclusion; again the net additional cost to the economy would not be taken to its ultimate conclusion; again, the net additional cost to the economy would not be substantial, even allowing for the costs of transferring accumulated pension rights.

Because the cost to the territories would be so great, this extreme scenario would be least likely. It would be more realistic to expect some arrangement whereby the territories would not give Israel preferential treatment but would accord it the same trade policy as applied to other countries. This would give the territories more freedom to protect what they will consider to be deserving industries, but would not necessarily have to preclude free movement of labor from the terriers to israel. With such an arrangement Israel would lose any advantage it now had regarding trade diversion. As mentioned, these may decline in any event. But israel would still have the advantage of economic proximity, out only in the geographic sense but also in the sense that familiarity cuts costs. These advantages will be partly offset by hostility - engendered private discrimination - but business motivations may be expected to overcome much of this. Thus, Israel's share of the territories imports will be smaller than at present, but any possible fall in Israel's exports cannot be very sustaintial. On the other hand, restrictions are a twoparticipant game: exports from the territories to Israel will fall, even if there need be no fall in factor receipts: therefore the balance of trade would not change to Israel's disadvantage.

Though it is possible that this scenario would not alter employment of workers from the territories in Israel will restrict the flow of capital from Israel to the territories compared tot be union scenario. Even if restrictions on such flows are not placed and in this scenario they probably would be the inducement to investment in the territories by Israelis for products to be shipped to Israel would be the inducement to investment in the territories by Israelis for production to the shipped to Israel would be admonished.

Economics nationalism will also surely limit the extent to which the territories will be willing to forego economic independence for he sake of economic savings obtainable from reliance on Israeli ingranstruture. thus, while a case can be made for the saving in resources that the territories can achieve by using Israeli port facilities, electricity: and communication networks, and the advantage of joint ventures in industries with scale economics, at present it is not reasonable to assurme, give the record of hostility that the territories will accept such reliance on Israel.[17] There will, of course, have to be some cooperation in areas such as use of water resources, but the possible effects of ambitions joint enterprises are not considered here.

Relations with Neighboring Arab counties

Although there may be some indirect trade with Arab countries via the

17. see for details Arad, Hirsch and Tovias; The Economics of Peacemaking, London : Political Research Centre, 1983.

territories, Israel's trade with its neighbors is negligible. EVen Egypt, with which Israel has a peace agreement, has restricted its trade with Israel to virtually only the export of oiland tourist services, the widely predicated trade benefits of peace simply did not materialize. It is reasonable to expect that peace negotiations that will result in the official cancellation of the Arb primary boycott against Israel will create a new situation in this respect. There will still remain the heritage of hostility, which may deter business relationships. but without public sanction against trade with Israel such trade will surely develop, if only gradually.

It is here assumed that the first and most important trade relation that develop will be under a policy that gives Israel the same conditions as are accorded other countries, neither preferential treatment nor official special obstacless. What kind of trade can be expected? Surely there is room for border trade, that is trade in goods wose transportation and other geographically affected costs are so high that in general only trade with close neighbors is economic. many, agricultural goods, particularly pershables, are included in this category, but a careful product by product study would point out many industrial commodities (e.g. cement) for which transportation costs are relatively high and consequently reduce their trade-to-product ratio to much less than the average for industrial products. Thus for items that can be transported countries. these are goods that at present Israel produces only for domestic (and the territories) consumption.

A second category of goods includes trade diversion: Goods that are now bought by its neighbors from other countries but that israeli exports may replace. The main benefit to Israel will come from expanded trade. Table (9) present some data on Israeli industrial exports and on the imports by selected Arb countries. It is clear that the Arb countries import large volumes of goods that belong in the same classes as major Israeli exports. Why should one expect trade diversion to take place ? For some items there may be substantial savings in transportation costs, but for most of these goods the transpiration costs are not of major importance; therefore Israel would have to show some competitive edge to replace imports now coming from other industrial exporters. There are benefits from proximity other than transportation cost savings. The more specialized and sophisticated the products, the more difficult it is to penetrate new markets and to convince potential buyers that one's product matches their requirements (such products form a growing part of Israel's industrial output). Close geographic proximity, and the common cultural backgrounds of neighboring Arabs with Israeli Arabs and Israelis form Arab countries, can facilitate the business contacts necessary to match product specifications to requirements.

Even if israeli exports do not replace existing imports from other countries, being allowed to participate in the trade of such an important market, whose total imports will. Surely expand with growth, cannot but give Israel new export opportunities. This potential for trade expansion is not restricted to categories where production and consumption patterns of prospective partners are complementary in the sense that one country is a new exporter and the other a net importer. Recent studies of trade patterns have emphasized the importance of intra-industry trade, that is, where both countries export and import the same product categories. Thus, even in such cases there may be complementarity within categories, which can be best exploited for mutual benefit by sectorial cooperative arrangements. For example, a study of the Egyptian and Israeli textile industries has shown such mutual benefits. There sectorial cooperation can lead to development of trade between the two countries in inputs for the production of final products that can be profitably exported to third countries.[18] Other studies have shown similar prospects in other manufacturing industries.[19]

Another area of great trade potential is services. Tourism comes first to mind, as it is a widely acclaimed growth industry. However, the growth of world trade in

18. op. cit., see for details, Arad, 1983.
19. H. Ben-Shahar, G. Fishelson, and S. Hirsch, Economic Cooperation and Middle East Peace. London : Weidenfeld and Nicolson, 1989.

computer psoriases and contract construction has been no less dramatic. There is no reason to believe that Israel will not find substantial markets in the neighboring contours for its expertise in these areas, if not excluded for political reasons. Similarly, Israel's experience in water planning may be exploited in a regional context. Israel will surely find it easier to employ productively its newly acquired human capital if the neighboring markets are open to it.

The trade potentials of course are two sided : Israel can export but it must also import. Imports will be noth of the border trade variety and trade diversion and expansion. The Israeli consumer can only benefit from such imports.

How much and how fast such trade potentials with its beighbours cana be realized is a political speculation, but it is not too optimistic to believe that, given a peace accord acceptable to all parties, there can be substantial benefits to Israel from such trade (and of course to the partners as well), much of which is realizable even before the utopian long-term. In this timeframe, it appears that these trade potentials are the main economic benefits that Israel can expect from a peace accord. As mentioned above, Israel will have to rely on export-let growth if it is to continue to prosper.

Long term fallouts of peace:

Regional Peace and Economic Cooperation Projects

An important aspect of peace being the growth of regional cooperation and its economic fallouts, given a scenario of peace. A brief study in that regard has been here to show the economic potential of peace especially from the point of view of Israel.

The desirability of regional economic cooperation is not a new idea. Basic economic facts and observation long ago led to the conclusion that intra and interregional economic cooperation would improve the economic well-being of those participating in the cooperation scheme. The Four basic facts from which the improvement is derived are:

1. Localized absolute scarcity of resources
2. Uneven distribution of resources mainly in terms of relative proportions.
3. Locational differences in tastes and preferences
4. Locational differences in technological know how.

An overview of the world, as well as of each continent and regions within each continent reveals their division into national states each of which os bounded by political borders. These political boundaries tend to become also economic boundaries. This economic function is assigned to them artificially by the political process partly for the sake of the political power of the separate nations. The political borders either generate newly defined markets by splitting up what should have been one natural market or serve as obstacles to the free movements of Goods, Services, and factors of production among natural markets.

If the economic borders are perfectly sealed to all economic factors and goods and in all directions this amounts to self-sufficiency. However, the separation can be selective in terms of goods or factors or the partners with whom to exchange. Decisions regarding criteria for selection of trading partners may be economic but might also be, and are frequently , mainly political.

The issue of how restrictions on economic interactions affect economic welfare is often not considered directly. Rather, It is replaced by other arguments in favour of the restrictions in spite of the unique advantages of economic cooperation. Frequently one can show the economic costs and the economic benefits of removing constraints and establishing cooperation and thus can prove that the net economic gains are positive. Hence, when the results from the economic studies are found to be favourable the conclusive evidence of the benefits of peace has been shown. Thus the obstacles to the start-up of cooperation cannot be explained on logical grounds.

The projects related to peace in the Middle East that have been researched all yielded benefit-cost analyses with positive results. Hence, the general conclusion is to move forward with these topic's to the next stage, a detailed technical economic study that could provide the blueprint for the actual implementation of the projects.

Each of the projects that were analyzed has been shown to contribute to increased welfare in one of the following three ways:

1. Equalization of relative scarcity
2. Economies of scale
3. Economies of scope

The first category of the topic's involves sharing of relatively abundant natural resources (water, oil, gas, hydro power) and acquired experience and skill (agricultural technology, industrial experience).

The second category of topic's has to do with the utilization of economies of scale in various production processes. The economies of scale would come about by generating a larger market for the product (cement, fertilizers). The economies of scale can also come about via increase in reliability (linking the electric system of the various countries).

The third aspect would be reached by offering a larger and more attractive basket of services to potential customers, e.g. tourism. The attractive natural resources to be used are already in the area; they just have to be packaged together in a way that would increased demand.

The projects that were investigated take a long-range view. They conform to national priorities without upsetting the internal social and economic balance. The projects that have already gone through the stage of initial investigation include:

a) water
b) agriculture
c) Energy
d) Transportation
e) Fertilizers
f) cement
g) Textiles
h) Tourism
i) Trade

The first four projects are infrastructure projects. They would lay the grounds for private cooperation. Each one of these projects is briefly outlined and its interesting characteristics described below.

Water

Water merits a separate investigation because it is the life blood of economic activity in the arid/semiarid climate that characterizes the middle east. The study's main conclusion is the economic and physical feasibility of supplying water to where it is critically needed, the west Bank and Gaza Strip, from external sources such as the Nile, the Litany and the Yarmouk rivers. It is shown in some of the reports that the most economic way to supply this water requires the cooperation of Israel via a multi-party exchange of water.[20] The investment cost of these projects is only about half the that of projects that would be possible if there was only partial of limited cooperation. The orders of magnitude are 350 and 640 million dollars respectively.

Agriculture

Agricultural cooperation has been studied in depth only for cooperation between Egypt and Israel. Studies for cooperation among other pairs of economies (West Bank-Israel, Jordan-Israel) are still in process. The Egyptian-Israeli agricultural cooperation study is based on the high degree of complementarity between the two sectors (apparent in differences in their agricultural outputs) The complementarity is due to the different natural conditions and constraints (climate, soil, water resources), differences in labour costs, availability of capital and extent of acquired knowledge, technology and experience of the two countries. Neither country is self-sufficient. It is important to mention that the agricultural cooperation has already started and that the main and perhaps almost exclusive beneficiary is and will be the Egyptian agricultural sector. In addition to the exchange of managerial experience and technological knowledge which can be shared as a long list of imports and exports of farm products has been constructed, raw or processed, that can be traded by the two countries. All agricultural inputs traded, other than nitrogenous fertilizers, will be exported from Israel to Egypt. The main effect of these inputs will be to increase total output and the productivity of the traditional agricultural inputs in Egypt (land, labour and water). The agricultural cooperation report also recommends ventures in the agro-industries.

Energy

The energy cooperation project is regional in its scope. There is potential for both general and specific cooperative projects.

20. op. cit., see in Fishelson, Elisha Kally : "Potential for Water Projects in the Middle East Peace", pp. 303-326.

General cooperation would consist of integration of the power transmission grids of Egypt, Israel, Jordan and Lebanon. This integration would allow for taking advantage of the differences in peak demand periods and would increase the reliability of each of the domestic energy sectors without increasing their capacity. Specific diverse projects which could be carried out include:

(a) Purchases of surplus Egyptian natural gas by Israel. The gas is currently flared (wasted). It can be transferred via a pipeline for sale to Israel. This would entail lower investment costs rather than other potential gas export projects, bringing Egypt a higher profit from its natural gas. The most expensive of such a project is only about half the cost of gas liquefaction for exporting to Europe, the next best alternative use.

(b) Generating hydroelectric power from the Litany river in Lebanon. Today this potential energy source is not being used.

(c) A joint Israel-Jordan sea canal linking the Red Sea and the Dead Sea. This project would yield water resources, ... generating hydroelectric power and reduce water pollution to the Gulf of Aquba. A cost-benefit study yielded very promising results.

(d) An oil conveyance system from the Persian Gulf to the Mediterranean that would utilize most of an already existing pipeline — the Tapline. Considerable saving in investment and operation costs would be the major benefit.

Transportation

An adequate transportation infrastructure is a necessary precondition for any type of interregional cooperation, whether in trade, tourism, or economic and technological ventures. The re-establishment of the broken and inactive Middle Eastern transportation network would facilitate not only bilateral relations with Israel but also among the Arab countries. Transportation goals considered include a road that links Egypt with Jordan and continues from there North to Syria, and the construction of a deep water port at Gaza that would also serve Jordan and Iraq. Roads are essential for communication and trade as well as for cooperative ventures such as tourism. However, the study made in this research emphasize the advantages of rail transportation.[21] The cost advantages are obvious, perhaps 4 cents per ton/km vs. 12 cents per ton/km for 30 ton capacity trucks.

The Gaza port with the help of the road and rail links could service Jordan, Iraq, and possibly the Gulf states, as well as the West Bank and the Gaza Strip. Economic growth expected in the area, especially if there is peace, combined with the limited capacities and expansion possibilities of the Israeli Mediterranean ports and the need for another part in the south make the Gaza port very reasonable. The initial results of a cost benefit analysis of such a port is very promising with respect to Jordan and also Iraq.

Fertilizers

The fertilizer Industry is another potential Egyptian-Israeli cooperative venture which is derived from the complementarity of available resources. Israel lacks an adequate source of nitrogen to produce composite fertilizer products - NPK, since production of nitrogen compounds is energy intensive. At the same time, Egypt needs potash in order to create the NPK compound fertilizers. Furthermore, integrated projects in the fertilizer industry could benefit from economies of scale which would then provide the base for competitiveness in the international fertilizer market. Israel is already experienced in marketing fertilizer and has the network for their distribution. This marketing experience can be utilized efficiently to the advantages of both countries.

Cement

The establishment of a cement plant south of El-Arish in the Sinain about fifty km., from the Israeli border would enable the export of surplus cement from Egypt to

21. op. cit., Fishelson : Key Findings of the Middle East Economic Cooperation Projects, pp. 355.

Israel. The advantages are: availability of local raw materials including energy, and the potential to take advantage of economies of scale. Israel does not currently need this cement but if the construction industry reaches the activity level it achieved in the mid-70s then the available capacity of the cement plants in Israel will be insufficient. On economic grounds, given the economies of scale in cement production the best alternative source of cement supply to Israel is from Egypt.

Tourism

Possibility for cooperation in the tourist industry in the Middle East are investigated in a forthcoming report. Nonpeace is the main reason why the Middle East lags behind the growth in world tourism; tourism is very sensitive to tensions and military incidents. The lack of peace also hinders multinational visits to the region which are a crucial prerequisite for further development of the tourist industry. If the infrastructure was good and border crossing was easy, tourists could visit Beirut, Jerusalem, Petra and Cairo, and neighbouring attractions within a 14-day tour.

Peace is expected to increase multinational tourism. However, and increase in multinational tourism is expected to have two contradictory effects: 1) More tourists, 2) a shorter length of stay in each country. Fortunately, it is expected that the former would overwhelm the later. Israel might also face price competition from neighbouring tourist industries.

It is argued that with peace and if recommendations for the basic needs of Wester tourists are fulfilled, the number of tourists visiting the Middle East would more than double within a ten-year period.

Textiles and Clothing

A recent study,[22] shows that since the Textiles and clothing industries of Egypt and Israel exhibit a wide range of complementarity, cooperation between them would improve the competitive position of both countries *vis-a-vis* third countries. The study further demonstrates that cooperation cannot be achieved instantaneously. It will require modifications in the existing institutional framework and trade agreements.

The benefits to be gained form cooperation in Textiles stem from economies of scale and from the exchange of cotton yarn and fabrics (Egypt) for synthetics (Israel). Cooperation in clothing would utilize the Egyptian labour force for the labour intensive operations such as sewing and Israel's access to the EEC and the US markets. Egypt would also benefit from the Israeli knowledge of design, finishing dyeing and printing.

One Israeli company, Delta Ltd., already (1981) signed an agreement with an Egyptian company to establish in Egypt a plant that would employ 700 workers and produce annually a value of 24 million dollars. The project came to an end because of the Lebanon War in 1982.[23] The potential profitability of this project for Delta and the Hundreds of Jobs it would have supplied in Egypt show the potential of this type of cooperation.

Bilateral Trade — Israel with Egypt, Jordan and Lebanon

Foreign trade is relatively Large compared with the GNP in all four countries. All four countries also experience a trade deficit. In all four countries the major import items are industrial supplies and (except for Egypt) oil. Current major trading partners are European for imports and primarily European for exports (with Asia also representing a significant export market for Jordan and Lebanon).

22. This is an update of a paper by Alfred Tovias, see ibid., G. Fishelson pp.360.
23. ibid., pp. 361.

Employing trade diversion and trade creation principle and recognizing the inherent advantage of border trade (almost no transfer costs). It is estimated that the potential volume of trade between Israel and her neighbours (adjusted for existing border trade and trade resistance). The trade diversion which could result from peace for each of the four countries is presented in Table 5. One should not dismiss the importance of new intraregional trade because its shares of total exports and total imports would not be large. The mere establishment of trade on the order of 1 billion dollars excluding oil is an important stem when starting from a situation of (over) trade.

Conclusions

Each of the detailed studies indicates the advantages of cooperation both to Israel and to each participating neighbour. One cannot at this stage determine who benefits more. This will also vary among projects. One thing is sure— the net benefit is positive. Even in the project form which Israel has the least to gain, Textiles and clothing, a well-designed cooperative endeavour would be beneficial to the Israeli economy, although major adjustments would have to be made and the domestic clothing industry might suffer from Egyptian competition in certain products. The key results presented are based on very rough calculations. They are designed to be indicative.

CHAPTER V

CONCLUSION

The global environment emerging out of the end of the cold war, with its ramifications on the regional environment in The West Asia laid the basis of a comprehensive peace in the region. Gulf war was first such indicator which had its own spill over effects, encouraging further the Arabs to the negotiation table with the Israeli's on the other side.

It has been observed that the Israeli's two often present "peace" as if it were a unilateral gesture, a generous act uinilateral gesture, a generous act with supposedly "painful concessions" on their part for which the Arabs generally and the Palestinians particularly should be both appreciative and grateful. The truth is that peace is not a favour to be bestowed on one party or another but something that should correspond to the needs and interests of both sides. From an Israel point of view, there has never been a better or more oppurtune moment to acheive most of what Israel has sought since 1948.

Moreover its has never been so imperative as is today that Israel settle for peace. The international forces have generated such conditions that Israel to discard the occupied territories, re-organize its economy structueruly, gear it's resources internally and project them too internally rather than externally. The entire strength of the nation shall be needed to absorb the one million strong aliyas from Russia. Further this is the most opprchunate time for Israel to re-align and recognize itself globally both politically and economically.

It has been amply illustrated the economic conditions of the occupied territories have been reduced to shambles.

Israel is well aware of this, as it has been a creation of their own so Israeli basically want now to discard the territories. And this is not only due to the fact that liberation of Palestine is the corner stone of kind of peace that may be achieved. Israel wants to unload the burden of economic depraving and development of the territories on the world community on the whole, and Arabs specifically. Israel is not willing to take responsibility of the situation of its own creation. After having drained the economic of the, GS/WB it now wants to given them up and acheive peace at the same time. Peace in this case comes loaded with further economic incentives and potential.

The West Asian peace process, although it has not yet at the time of writing, produced final agreement between the Israel's and Palestinians or neighbouring Arab states has bad a major influence on the Israeli economy, both by opening very large new export markets for Israel in Asia and the State of the former Soviet bloc, and by reducing international perceptions of Israel as a high risk business partner.

The peace process play's a major role in the current development of the Israeli economy, principally because of its influence on Israel's exports markets, and on the willingness of major international companies to do business with Israel. The opening of diplomatic and official economic relations with China and India, as well as the nations of former Soviet bloc, and the development of more guarded economic relations with countries such as Indonesia, Malaysia and Morocco, has within a very short time added more than 2.5 billion people to Israel's international market place,and although in most of these countries the market will take several years to develop to anything resembling its full potential.

There is no likelihood that large scale economic cooperation will develop between Israel and its neighbouring Arab states until formal peace agreements are concluded , but there are some clear indications that Egypt is now ready to step up its economic relations while Jordan has already started high level economic negotiations with Israel that have already yielded an intial trade agreement and some states at the periphery of the Arab world, such as Morocco, Oman and Qatar, have shown some intrest in economic cooperation even before formal agreements are reached, especially in technical fields such as water resources and health care.[1] peace process has also had a major effect on Israel's international credit rating and its economic status

This peace process in West Asia, although it has not yet at the time of writing, produced final agreements between the Israeli's and Palestinians or neighbouring Arab states, has had a major influence on the Israeli economy, both by opening very large new export peace agreements are concluded, but there are some clear indications that Egypt is now ready to step up its economic relations, While Jordan has already started high-level economic negotiations with Israel that have already yielded an initial trade agreements, and some states at the periphery of the Arab world, such as Miorocc, Oman and Data4r, have shown some interest in economic cooperation even before formal agreements are reached, especially on technical fields such as water recovers and health care.[1] The peace process has also had a major effect on Israel's international credit rating and its economic status vis-a-vis major industrial and financial at groups in the USA and Europe: several multinationals that had previously avoided doing business in Israel have opened offices there, or have moved regional headquarters to Israel from Arab capitals; major banks and investment houses have opened Israel country funds or made other investments in Israeli companies, and Israeli companies no longer have difficulties in raising funds in international money market.[2]

The major wave of immigration showed to a trickle in 1993-94 and its short term, economic,oc effects. especially a major short term rise in unemployment but also a rapid increase in demand for moving and consumer goods, have mainly work off. Partly because their balance of professions and skills made them highly suitable for employment in Israel's high-technology industry, most of the immigrants have found work although not

1. Israel Economic Review : Consolidation of Economic Growth, Tel Aviv : Israel Export Institute, 1993-94, pp. 3.
2. ibid., see for details, pp. 4-5.

necessarily in their original progssione, and enough new housing was built to meet the increased demand, at least on aggregate.

Although the peace process has created a great deal of optimism about the future of the Israeli economy, it is still largely unclear how the current process, and eventual peace treaties with the neighbouring Arab States, will infact affect Israel, and particularly what sort of economic relations will develop between Israel and these states and with the palestinian and autonomy.

Nevertheless several parts of the picture are already relatively clear, while some other scenarios and conclusions seem reasonable. One is that the expectations or hopes that the Arab world will rapidly become a major new export market for Israel are likely to be disappointed, both for economic and for political reasons. Most of the Arab world is relatively poor, with a total population of some 200 million producing an aggregate GDP of about $500 billion, of $2500 per capita.[3] At this level of income, a few Arab states are likely to be natural markets for the majority of Israeli products, which are mainly high tech products aimed at relatively affluent markets while the markets in the wealthiest' Arab states, in the Gulf, are already highly competitive. At the same time, it is unlikely that most of these Arab states will take the political decisions to open this markets to Israeli products and companies, both because the eventual signing of peace agreements is likely to be followed by a period of 'cold peace' than 'warm peace' (as happened with Egypt), and because there is some fear in the Arab world of Israeli economic colonialism. In terms of bilateral economic relations with Israel, while some countries, such as Morocco, Tunisia, Jordan , and the Gulf states of Kuwait, Oman, Dubai and Qatar, which have already shown clear signs of interest in cooperation with Israel, will develop active and more or less open relations, the existing relations with Egypt are also likely to warm up.

3. ibid., pp. 20.

One element of cooperation that is already apparent is in tourism : the official cessation of hostilities between Jordan and Israel and the opening of the land border have made it possible to develop twin centre holidays, and most recently, Israeli, Jordanian and Palestinian companies have signed agreements for joint investments in hotels and tourism and infrastructure. The exiting discrete trade with the Arab world- conservative estimate of Israeli exports to Arab states are $ 400 million per annum[4] is also likely to increase with use most prominent export branches including agricultural inputs chemicals, food processing, medical technologies and civilian communications equipment.

However, the main potential for Arab-Israel economic cooperation appear to be in joint infrastructure projects. Jordan and Israel are discussing joint agricultural projects, while other major projects under consideration include the building of a petrochemical complex in Egypt with the building of a natural gas pipeline from Qatar to Israel, both to meet Israel's domestic needs and to permit LNG exports directly to the mediterranean, joint Israeli Jordanian development of existing water resources and of sea water distillation in the Jordanian valley, and the linking of their national electricity grids between Eilat and Aqaba ,the building of new road infrastructure both to link Israel with its neighbours and to link Egypt and Jordan via a lend bridge North of Eilat, and the possible building of a new cargo port to serve both Eilat and Aqaba some miles north of the coast and linked to the sea by canal.

Economic relations with the Palestinian autonomy are still unclear. The terms of the autonomy agreement provide for an almost completely open economic zone between Isreal and the autonomy with shared arrangements for customs and taxation, and most Palestinian economists recognise that their economy will continue to be largely dependent on Israel both for trade and employment. However, there appears to be a strong

4. ibid., pp. 20.

pressure among the Palestinian political leadership to tone down the economic relationship, even if this causes some economic damage, for the sake of stressing political independence from Israel.

The peace process will also have major implications for direct foreign investment and operations of multinationals in Israel. Since the begining of the peace talks, many major internatinal companies that had previously avoided doing business in Israel, whether because of fear of the Arab economic boycott or because of the perceived political and military risks, have opened operations in Israel, have moved regional centres from locations in Arab capitals to Israel, or have at least started exploring such operations. The indications are that this trend will continue, with major corporations wishing to take advantage of Israel's R & D capabilities, high- tech manufacturing base, and infrastructure marketing and trading within the region as a whole.

It is however difficult, if not impossible to talk about the economic consequences of the recent peace initiative without embedding them within the newly emerging geo- politics of the post-cold war West Asian region. The existence of several local regimes is threatened by peace with Israel, the consequent lifting of the Arab embargo and the introduction of more market oriented economic strategies. Despite the optimistic scenarios for regional economic integration that were alluded to above, there is so far little evidence or hope that the peace process will for the foreseeable future extend beyond the inner circle of Israel, Palestine and Jordan. The notion that creating a regional economic system will lead to a permanent peace makes some underlying assumptions about the dynamics of the region that are clearly not (yet) present.

Arab economies are not ready for the kind of economic and political changes that are involved in the establishment of a West Asian common market. During the cold war, local oil and non- oil regimes relied on highly inefficient state run sectors . By the end of the cold war many of these economies were in shambles and privatization-liberalization efforts had either been postponed or abandoned. Authoritarian regime do net like the kind of market oriented strategies that are implied in the peace agreements. Free markets give power to individual and groups that are not always aligned with regime, challenge privileged classes and minorities that are crucial to the survival of individual regimes, and necessarily rely on economic information that regimes like to centralize or keep hidden. Centralized economies provided local governments with relatively crude, but nevertheless, great control over their societies and allowed them systematically to repress independent courses of power within the state.

In virtually all Arab countries, economics have been used as strategic assets to control groups and to perpetuate patron client relationship - that detract from economic efficiency. In West Asia, as in other regions throughout the world, tinkering with the economic role of the state means in effect changing the balance between the state and society as well. The end of the cold war many make the rationale for these highly authoritarian and centralized economies seem less plausible to outsiders and even to an emboldened internal opposition. But as several countries have demonstrated old elites are unlikely to show much respect for these concerns when the alternative is a process that will inevitably effect their entrenched positions.

It is, therefore, important to reiterate that no Arab government so far, with the exception of Jordan and Egypt, has endorsed closer economic ties with Israel. The growing bifurcation between rich and poor in the Arab world and the scant attention paid to economic difficulties, do not make closer economic cooperation likely in the future, particularly if that cooperation focusses on Israel.

There are two key parameters, however, of any analysis of the possible impact of peace on the economics of West Asia. First to have a lasting economic impact the resolution of the conflict must entail a real, durable, and comprehensive peace. This is by no means an easy task. It is assumed herein that the peace would be real in the sense that all parties would make the decision not to resort to arms in settlement of their disputes. It would be durable in the sense that an effective security arrangement, acceptable to all parties concerned, would make it very difficult for any single one of them, or a combination of them, to break the peace compact. Finally, it is assumed that peace would be comprehensive in that it settles all outstanding problems in a manner that addresses the legitimate aspirations of all the parties to the conflict - notably the Palestinian people as well as border issues between Israel on the one hand and Lebanon, Jordan and Syria on the other.

The second key parameter relates to the stance of economic financial, and structural reform policies a necessary but not sufficient condition for full exploitation of the region's development potential. Past repeated attempts at achieving continued economic growth have also been frustrated by inappropriate policies in industrial countries, as well as by adverse exogenous shocks (e.g. sharp fluctuations in oil prices, other adverse terms of trade developments, protection in industrial countries, etc.). Accordingly, for the potential economic benefits of peace to be fully realized the resolution of the conflict would need to be supported by the sustained implementation of policies aimed at eliminating domestic financial imbalances, improving the pricing structure of the economies,and enhancing their supply responsiveness through fundamental structural reforms in the areas of, inter- alia, trade liberalization, and deregulation of domestic economic activities. At the same times the incentive for policy reforms may increase with the advent of peace, reflecting the scope for a shift in policy emphasis away from resolving a long standing source of regional instability.

The dynamics of the economic process coupled with political development has appropriately been the factors to have ushered the peace process in West Asia.The chain reaction of politico- economic events starting from the breakdown of the Soviet union has given a different character to the region and the regional conflicts. This was amply reflected in the Gulf War in 1990. The Arab states have since being altering their ideological and hence these political their political priorities . Israel as is largely considered now to no longer be of such a strategic importance to US. To the extent that global change leaves the United States in a dominant position in world affairs, understanding American foreign policy becomes critical. As one of the outcomes of global change has been, that Soviet containment in the region is no longer a priority. Securing the flow of oil to the west because the primary issue of US policy.

In face of such a dilution of patron client relationship in West Asia Israel also has to realign its priorities. Further, in the face of the long due economic restructuring and reform Israel is facing a new challenge especially in the face of the new wave of immigrants. Thus our hypothesis stands justified that Israel needs to(a compulsion amply recognized by Israel) give up the occupied territories which have become and unsustainable burden on the Israeli economy, and shall further prove to be so if the onus of development of the territories is taken up by Israel. there is also no doubt about the face that a peaceful scenario in West Asia is an opportunity, full with economic potential, especially for Israel.

Thus, peace in West Asia will be secured only when it takes root in every day lives of the region. That will happen if the peace brings open economic relations and economic development to the people and countries of the region as it had in Western Europe after the World War II.

Table-1

Annual Real Rates of Growth in Defence

Expenditure, 1954-1984(percentages)

	1955-75	1973-79	1980-84
Egypt	10.2	0.3	-1.1
Syria	14.1	18.2	4.5
Jordan	4.9	11.1	6.5 6
All three state	10.3	6.8	2.3
Israel	15.6	7.5	-1.3

a- calculated from defence expenditures in government US dollars deflated by that inflationary rate in the United States.

b- The rate of growth is probably overvalued in to the base year in 1979 has not been adjusted by an estimate for the urecovereded military imports.

Source:Eliejer Sheffer : The Economic Burden of the Terms Race in the Middle East op. cit., pp.22.

Table-2

Defense Expenditures as a Percentage of GNP

1954 to 1984

	1954	1963	1972	1979	1984
Egypt	6.1	10.0	18.1	11.5	10.2
Syria	4.2	9.6	15.8	24.7	27.6
Jordan	20.0	15.8	16.4	14.8	16.2
All three states	6.4	10.3	17.4	15.7	16.0
Israel	6.3	10.8	20.8	25.0	23.9

Sources: E. Sheffer, op. cit., pp. 27.

Table 3.

Total Military expenditure in 1984

	Precent of GDP	Percent of GNP	Percent of Total resources	Percent of Public consumption
Egypt	11.5	10.2	9.1	57
syria	28.9	27.6	21.9	84
Jordan	18.3	16.2 a	12.8 a	77
Israel	22.8	23.9	19.6	66

a-A higher estimate of net factor income from abroad, composed largely of worker's remittances from abroad, reduces the defence/GNP ratio to 14.9 percent and the defence/total resources to 11.9 percent.

Source: E., Sheffer, op. cit., pp. 19.

Table 4

1985 WB/GS and Israeli Sectional and Ethnic Employment Analysis (1)

	Agricultural Number	%	Industry(3) Number	ypt %	Construction Number	%	Services(4) Number	%	Total Number	%
WB/GS										
1. WB/GS Residents Employed in WB/GS	37.9	24.4	24.6	16.1	13.9	11.1	73.9	48.4	152.7	100
2. WB/GS Residents Employed in Israel	13.9	15.6	15.9	17.8	42.4	47.0	17.7	19.1	89.2	100
3. Total WB/GS Employment	51.1	21.1	40.5	16.8	59.3	24.5	90.0	37.6	241.8	100
4. % of WB/GS Labor Employed in Israel (2/3)	-	27.2	-	39.3	-	71.5	-	18.7	-	36.9
5. % of Israel's Labor from WB/GS (2/10)	-	15.1	-	4.7	-	37.0	-	1.9	-	6.1
Israel (2)										
6. Jewish Labor in Israel	62.5	5.1	293.0	24.2	43.2	3.6	814.9	67.1	1213.6	100
7. Israeli-Arab Labor in israel	15.6	10.1	31.3	20.2	29.1	18.8	78.7	50.9	154.7	100
8. Total Israeli Labor in Israel (6/7)	78.1	5.7	324.3	23.7	72.3	5.3	793.6	65.3	1368.3	100
9. Arab Labor in Israel (2/7)	49.5	12.1	47.2	19.4	71.5	29.3	95.7	39.2	243.9	100
10.Total Employment in Israel (6/9)	92.0	6.3	340.2	23.3	114.7	7.9	910.6	62.5	1457.5	100
11.Arab Labor in Israel as % of Labor in Israel (9/10)	-	29.5	-	13.9	-	62.3	-	10.5	-	16.7

(1) Source : Central Bureau of Statistics, Jerusalem.
(2) Jewish Labor in WB/GS is only included in data on Israel
(3) Industry includes manufacturing, handicrafts, electricity, and mining
(4) Services include all categories not covered elsewhere - both public and private

Table 5.

1985 GDP, Employment, and Productivity in Israel and WB/Gs*

	Israel		WB/GS	WB/GS as T of israel	
	$ million	%	%		
Gross Domestic Product	22,000	100	1,050	100	5
Agriculture	1,320	6	189	10	14
Min., Manuf. & Elec.	5,500	26	95	9	2
Construction	1,760	8	178	17	10
Service	13,420	61	588	56	4
	thousand	%	thousand	%	%
Employed	1,368	100	153	100	11
Agriculture	82	6	37	24	45
Min., Nanuf. & Elec.	315	23	25	16	8
Construction	96	7	17	11	18
Service	785	64	74	49	8
	$	%	$	%	%
GDP/Employed (Pry)	16,181	100	6,863	100	43
Agriculture	16,098	100	5,108	75	32
Min., Manuf. & Elec.	17,460	109	3,800	56	22
Construction	18,333	95	7,946	115	52

* Source; Adpated from Central Bureau of Statistics, Jerusalem.

Table 6.

1985 Foreign Trade in Goods: The West and Gaza STrip* (million US $)

	WB	GS	WB+GS	%of Israel's** Trade
Imports : Grand Total	392.4	297.9	672.3	8.1
Agricultural	60.8	41.2	102.0	11.7
Industrial	331.6	238.7	570.3	7.7
From Israel : Total	345.4	257.0	601.9	9.6
Agricultural	54.0	33.7	87.7	18.7
Industrial	291.4	223.3	514.7	8.9
From Jordan : Total	8.7	-	8.7	-
Agricultural	0.3	-	0.3	-
Industrial	8.4	-	8.4	-
From other Countires:Total	38.3	22.9	61.2	-
Agricultural	6.5	7.9	14.0	-
Industrial	31.8	15.4	47.2	-
Export : Grand Total	166.4	102.5	268.9	4.3
Agricultural	47.4	30.9	78.3	16.7
Industrial	119.0	71.6	190.6	3.3
To Israel Total	96.1	81.7	177.8	2.1
Agricultural	14.9	10.1	25.0	2.9
Industrial	81.2	71.6	152.8	2.0
To Jordan Total	89.3	16.1	85.4	-
Agricultural	32.5	16.1	48.6	-
Industrial	36.8	-	36.8	-
To other countries Total	1.0	4.7	5.7	-
Agricultural	-	4.7	4.7	-
Industrial	1.0	-	1.0	-

*Source : Central Bureau of Statistics, Jerusalem.
** For Import or Export total - straight comparison of the Israeli date; For Imports from Israel % refers to total Israel Exports and for Exports % refers to total Israel Imports.

Table 7.

BALANCE OF PAYMENTS * : 1949-1991
(In millions of US dollars)

YEAR	IMPORTS	EXPORTS	DEFICIT
1949	263	43	220
1955	443	139	304
1960	694	352	342
1965	1,269	749	520
1970	2,657	1,374	1,283
1975	8,038	4,022	4,016
1980	13,832	10,099	3,733
1986	15,999	12,095	3,904
1991	25,751	18,738	7,013

* Including trade in goods and services.

Sources: Facts About Israel : Economy,. Israel Information Centre, Jerusalem, 1992, pp.4.

Table 8.

External Debt :1949-1990

(in million of US dollars)

YEAR	TOTAL EXTERNAL DEBT
1949	-
1955	449
1960	791
1965	1,540
1970	2,851
1975	7,902
1980	15,941
1987	25,339
1991	23,690

source: ibid. pp.5.

Table 9.
Trade in industrial commodities

	Israeli Exports		Imports by Arab Countries						
	$ mill.	% of Industrial Exports 1985-88	Egypt 1985-88	Jordan 1985-88	Syria 1984-87	Saudi Arabia 1984-87	Kuwait 1981-84	United Arab Emirates 1972-82	Total
Organic Chemicals	297	5.7	232	14	17	85	99	68	514
Inorganic chemicals	203	3.9	148	36	30	96	-	-	309
Fertilizer	183	3.5	72	12	16	90	-	-	190
Plastic materials, etc.	137	2.6	458	57	75	280	28	69	966
Chemical materials n.e.s	239	4.6	343	37	47	244	30	80	781
Textile yarn,fabrics,etc	181	3.5	226	84	132	1361	170	457	2629
Tools	79	2.5	50	7	15	-	-	33	105
Base metal mfrs n.e.s	474	9.1	158	18	19	194	-	33	421
Power-generating equipment	91	1.8	231	311	78	551	811	1455	3436
Machines for special Ind.	95	1.8	932	72	153	575	1038	841	3609
Metalworking Machinery	44	0.8	67	-	10	-	-	690	767
General industrial Machinery n.e.s	227	4.4	813	78	160	1779	-	-	2829
Office equipment	165	3.2	103	11	0	275	-	-	389
Telecom & Sound Equipment	353	6.8	369	51	27	695	-	210	1351
Electric machinery	353	6.4	709	63	88	1487	-	117	1463
Clothing & accessories	305	5.9	-	52	-	832	325	227	1435
Precision instruments	151	2.9	169	40	-	330	191	0	729
Precious jewellry*	172	3.3	-	36	-	327	-	37	401
Total	3728	71.8	5078	977	864	9198	2890	4316	28321

*Excluding diamonds.
Source: U.N. International Trade Statistics Yearbook 1988, vols. 1 and 2.

APPENDIX

Israel's Foreign Trade Statistics :

1: Exports by Economic Branch, 1980 - 1993

Export Branch	**1980**	**1985**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1993/1992 change**
Metals, machinery & Eelctronics	1251	1928	2834	3229	3492	3504	4064	5042	24.1%
Chemicals	723	835	1115	1268	1450	1454	1545	1888	22.2%
Rubber & Plastics	128	146	275	312	369	380	451	484	7.3%
Wood, Paper & Printing	66	55	94	95	114	118	130	126	- 3.1%
Textiles, Clothes & Leather	473	379	641	635	787	850	963	930	- 3.4%
Food Products	298	383	527	567	657	538	558	551	- 1.3%
Mining & Quarrying	175	256	275	311	291	300	304	296	- 2.6%
Miscellaneous Industrial	227	334	535	617	821	946	844	862	2.1%
Total Industrial excluding diamonds	3340	4315	6295	7034	7849	7846	8861	10179	14.9%
Diamonds	1615	1433	2837	3079	3236	3074	3214	3645	13.4%
Total Industrial Export	1956	5748	9132	10114	11085	10920	12075	13824	14.5%
Citrus fruits	231	173	176	132	180	150	115	121	5.2%
Other fruit & vegetables	106	107	115	118	177	183	162	172	6.2%
Other agricultural products	219	189	275	277	299	310	275	254	- 7.6%
Total Agricultural Export	556	469	567	527	656	643	552	547	- 0.9%
Grand Total	**5538**	**6260**	**9752**	**11072**	**12080**	**11891**	**13132**	**14825**	**12.9%**

Source : *Israel Export Institure*, Tel Aviv : 'Economic Review August 1994'. pp. 23.

2: Imports by Economic Use, 1980 -1993

Economic Use	1980	1985	1988	1989	1990	1990	1992	1993	1993/1992 change
Crude Oil	2116	1510	1061	1247	1535	1474	1713	1742	1.7%
Uncut Diamonds	1193	1286	2812	2994	3059	2702	3078	3542	15.1%
All Other production inputs	3162	3483	5675	6058	6942	7836	8505	9107	7.1%
Total Production Inputs	6471	6279	9548	10299	11537	12019	13297	14390	8.2%
Investment Goods	969	1414	1929	1585	2194	2996	3180	3577	12.5%
Food	252	236	365	366	399	485	505	535	5.9%
Other non - durable consumer goods	104	154	339	355	418	433	566	714	26.1%
Vehicles	58	109	424	254	329	454	689	664	- 3.6%
Other durable consumer goods	130	122	339	326	440	503	561	618	10.2%
Total Consumption Imports	544	621	1467	1312	1585	1876	2320	2532	9.1%
Grand Total	**7995**	**8320**	**12950**	**13198**	**15326**	**16909**	**18814**	**20518**	**9.1%**

Source : *Israel Export Institure*, Tel Aviv : 'Economic Review August 1994'. pp. 23.

3 : Export by Destination, 1980 -1993

Area or Country	1980	1985	1988	1989	1990	1991	1992	1993	1993/1992 change
European Economic Community	2,282	1,978	3,224	3,537	4,258	4,253	4,536	4,397	- 3.1%
EFTA	455	427	399	455	502	456	407	439	7.8%
Other European Countries	154	102	115	193	239	277	377	679	80.2%
Total Europe	2,892	2,327	3,737	4,185	4,999	4,986	5,319	5,514	3.7%
Asia	611	535	1,466	1,779	1,949	1,753	2,049	2,511	22.5%
of which : Japan				758	874	722	689	769	11.6%
Hong Kong				521	536	549	666	723	8.4%
India						80	128	228	79.1%
China						23	54	55	0.6%
Africa	191	107	164	226	167	186	229	264	15.6%
North America	1,014	2,213	3,097	3,432	3,607	3,725	4,131	4,761	15.3%
of which : United States				3,313	3,488	3,602	4,008	4,622	15.3%
Central America	15	22	30	49	18	30	40	42	4.5%
South America	147	120	200	188	281	233	242	319	31.9%
Oceania	50	63	119	134	114	121	143	159	10.8%
Unclassified	618	872	939	1,080	946	858	980	1,256	28.1%
Grand Total	**5,538**	**6,260**	**9,752**	**11,072**	**12,080**	**11,891**	**13,132**	**14,826**	**12.9%**

Source : *Israel Export Institure*, Tel Aviv : 'Economic Review August 1994'. pp. 22.

4 : Import by Area of Origin

Area or Country	1980	1985	1988	1989	1990	1991	1992	1993	1993/1992 change
European Economic Community	2,746	3,739	6,715	6,665	7,557	8,062	9,450	10,043	6.3%
EFTA	846	728	1,499	1,516	1,756	1,839	1,790	2,082	16.3%
Ohter European Countries	88	61	121	117	192	308	282	390	38.4%
Total Europe	3,679	4,527	8,335	8,297	9,504	10,209	11,522	12,514	8.6%
Asia	200	285	893	774	1,048	1,360	1,765	2,042	15.7%
of which : Japan				356	547	733	998	1,048	5.0%
Hong Kong				113	120	143	184	249	35.6%
India						62	75	129	72.6%
China						0	5	33	554.0%
Africa	137	187	241	249	275	300	332	326	- 2.0%
North America	1,638	1,785	2,250	2,450	2,862	3,398	3,354	3,755	12.0%
of which : United States				2,357	2,723	3,261	3,336		
Central America	33	6	15	17	12	28	11	20	84.1%
South America	83	99	133	150	158	201	202	203	0.1%
Oceania	40	46	85	48	37	49	56	56	- 1.1%
Unclassified	2,183	1,384	997	1,214	1,430	1,363	1,571	1,602	2.0%
Grand Total	**7,995**	**8,320**	**12,950**	**13,199**	**15,326**	**16,909**	**18,814**	**20,518**	**9.1%**

Source : *Israel Export Institure*, Tel Aviv : 'Economic Review August 1994'. pp. 22.

5: Main Economic Indicators and Trade of West Bank and Gaza

Item	West Bank	Gaza	Total
Indicator			
GNP($millions)[a]	2.114	844	2,958
GNP/capita($)[a]	2,257	1,347	1,893
GDP($millions)[a]of which :	1,629	553	2,182
Agriculture(%)	37	25	34
Industry(%)	7	10	8
Construction(%)	11	17	13
Services (%)			
Public(%)	9	18	11
Other(%)	36	30	34
GDP/GNP(%)[a]	77	66	74
Merchandise Table			
Imports			
Total($millions)	731	332	1,063
of which:			
From Israel($million)	638	291	929
From Jordan($million)	10	0	10
From Israel/total(%)	87	88	87
Exports			
Total ($millions)	187	66	253
of which:			
To Israel ($millions)	152	53	205
To Jordan ($millions)	27	14	41
To Israel/total(%)	83	80	82
Balance			
Total($millions)	- 544	- 266	- 810
With Israel ($million)	- 486	- 238	- 724
With Jordan ($million)	17	14	31
With Israel/total (%)	89	89	89

Source : Based primarily on State of Israel. Central Bureau of Statistics, Statistical Abstract of Israel. 1991 -93.

(-) = deficit

a. Average of two years, 1990 - 91. The GNP per capita is based on an average population of 9,365 thousand in the West Bank and 6,265 thousand in Gaza. Several independent studies, however, have disputed the Isareli official population estimates as undercounts; hence the GNP/capita in the table should be viewed as an upper bound [see summary on the population statistics in World Bank, Developing the Occupied Terriotories. vol. 6. Average of three years, 1990 - 92.]

b. Average of three years,. 1990-92.

SELECTED BIBLIOGRAPHY

Primary Sources

1. Bank of Israel Annual Report, 1990, 1991

2. Israel Central Bureau of Statictics (CBS),
Statistical Abstract of Israel, 1984.

3. Israeli Economy (recent years)

4. Israel Export News, Tel Aviv : Israel Export Institute, September 1994.

5. "Israel", Meri Report, Middle East Research Institute,
University of California, Kent : Croom Helm, 1985.

6. Middle East Economic Handbook, London : Euromonitor, 1986.

7. "Regional Perspectives", World Bank Report, pp. 138 -44.

8. Sipri Yearbook, 1990.

9. World Development Journal (recent years).

Books

1. Arad, R., Hirsh, S., Tovias, Economy of Peace Making,
London : MacMillan, 1983.

2. Aharomi, Y., The Israel Economy : Dreams and Realities,
London : Routledge, 1991.

3. Arkadie, B.V., Benefits and Burdens: A Report on the West Bank and Gaza Economies Since 1967, New York : Carnegie Endowment for International Peace, 1977.

4. Bahbah, B.A., The Plestinians and the War in the Gulf,
Washington D.C. : Centre for Policy Analysis on Palestine, 1991.

5. Bahiri, S., Peaceful Seperation or Enforced Unity, Tel Aviv : International Centre for Peace in Middle East, 1984.

6. Bar-Siman-Tov, Y., Israel : the Super Power and the War in the Middle East, New York : Praagaer, 1987.

7. Barkey, H. (ed.), The Politics of Economic Reform in the Middle East, New York : St. Martin 1992

8. Ben-Porath, Y. (ed.), The Isareli Economy : Maturing Through Crisis, Cambridge : Harvard University Press, 1986.

9. Benvenisti, M., Demographic, Economic, Legal, Social and Political Development in the West Bank, Jerusalem : The West Bank Data Base Project, 1986.

10. Benvenisti, M., The West Bank and Gaza Data Base Project-Interim Report, Jerusalem : American Enterprise Institute for Public Research, 1984.

11. Breslaures, G.W. , Kreisler, H., and Ward, B. (ed.), Beyond the Cold War, Berkeley, California :Institute of International Studies, 1991.

12. Bruno, M., Fischer, S., Helpman, E., and Livialan, N.(ed.), Lessons of Economic Stablization and Its Afternath, Cambridge : MIT Press, 1991.

13. Cordesman, A. and Wagner, A., Lessons of Modern War : The Arab Israeli Conflicts 1973 -88, Vol. I, Boulder : Westview Press, 1990.

14. Eisenetadt, S. N. and others, Integration and Development in Israel, New York : Fredrick A Praeger Inc. Nodate.

15. Eitan, B., The Indirect Cost of Defence Spending : The Israeli Experience conference Paper on Defence and National Economy in the 1980s, Tel Aviv: Centre for Strategic Studies, 1981.

16. Fishelson, G., Economic Cooperation in the Middle East, Colorado : Westview Press, 1989.

17. Frisch, H., Stagnation and Frontier : Arab and Jewish Industry in the West Bank, Jerusalem : The West Bank Data Base Project, 1986.

18. Fromkin, D., A Peace to End All Peace, New York : Avon, 1992.

19. Gharaibeh, F. A., The Economies of the West Bank and Gaza Strip, London : Westview Press, 1985.

20. Gubser, P., Jordan, Crossroads of Middle Eastern Events, Boulder, Colorado : Westview Press, 1983.

21. Haleri, N. and Klinov, R., The Economic Development of Israel, New York : Praeger, 1968.

22. Heller, M.A., A Palestinian State : The Inplications for Israel, Tel Aviv Univ. : Centre for Strategic Studies, 1983.

23. Horowitz, D., The Enigma of Economic Growth : A Case Study of Israel, New York : Praeger, 1972.

24. Horowitz, D., Israel's Concept of Defensible Borders, Jerusalem : The Leonard Davis Institute for International Relations, The Hebrew University of Jerusalem, 1975.

25. Horowitz, D. and Lissak, M., Origins of the Israeli Polity : Palestine Under the Mandate, Chicago : The University of Chicago Press, 1978.

26. Khalidi, R., Arab Economy in Israel : Dynamics of Region's Development, London : Croom Helm, 1988.

27. Kimmerling, B., Zionism and the Economy, Cambridge : Mass Schenkman, 1983.

28. Kimmerling, B., Zionism and Territory : The Socio - Territorial Dimension of Zionist Politics, Berkeley : University of California, Institute for International Studies, 1983.

29. Klanovsky, E., The Economic Impact of the Six Day War, New York: Praeger, 1970.

30. Landau, J. M., The Arabs in Israel : A Political Study, London : Oxford Univesity Press, 1970.

31. Lanir, Z. (ed.), Israeli Security Planning in the 1980's : It's Politics and Economies. New York : Praeger, 1984.

32. Lissak, M., Israeli Security and its Defence Establishment : The Social and Political Impact of a Protracted Violent Conflict, London : Frank Cass, 1984.

33. Metzer, J. and Kaplan, O., Jointly but Severally Arab Jewish Dualism and Economic Growth in Mandatory Palestine, Jerusalem : The Mauricefelt Institute for Economic Research in Israel, 1985.

34. Nusseibeh, S. and Heller, M. A., No Trumpets, No Drums : A Two State Settlement of the Israeli Palestinian Conflict, London : I.B. Tauris, 1992.

35. Pant, G . (ed.), The Political Economy of West Asia : Demography, Democracy and Economic Reforms, New Delhi : Manak, 1994.

36. Peleg, I. and Seliktar, O. (ed.), The Emergence of Binational Israel : The Second Republic in Making, Boulder : Westview Special Studies on the Middle East, 1989.

38. Peretz, D., The Middle East Today, New York : Praeger, 1983.

39. Roy, S., The Gaza Strip Survey, Jerusalem : The West Bank Data Base Project, 1986.

40. Schellong, T.C., The Strategy of Conflict, Cambridge : Harvard Univ. Press, 1960.

41. Shlomo A., Conflict and Bargaining in the Middle East : An Israeli Perspective, London : John Hopkins Univ. Press, 1978.

42. The Israeli Settlements in the Occupied Territories, Dar Al - Ajaq Al - Jadida, 1985.

43. Tuma, E. H., Economies and Political Change in the Middle East, Palo Alto : Pacific Books,1986.

ARTICLES

1. Adam Roberts "Decline of Illusions : The Status of the Israeli Occupied Territories Over 21 Years", International Affairs, 64(3), summer 1988.

2. Allon, I., "Israel : The Case for Defensible Borders," Foreign Affairs, vol. 55, no.1, October 1976.

3. Atpher, J. "Israel's Security Concerns in the Peace Process", International Affairs, vol. 70, no. 2, April 1994.

4. Bannerman, M. Graeme, " Arabs and Israelis Slowalk Towards Peace," Foreign Affairs, 1973.

5. Barzilai, G.and Yossi, S., " Israeli Democracy at the Cross-roads : A Crisis of Non-governability", Goverment and Opposition, vol. 24, no.3, summer 1991.

6. Beckerman, P., "Recent Heterodox" Stabilisation Experience : Argentina, Israel and Brazil, 1985-89," Quarterly Review of Economics and Business, 31(3), autumn 1991.

7. Ben-Porth, Y., "Patterns and Peculiarities of Economic Growth and Structure", The Jerusalem Quarterly, no. 38, 1986.

8. Bruno, M., "Economic Analysis and the Political Economy of Policy Formation". European Economic Review, 34, 1990.

9. Bruno, M. "From Sharp Stabilization to Growth : On the Political Economy of Israel's Transition," European Economic Review, no. 36, 1992.

10. Burki, Uzmas. "U.S.Military Assistance to Israel", Strategic Studies, 13(2) Winter 1989.

11. Byrne, A., "Palestine's Potential for Delopment Under Occupation," Middle East International, no. 451, 28 May 1993.

12. Cohen, B., "Israel's Expansion through Immigration," Middle East Policy, vol.2, no.1, 1992.

13. Cohen, Y., "War and Social Integration : The Effects of Israeli Arab Conflict of Jewish Emigration from Israel" American Journal of Sociological Review, vol. 53, no. 6, Dec. 1988.

14. Crittenden, Ann, "Israel's Economic Plight," Foreign Affairs, vol. 57, no.5, summer 1979.

15. Efraim, I., "Israel's Small War", Armed Forces and Society, 18 (1), Fall 1991.

16. "Gaza Hell-Hole", The Jerusalem Quarterly, no.53, Winter 1990.

17. Genner, D. J., "Palestinians, Israelis and Intifada : The Third Year and Beyond", Arab Studies Quarterly, 13 (3-4), summer fall 1991.

18. Gross, N. T., " Israeli Economic Policies, 1948-51", Journal of Economic History, 50 (1), March 1991.

19. Hadar, L.T., " Reforming Israel Before it is too Late," Foreigh Policy, vol. 81, winter 90-91.

20. Hollio, R.M., "Israel's Search for Security", Asian Affairs, 22(3), October 1991.

21. Horowitz, D. & Lissak, M., "Democracy and National Security in a Protracted Conflict", Jerusalem Quarterly, no. 51, summer 1989.

22. Horowitz, D., "Israel and Occupation", Jerusalem Quarterlt, vol. 43, summer 1987.

23. Johnston, Scott D., "Israel and the Occupied Territories", International Journal of World Peace, 54. Oct-Dec, 1988.

24. Khalidi, Ahmad S., "The Palestinians : Current Dilemmas, Future Challenges", Journal of Palestinian Studies, XXIV, no.2, winter 1995.

25. Kleiman, E., " The Histadrut Economy in Israel in Search of Criteria",

The Jerusalem Quarterly, no. 41, winter 1987, pp. 84-89.

26. Kuttar, Daoud, "Current Developments and the Peace Process", Journal of Palestine Studies, vol. 72, no. 1, autumn 1992.

27. Lasswell, H., " The Garrison State", The American Journal of Sociology, 46, no. 4, Janaury 1941.

28. Lifshitz, O., "Gaza is Hungry", New Outlook, June-August 1991.

29. Middle East Economic Digest, 21st January 1994, vol. 38, no. 3.

30. Mattair, T.R., "The Arab Israeli Conflict : The Madrid Conference and beyond, American-Arab and beyond", American- Arab Affairs, vol.37, summer 1991.

31. Marcus, J., "The Politics of Israel's Security", International Affairs, no.65, Spring 1989.

32. Mattair, Thomas R. "The Arab - Israeli Conflict: From Shamir to Rabin to Peace", Middle East Policy, vol.1, no.3, 1992.

33. Mcgovern, G., "United States Middle East Policy and the Israeli Settelements", American - Arab Affairs, 37, summer 1991.

34. Middle East Economic Digest, 7 January 1994, vol. 38, no.1.

35. Millerman, Joost R., "Settling for War : Soviet Immigration and Israel's Settelments Policy in East Jerusalem", Journal of Palestine Studies, no.2, 1991.

36. Moore, James W., "Immigration and the Demographic Balance in Israel and the Occupied Territories", Middle East Policy, vol.1,no.2, 1992.

37. Murphy, E., "Structural Inhibitions to Economic Liberalization in Israel", Middle East Journal, vol. 48,no.1, winter 1994.

38. Norton, R.A. and Wright, R., "The Post - Peace Crisis in the Middle East", Survival, vol.36, no. 4, winter 1994-95.

39. Ober, R., "Current Israeli Practices and Policies in the West Bank

and Gaza Strip", Boston College Third World Law Journal, 10(1), winter 1990.

40. Richann, S.L., "Economic Impact of Israeli Loan Guarentee", Journal of Palestinian Studies, no-2, winter 1992.

41. Roberts, A., "Prolonged Military Occupation: The Israeli Occupied Territories", American Journal of International Law, vol.84, no.1, Jan. 1990.

42. Roy, S., "Development Under Occupation? The Political Economy of US Aid to West Bank and Gaza Strip", Arab Studies Quarterly, vol.13, no. 3-4, summer, 1991

43. Roy, S., "From Hardship to Hunger : The Economic Impact of Intifada on the Gaza Strip", American Arab Affairs, winter 1991.

44. Roy.S., "The Political Economy of Despair: Changing Political Economic Realities in the Gaza Strip", Journal of Palestine Studies. XX, no. 3, spring 1991.

45. Rozenkier, A., "The Price of Occupation", NAPA, April 1985.

46. Sayigh, Y.A., "The Palestinan Economy Under Occupation : Dependency and Pauperization", Journal for Palestine Studies, vol. xv, no.4, summer 1986.

47. Schaerf, H., "Israel's Dilemma : Why Israel is Falling Apart and How to Put it Back Together", Midstream, 36 (8), Dec. 1990.

48. Shahak, I., "Israeli Land Seizure in the Occupied Territories", Middle East Policy, vol.1, no.2, 1992.

49. Steinberg, G. M., "Israeli Arms control Policy : Cautious Realism", The Journal of Strategic Studies, vol. 17, no.2, June 1994

50. Time, no.1, 3 January 1994.

51. Timar, Z., "Israel: Economic Facts of Life", New Outlook, 35(5), September - October 1992.

52. Tuma, E. H., "Economic of War and Peace", Working Paper Presented at Kuwait University, 12 April 1986.

53. Vsher, Grahm, "The Politicak Economy of Autonomy", MEI, no. 467, 21 January 1994

54. Vandewalle, D., "The Middle East Peace Process and Regional Economic Integration", Survival, vol.36, no.4, winter 1986.

55. Wilson, R., "The Economic Relations of Middle East : Toeards Europe or Within the Region", Middle East Journal, vol.48, no.2, spring 1994.

56. Yoran, Y. "An Economy in Structural Transition: The Israeli Economy after the Oil Crisis and Yom Kippur War", The Economic Quarterly, vol. 37, no.131, 1987.

57. Yorke, V., "Middle East's Slow March Towards Peace", World Today, vol. 50, no. 5, May 1994.

58. Zauhi, S., "The Occupied Territories: Economic Liability", New Outlook, Part I, January - February and Part II, March 1977.

59. Zuiagelskaja, I. D, "Steps Versus Solutions in the Arab-Israeli Conflict", Annals of the American Academy of Political and Social Science, vol. 518, Nov. 91.