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The Political Economy of the Peace Process in a Changing Middle East

Moustafa Ahmed Moustafa



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Process in a Changing Middle East**

Moustafa Ahmed Moustafa

UNU World Institute for Development Economics Research (UNU/WIDER)
A research and training centre of the United Nations University

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GLOSSARY OF ACRONYMS

AMU	Arab Maghreb Union
CRB	Charles R. Bronfman Foundation
CSCE	Conference on Security and Cooperation in Europe
DOP	Declaration of Principles
ESCWA	Economic and Social Commission for Western Asia
FTZs	Free trade zones
GCC	Gulf Cooperation Council
IDF	Israel Defence Forces
MEBRD	Middle East Bank for Reconstruction and Development
NTBs	Non-trade barriers
OTs	Occupied territories
OAPEC	Organization of Arab Petroleum Exporting Countries
OPEC	Organization of the Petroleum Exporting Countries
PKK	Workers Party of Kurdistan
PTs	Palestinian territories
PLO	Palestine Liberation Organization
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNU	United Nations University
WTO	World Trade Organization

FOREWORD

The character and consequences of the interconnectedness and interaction between international political and economic processes in the post-cold war era has changed in many respects, as compared to the previous decades. During the cold war years, economic factors played of course important roles in shaping the global power structure, and influencing international politics but in many respects, the political agenda of the two global powers dominated the global system. In the post-cold war world, the influence of the economic factors became much stronger in shaping global changes. Capital flows, technology and international entrepreneurship are the key components of the globalization process. The relative economic power of countries, international economic competitiveness and competition has a much greater impact on interstate relations than in the past. The pressure of the domestic socio-economic problems influences at a greater strength national politics also in international relations. These general trends however have many specificities in the different regions of the world. In Europe, for example, ethnic conflicts, civil wars – parallel and contrasting processes of integration and fragmentation – have created problems unprecedented since World War II.

In the Middle East, which is the subject of this paper, the interaction between economic and political factors, issues and processes has always been strong. The fact that this region became a fundamentally important source of oil, brought it into the most direct and strategic interests of the Western world. As in centuries past, the geo-strategic significance of the Middle East have made the region a source of confrontation between the great powers. The systemic competition played a key role in transforming the Middle East one of the areas of East-West confrontation during the cold war years. Poverty and underdevelopment, the unequal distribution of wealth and income between and within the countries have been responsible for a number of conflicts in the region. The access to water, land, and the influence of their use became also crucially important political and economic issues.

The peace process, in the Middle East, between Israel and the Arab countries is a new example to specific regional character of the interactions between politics and economics. The first post-cold war regional conflict, the Gulf War had territorial, ideological and distributive issues involved. It was also a demonstration of the realignment of power after the disappearance of the bipolar cold war confrontation. It has also indicated that the role of the external actors became indispensable in initiating, sustaining and guaranteeing peace. It is the future of the economic and social development in the region which, in the final analysis, will influence the sustainability and the outcome of the process.

The Palestinian issue is a central factor in the peace process, and a key element in the political mosaic of the region, with particularly strong and interrelated political

and economic components. No Palestinian authority in the West Bank will survive without firm guarantees for its economic viability. This depends not only on the future of economic cooperation between Jordanian, Israeli and the Palestinian authorities in the increase of water resources, the use of water, the settlement of land tenure, the availability of job opportunities for the Palestinians, the establishment of new industries in the area, the future cooperation in the development of tourism etc., but also on political commitment for economic assistance by those external powers which have vested interests in the favourable outcome of the peace process.

This study of Moustafa Ahmed Moustafa focuses on the politics and economics of the peace process. It analyses it in a broader, global and regional context and in a historical perspective. His research work on regional cooperation in the Middle East and North Africa, has been a special contribution to the UNU/WIDER project on 'New regionalism: interrelations between security and development'. On behalf of UNU/WIDER, I express my thanks and appreciation to Moustafa for this volume and for his valuable work as a Research Fellow.

Mihály Simai
Director, UNU/WIDER

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I am deeply thankful to all my colleagues for the support and assistance they gave me during my stay at UNU/WIDER. They all made my tenure at the World Institute for Development Economics Research in Helsinki very enjoyable, and I hope, fruitful. In particular, I am grateful to Professor Mihály Simai for giving me the opportunity to do research at UNU/WIDER and for all his warm encouragement and constant support. I would also like to thank Ms Liisa Roponen, Ms Lorraine Taivainen, Mr Erkki Viitanen, Mr Ara Kazandjian and Ms Zsuzsana Oinas without whom this volume would not have been possible.

I THE POLITICS OF THE PEACE PROCESS

1.1 Introduction

The Middle East is a region that can be viewed as a world region just like Europe or Central America. There are several different sets of criteria for delimiting a world region, such as geographical, historical, and cultural, or the degree of economic cooperation prevalent in the region. We can, however, also use 'region' as an analytical concept, defined by whatever aspect of the main issue we are concerned with.

If we delimit the region on a simple geophysical basis, it is the natural borders – rivers, mountains, deserts, oceans, etc. – that define the complex. But the Middle East cannot be defined accordingly because general opinion on the size of the region varies. Nevertheless, we can still agree that a region called the Middle East does exist and that it generally refers to the area with oil resources. We can include in that generalization all the North African states, Israel, Syria, Jordan, Lebanon, Iraq, the Arab-peninsula states, excluding or including Turkey and Iran. The argument for such a delimitation is that these states, apart from Israel, can be seen as a historical entity with a distinct economic, cultural and political background and a regional consciousness, as well as a regional power structure.

On a cultural-religious basis, we can also group the Middle East into Islamic and Arab cultures, but this would exclude Iran with its Persian culture and Israel with its Jewish culture. If we use the Islamic affiliation as the only grounds for defining the Middle Eastern region, it should be recognized that Indonesia and India have a larger Muslim population than the entire Middle East. Also, the Jews as well as various Christian sects in the state of Israel would be excluded from this definition.

If delimiting is done on the basis of cooperative economic organizations – such as OPEC (Organization of the Petroleum Exporting Countries, which also includes oil-producing Venezuela), OAPEC (Organization of Arab Petroleum Exporting Countries), or the Arab League – where the states of the region are included, it would exclude Israel.

If we accept the definition Middle East in terms of states mentioned above (including Israel, Iran and Turkey), we easily realize that, depending on which security issue is in focus, various security complexes within the region can be defined. Depending on the perspective, we attain different analytical regions rather than more or less permanent historical formations. For example, we can interpret the states of Iran-Iraq, or Syria-Iraq, and recently Kuwait-Iraq as three security complexes concerning – in addition to security – political, geopolitical and (even) cultural issues. In this way, we can also delimit and define the Palestinian-Israeli security complex, in which the security dimension is the main focus, and view it as an analytical region which affects the Middle East as a whole (Schulz 1989).

The regional economics of the Arab states in the Middle East can be classified into three main groups:

- i) Rich Gulf oil-exporting countries forming the Gulf Cooperation Council (GCC);
- ii) Medium-income countries of Algeria, Iraq, Morocco, Tunisia, Jordan, Egypt; and
- iii) Low-income countries such as Somalia, Sudan, Yemen, Djibouti, Mauritania.

Any classification is meaningless if we ignore the interactions and interrelationships of the region as a whole (political, geopolitical, economic, geo-economic and from security and peace and as well as cultural dimensions) with these close circles of: Asian, African, Islamic, Mediterranean-European axis, and- may- could affect the world politics and international development cooperation more in the coming decades, the pattern of which may take completely new directions after realizing real peace in a changing Middle East.

It should also be noted that economic cooperation with regard to complementary exchange of commodities and services has not been established. Reflecting Western needs for oil, the trading routes and partners of the Middle East are from outside the region rather than constituting intra-regional economic exchange. Intra-regional trade accounted for only 6-8 per cent of the region's total trade by the end of 1980s and for less than 5 per cent in 1990 although there is a high degree of complementary.

The Middle East is not only a complex region hard to define, but also a region where external actors have for long exerted their interests. During the cold war, the Middle East was perhaps the most complex and conflict-ridden area of the world. Both superpowers considered the region vital to their strategic interests. Its oil resources and geostrategic position were major attractions to the United States. The northern part of the Middle East, which borders on southern tier of the Soviet Union, was regarded by that country as a key factor of its strategic defence system. Furthermore, the Bosphorus Strait of Turkey, a NATO member, provided safe passage from the Black Sea to the Mediterranean for Soviet navy and commercial fleets. Both the Soviet Union and the United States found their efforts to secure strategic allies in the area facilitated by the traditional conflicts between Middle Eastern states, who were looking for external allies to provide arms, economic assistance, and military guarantees against attack by their neighbours. From the early 1950s onwards, the superpower conflict led to the establishment of regional client states (Anderson 1992).

European countries, and to a lesser extent Japan, have also been involved in Middle Eastern political processes. Their primary interests have been the securement of oil supplies and the sale of arms. While generally supporting the common policies of the West, all have nonetheless maintained special bilateral relations with individual countries based on traditional ties and particular interests. China, mostly through its arms shipments, has also become an important participant in the power play of the region.

With the end of the cold war, external actors are less inclined to seek for allies in the Middle East and more cautious to support states with dubious records on issues of human rights or democracy. Today, stability in the region is the chief goal of external powers, as was indicated by the strong international support for the coalition that ousted Iraqi forces from Kuwait. Over the long term, however, there is great uncertainty over the aims and roles of all external powers except the United States. Since the Camp David Accords of 1978, and especially since the Gulf War of 1991, the importance of the United States as a mediator in Middle Eastern conflicts has grown.

Post-cold war changes have allowed traditional conflicts to re-emerge. Although politics has been perceived as the chief progenitor, economics, in fact, is the main background factor in most regional conflicts, especially because of the severe unequal distribution of wealth throughout the area. Economic inequality is perhaps a more salient source of instability in the Middle East than in other regions of the developing world, where income disparities among neighbouring states tend to be less pronounced. The per capita income gaps between Middle Eastern countries are enormous (Simai 1994).

Has the process of regional integration been limited by the large number of external actors involved? The Middle East region is a good example of how both internal and external forces interrelate and affect the possibilities of cooperation and integration. The linkages between politics and economics, between security and economic cooperation, between peace and development are extremely strong. It should be in these areas where support should be focused on these two approaches – what can the various Middle Eastern states gain from regional cooperation? And how can the whole peace process affect the Middle East region and how can its population benefit from regional cooperation?

1.2 A historical overview

The English term 'Middle East' was introduced by political and military writers in order to refer to an area which, depending on the circumstances, might extend from Morocco to Afghanistan (and perhaps to certain Central Asian countries as well). It has gradually replaced the older, more precise, and closed term of 'Near East' which referred to the countries of the eastern Mediterranean and those which had been a part of the Ottoman Empire. These countries had similar religious, cultural, and social nature and historical destiny to make them an intelligible field of study. Is it possible in the same way to regard the Middle East as such a unitary field?

According to the economic and social criteria used in studies on modernization, during the last two centuries the Middle East has not – at least not until the very recent oil boom – done well compared to other regions such as Western Europe, Russia, the Balkans, Latin America, Japan, and China. This, of course, is in sharp contrast to the brilliant past history of the Middle East.

The world's earliest civilizations were born in the Middle East – in Iraq, Egypt, and Syria – which show that given the technology and social structure of antiquity, the region's climate and natural endowments must have been favourable. Indeed, even in the early middle ages, the Middle East – Muslim and Byzantine – formed one of the two main centres of the world economy. The other centre was China under the T'ang and Sung dynasties. This has been validated by such accepted criteria as urbanization, literacy, production of books, crafts, the level of agriculture and crop mixture, and the monetization of the economy. In all these areas, the Middle East has advanced far ahead of other parts of the world, except China.

But what was most advantageous in past centuries may not necessarily be so during later stages of development. With the advancement of technology, growth of the populations, discovery and exploitation of new lands and resources, and the emergence of bigger social units, the relative advantages of other regions began to gain importance.

1.2.1 The lack of inland waterways and the aridity

In the development of early civilizations in China, India, Russia, Europe and North and South America, the importance of rivers and supplementary canals cannot be overestimated. In contrast, the Middle East has only one major waterway, the Nile, and the Tigris and Euphrates Rivers which are much less serviceable. Consequently, large quantities of goods had to be transported overland by extensive use of camel and mule caravans. In the 1870s, pack animals carried some 25 thousand tons of merchandise a year on the Tabriz-Trabzon route; an equivalent of seven or eight shiploads each way. But of course the volume of goods was much smaller and the transportation costs were much higher than by waterways.

Another factor affecting development was the lack of waterpower in the region. The water mill was apparently invented in the Mediterranean at the beginning of the Christian era, but for obvious reasons, it was used far less in the Middle East than in Europe (White 1984).

Last, and perhaps most important of all, has been the fragility of the agricultural base in the Middle East. The majority of the region has insufficient and very irregular rainfall, causing substantial fluctuations in production annually. Constant threats of droughts, and severe limits on expansion of cultivation are particularly evident in Iran, Iraq, Syria, and much of Anatolia. Irrigation provides a solution but requiring elaborate and very vulnerable installations, its extent is strictly limited. For example, the canals of Iraq and the *qanats* of Iran have frequently been destroyed, subsequently throwing the economy into chaos.

Another drawback caused by the aridity of the Middle East is, except in Turkey and northern Iran, the paucity of forests. This has been a severe disadvantage because wood was the most important source of energy and the basic industrial material until well into the nineteenth century. Houses, ships, and bridges were built of wood and so were the machines used in manufacturing and mining.

1.2.2 *Poor natural endowment*

With the exception of oil which has assumed importance only during the current century, the Middle East is poorly endowed with minerals. There are some deposits of iron, copper, lead, gold, and silver in a number of countries but they are generally very small. Coal is very scarce in the region, and the importance of this fact can be recognized when we recall that China has been using coal since the fourth century and perhaps even earlier, and western Europe since at least the thirteenth century (Reischauer and Fairbank 1960).

1.2.3 *The character of governance*

While Roman Empire was on the verge of collapse, the Byzantine and Sassanian Empires survived, and their Arab conquerors succeeded in setting up a strong and fairly centralized government. Even though the Arab Empire shortly after broke up into many parts, the successor states remained quite strong. Hence, the continued power of the state in the Middle East discouraged the development that was taking place in western Europe where ground was being cleared for the growth of numerous and vigorous independent centres of power and activity such as the church, city states, feudal principalities, universities, guilds, and other associations. There were no independent city-states or universities in the Middle East; and guilds, whose existence before the Ottoman period has been questioned, were controlled by the government.

The Middle Eastern governments refrained from interfering with many aspects of society, notably law, where Western governments, for instance, played a major role. But the lack of interest by the state deprived the region of the independent activity and momentum which contributed significantly both to economic development and to the growth of political liberty in the West. Farmers, craftsmen, merchants, and other groups lacked the autonomy to establish associations and institutions to promote their interests and expand their economic base. Property was always insecure and trade and other economic activities passed into the hands of foreigners or minority members who enjoyed foreign protection and therefore were safeguarded against arbitration by officials (Issawi 1982a).

The social composition of government was another factor. The state apparatus, at least since the fall of the Fatimid Empire, remained in the hands of soldiers and bureaucrats, with some assistance from the *ulama*, the Muslim scientists. Their main concern, regardless of the broader economic consequences, was to raise enough money through taxes to meet their salaries and other expenses, such as war, and to ensure that cities were adequately provided with foodstuffs. With much more justification, we can apply to the Middle East the indictment of Europe written in the 1980s by David MacPherson – that no judicious regulations could be drawn up by ecclesiastical or military men (the only classes who possessed any authority or influence), who despised trade and consequently could know nothing about it.

The economic consequences were disastrous. The Middle East had no counterpart to the European monasteries that played such an important role in promoting

agriculture. Under the land tenure system after the early Middle Ages, there were no progressive landlords, and peasants had little or no incentive to improve their agricultural methods. Craftsmen stuck to their old techniques and the technical level of handicrafts may have actually declined. There certainly were no signs of handicrafts evolving into large manufactories the way they did in Europe during the sixteenth and seventeenth centuries. In addition, lack of concern by the Middle East governments allowed treaties to be set up with European countries for importing goods with minimal duties, usually 3 per cent to 5 per cent. Some industries began to suffer from this competition as early as the fourteenth century (Ashtor 1977). Since these treaties were signed by the Mamluks and Ottomans at the height of their power, it is safe to conclude that either these governments were not interested in the economic consequences, or that they thought the damage done to the producers was a small price to pay for the benefits achieved through greater imports of goods for the ruling classes, or through political objectives like alliances and support.

It is indeed striking to note how unconcerned Middle Eastern governments were with the broader objectives of Europe's commercial policy, like promoting local products for export and to accumulate bullion, or restricting imports to protect local producers. There were no traces of mercantilism in the Ottoman or Iranian policy until well into the eighteenth century when certain minor measures were taken by Sultan Selim III.

Partly because the ruling elite scorned mercantile activities, leaving them to the Christian and Jewish minorities, and partly because, in the eighteenth and nineteenth centuries, members of these minorities managed to obtain foreign protection and to take advantage of the capitulations, trade and shipping passed into their hands. This only increased the aversion of the ruling class to these occupations, making them further reluctant to provide protection and encouragement to activities that could breed potentially hostile groups, as the Greeks had proved to be.

It should be added that, except for a few bridges and caravanserais in certain cities and along some main routes, the governments did nothing to promote transport. There were no roads or canals, and ports were not improved.¹ In fact, many harbours deteriorated due to neglect, as, for example, Alexandria. Silting, as in Jaffa and Suwaydia, caused considerable damage and so did deliberate blocking, as in Sidon and Beirut in the seventeenth century. By 1800 the Middle East was economically far behind its main rival, Europe, and several other regions as well.

1.2.4 Poor social conditions

Social conditions were also bad. No efforts had been made to improve education since the Middle Ages. Indeed, there had been a sharp deterioration at the higher educational levels, as may be seen when comparing an eighteenth century curriculum with the sciences studied in the eleventh century. It has been estimated that the literacy

¹ Somewhat more seems to have been done by the Ottomans in the Balkans than in the Middle East; see Inalcik (1973).

rate must have been well below 5 per cent. The earliest census figures available for any country, namely Egypt in 1897, indicate that the literacy rate was 10.5 per cent for men and 0.3 per cent for women overall. This figure included children as well as foreigners and minorities who generally were more highly educated. As everywhere else in the world, hygiene was abysmal, and the region was periodically swept by devastating epidemics of cholera and the plague.²

Perhaps the most serious problem was the complacency and arrogance of the ruling classes and of the religious establishment, which made them view the tremendous intellectual changes taking in place in Europe with indifference and even contempt. They began to take notice only after European soldiers penetrated the Balkans and invaded Egypt.³ It is worth recalling that in 1485, Bayazit II prohibited printing books in Arabic and Turkish. During the same period, books in Istanbul were being produced in Hebrew, Greek, and various European languages. The first Turkish press was started in 1729, closed in 1742, and reopened in 1784. In 1610 a press printing psalms in Syriac was set up in the Lebanese monastery of Qazhayya, and in 1702 an Arabic press was set up in Aleppo. But the start of Arabic printing may be more accurately dated from 1822 in Cairo during the rule of Muhammad Ali (Lewis 1982, Hitti 1951, Pedersen 1984).

1.2.5 The role of external factors

As regards the external factors, the Middle East was subjected to a very powerful impact from Europe in political, economic, and social spheres (Issawi 1982b). This had numerous benefits: foreign trade multiplied many times over; new crops were introduced; agricultural output expanded greatly; railways and ports were built; hygiene improved noticeably; and the foundations for modern education were laid down. The region began to modernize at an accelerating pace.

But in addition to the usual painful disruptions accompanying any change, there were several adverse developments – although nothing compared to the drain of gold from Latin America and India; the export of slaves from Africa; and the Opium War and its aftermath in China. First, as in all parts of the world, improved hygiene, mechanical transport, which helped to reduce famines, and the decreasing death rate led to population growth. In the Middle East, however, birth rates started to decline much later than elsewhere, and in fact they still show no signs of decrease in many countries. The result has been an explosive population growth that has put enormous strains on resources. Second, handicrafts could not compete with machine-made goods, and many craftsmen were ruined. Re-industrialization, the setting up of modern factories, started later in the Middle East, and at much slower pace than in Russia, the Balkans, Latin America, Japan, India, and in many respects, China. This was partly due to the limitations of the internal markets and the paucity of natural resources, infrastructure, capital, and skills; partly to the baleful effects of commercial treaties which prevented tariff protection; and partly to the disinterest of governments, whether national or

² For more information on plagues, see Issawi (1982).

³ For examples of indifference, see Issawi (1981) and for an excellent general discussion, see Lewis (1982).

foreign. A conspicuous exception was Muhammad Ali in Egypt. The region only began to industrialize in the 1930s, and more precisely, after World War II.

Third, there was a huge public debt, most of which had been squandered. Again, the Middle East was not unique in this respect and the records of countries in the Balkans and Latin America are equally poor.⁴ Whether the Middle East in its terms of settlement was treated more harshly than other regions is not certain. Egypt may have been, but Turkey certainly not. The large inflow of private capital was, on the whole, used productively.

Fourth, economic development in the Middle East was implanted to a particularly high degree by foreigners and remained confined to certain enclaves. The region not only accepted capital and technology from abroad, it also imported a bourgeoisie and skilled working class as well. Except for members of the religious minorities, few Middle Easterners participated in the expanding modern sectors of the economy; foreign trade, finance, mechanical transport, mining, and later industry were financed and run by Europeans. As a result, the natural resources of the Middle East were developed while human resources remained untapped. Moreover, in contrast to Russia, the Balkans, and Latin America, foreigners did not merge with the population through intermarriage or permanent residence. And it was only in the 1930s and 1940s that a national Muslim bourgeoisie emerged.

One more point to add: the Middle East, because of its political situation, had the worst of both worlds. Unlike Japan, Russia, the Balkans, and Latin America, the countries of the Middle East did not have the independence to make mistakes and to learn from them. Nor were they subjected to the colonial control that led to development as in the case of the British in India, the Russians in Azerbaijan, the Japanese in Taiwan, or the Americans in the Philippines. Instead, the Middle East was influenced by rival powers jealously watching each other, often preventing and thwarting schemes like the building of railways in the Ottoman Empire and Iran. Of course, the North African experience shows that direct foreign control can also lead to the development of resources with very little benefit for the indigenous population.

The lack of sustained interest in economic development was the flagrant consequence of the external factors affecting the region. Although governments were greatly handicapped by various capitulations, commercial conventions, foreign pressures, and lack of funds, they could have done more to promote the economy and education in particular. Even more striking is the indifference of the people themselves. It does not take much money to teach children – or adults – to read and write, but it does take work. It should be noted that increasing literacy rates to the first crucial 40 or 50 per cent was not achieved in Western Europe, Japan, or elsewhere by the state but by churches and other social agencies. Here the very limited efforts of the ethnic Turks, Arabs, and Iranians should be compared not only with their Balkan neighbours but also with their minority groups of Greeks, Armenians, Jews, and Christian Arabs. The minorities were economically much more successful, a fact partly due to foreign help

⁴ Exceptions include Russia, India and Japan.

and protection but also to the numerous schools set up to pursue technical and professional education (Issawi 1982a). One more point may briefly be made. The vast majority of Middle Easterners who went abroad, studied law, medicine and the letters, ignoring the sciences, economics and, to some extent, technology. This has also had an adverse effect on economic development.

In the last fifty years or so, this dismal picture has changed remarkably. Industrialization has spread rapidly and has been greatly strengthened by the discovery of oil, generating vast incomes and skills and providing raw materials and fuels. The infrastructure has been vastly expanded and is now approaching an adequate standard. Land reforms have transformed the ancient, vicious agrarian structure. The economy has been transferred from foreign hands to nationals.

The Middle East is, of course, still beset by tremendous problems:

- i) explosive population growth;
- ii) urban hypertrophy;
- iii) lagging agricultural production;
- iv) the stifling grip of the government over the economy;
- v) waste of resources on unending wars and ever-accumulating armaments; but it is not excessively optimistic to state that the foundations for economic and social development have at last been laid.

Up to now, the analysis of the region's economic and social performance has been confined to physical and social factors. To over-simplify and generalize wildly, we can say that whereas the Greeks were interested in ideas and the Romans in organization, the Middle Easterners have been interested in words, as well as in God. But consider what they have enabled the region to achieve: the Sumerians and Egyptians began the process of civilization; the Phoenicians invented the alphabet and initiated the mercantile city-state economy which, as Hicks points out, was the most important economic development since the establishment of agriculture (1969).

Among them, Jews, Persians, and Arabs gave the world most of its religions and some of the finest art and literature. Surely these contributions outweigh certain limitations in technological, economic, and social fields, especially since there is no reason why the region cannot do better in these in the future. Furthermore, we live in a period of time when many have realized that economic growth and technological development are not the most important goals in the world even if they are the basic indicators of development and progress.

1.3 Regionalism and disintegration; ideology and politics of the last 50 years

Old regionalism is generally defined as the tendency of certain countries to partially or totally liberalize trade among themselves, but on a discriminatory basis to

exclude non-members. It can take several forms: free trade area among members, custom union, common market, or full-fledged economic union.

There were many different determinants for the process of South regionalism. Nationalism was very strong in Latin America, and anti-colonialism equally well rooted in Africa. Pan-Africanist ideology was also very popular and had appeal in Sub-Saharan Africa. These sentiments provided a general and politically uniform anchor for regional integration but the main practical impulse for regional trade arrangements came from the economic sector. Regional trade was an appealing option to compensate for the Middle East's limited and weak role in international economic relations which, at that time, were totally dominated by the industrialized countries.

Regionalization also provided the opportunity to strive for economic growth which has been an essential part of modernization plans since the early 19th century. Regionalization is not a single process; it is, in a way, a multidimensional and multilevel process. However, some of the regional formations are simply a continuation of the traditional cooperation between states and many of the region's entities are created by the states. Occasionally, *regions* which have been formed from *below* or from *within* truly oppose the state-centric international and national systems. Therefore we should be much more cautious and precise when talking about regionalization and new regionalism in the *changing Middle East*. In this case, we are probably dealing with a region which still is, for instance, on the level of an *epistemic region*. In order to constitute an alternative to state-centric practices, a region has to develop towards a political subject with structures and institutions.

Since the late 1940s, the Arab world has been profoundly influenced by three distinct ideologies: socialist pan-Arabism; Islamism; and territorial nationalism. Growing in strength during the 1940s, socialist pan-Arabism reached its height in the 1950s and continued to enjoy considerable popularity through the mid-1970s, despite severe setbacks in 1961, 1967, and 1971. Since the Camp David Accords were signed in 1978, however, socialist pan-Arabism has been in steady decline. Its demise allowed territorial nationalism and Islamism to sweep across the Arab world. The first was openly endorsed by most Arab states and implicitly adopted by almost all, while the second became the ideology of popular dissent among the unemployed, the alienated, the frustrated, and the repressed. By capitalizing on the failures of Arab regimes before, during, and after the Gulf War, Islamic groups have been able to expand their popular clientele.

1.3.1 The Arab regional system in the last five decades

Since 1945 the Arab system has passed through several phases of development. The first phase covered the twenty years or so preceding the 1967 Arab-Israeli war. During this time, most Arab countries attained political independence from Europe. However, the sovereignty of some of the new entities was not recognized by all and these either intervened directly in the domestic affairs of their neighbours, such as Egypt and Saudi Arabia in Yemen, or made territorial claims, such as Iraq's claim on Kuwait.

The result was what the late president of the American University of Beirut, Malcolm Kerr, called 'the Arab cold war' (1978).

The second phase occurred between 1967 and 1974, when the Arab countries gained increasing legitimacy in the eyes of their sister states, and this manifested in a sharp decline in interstate intervention. The limited, unsuccessful military intervention by Syria in Jordan's domestic war against the Palestine Liberation Organization (PLO) in 1970 was a noteworthy exception to the newly-found atmosphere of consensus and solidarity. During this period, Nasser initiated summit meetings for Arab heads of state as a more effective forum for coordinating regional policies than the regular meetings of the Arab League. This interstate cooperation culminated in the 1978 Egyptian-Syrian military offensive against Israel and the subsequent cut-off of Arab oil shipments to the West. At the same time, the Palestine Liberation Organization was recognized as the sole representative of the Palestinian people, and that act enabled the PLO to play a far more significant role in regional politics (Sayigh 1991).

The third phase of the development of the Arab system lasted from 1975 to 1978, during which time Arab solidarity declined, reaching its nadir in 1978 with the signing of the Camp David Accords. The Egyptian government was sharply criticized by other countries in the region for making a unilateral decision that could impinge on the security of other Arab states and weaken collective Arab efforts to regain the occupied territories and establish a Palestinian state. Egypt was evicted from the Arab League, which subsequently relocated its Arab governments well into the 1980s. Efforts to re-integrate Egypt into the Arab community began during the Iraq-Iran war when its military and political support were needed to counter Iranian aggression. As the Iraqi position worsened, a few Arab countries, notably Iraq itself as well as Jordan and Saudi Arabia, reached out to Egypt, albeit often in an unpublicized fashion.

The fourth and latest stage of Arab interstate relations has been marked by disarray within the Arab regional order and the growing irrelevance of Arabism to state policies was indicated by the lack of any effective Arab opposition to the 1982 Israeli incursion into Lebanon and in the persistence of the Lebanese civil war, which was fuelled by some Arab states. The Arab League, which once stood for Arab cooperation and solidarity, was greatly weakened as its members began to group themselves into rival blocs. Secret terrorist warfare and official media wars erupted between Syria and Iraq, Egypt and Libya, Morocco and Algeria, and Syria and the PLO.

At the same time, however, efforts were made to establish some regional cooperation. In an attempt to neutralize the escalation of the Iraq-Iran war, the six Gulf states were prompted by Saudi Arabia to establish the Gulf Cooperation Council (GCC) in 1981. The Maghreb countries, Algeria, Morocco, Tunisia, Libya, and Mauritania, created their own bloc in 1989 – the Arab Maghreb Union (AMU) – partly in response to domestic pressure for political change. Egypt, Iraq, Jordan, and Yemen followed suit, forming the Arab Cooperation Council the same year, which amounted to nonentity when Iraq invaded Kuwait on the 2nd of August 1990.

Prior to the Gulf War, Egypt, Saudi Arabia, Iraq, and Syria played critical roles in Arab regional politics. Egypt, having been re-admitted to the Arab League, was trying to re-claim its former status as leader of the Arab world. Although no longer the pre-eminent military power in the Arab world, Egypt remained a key actor because of its size, its human resources, and its strong relationship with the West engendered by the Camp David Accords. Saudi Arabia was the financier, providing poorer states with major development loans, and funds for arms purchases. It was also the chief mediator of disagreements among Arab states. Although its approach to dispute arbitration was usually timid, preferring to wait for an appropriate time when efforts were sure to succeed, Saudi Arabia used its economic power to win or strengthen friendships, bribe rivals and opponents, and to soften deals between feuding 'brothers' in the region. Capitalizing on its strategic location, Iraq rose to prominence after Egypt's disfavour and oil price increases in the mid-1970s. Iraq gained additional military and political importance in its war with Iran, during which its forces expanded and acquired advanced weaponry. Syria, the arch-enemy of the Iraqi regime and the most trusted ally of Iran, was the only Arab state whose military build-up could pose a direct threat to Israel.⁵

Algeria and Morocco also played important roles in regional politics by participating in the efforts to reconcile differences among Arab states and between Arabs and the West.⁶ For example, Algeria and Morocco in concert with Saudi Arabia succeeded in getting the major warring factions in Lebanon to end the country's protracted strife and endorse a letter of national accord in 1989.

During the 1990s after the Gulf War, Arab politics have become more 'atomized', with each state explicitly placing its domestic interests before regional or subregional interests. This predominance of national interests over pan-Arab and pan-Islamic concerns is manifested in the malfunctioning of regional and subregional organizations, both private and public. For example, the Arab League has failed to fulfil its mandate to foster cooperation among the Arab states. Regional organizations that survived the war are increasingly incapable of forging joint positions among their members. The Arab Maghreb Union was unable to persuade Libya, a member state, to comply with the UN resolution on the Lockerbie issue, or to prevent the United States and Britain from convincing the Security Council to enforce sanctions against Libya.⁷ It has also failed in its self-assigned mission to reconcile differences between anti-Saddam states and other Arab nations. The Arab Cooperation Council, which was rendered moribund by Egypt's

⁵ For more details about the key roles of these countries, see Sayigh (1991:494-7):

⁶ For example, Morocco, a long-time friend of the West who has maintained both secret and open relations with Israel, communicated to the United States and Western Europe the PLO position on a number of issues and mediated between the PLO and other Arab parties with which the organization was in conflict, such as Syria and Saudi Arabia. King Hasan has assumed a leadership role in an Islamic committee of heads of state entrusted with finding a peaceful resolution for the Arab-Israeli dispute over the city of Jerusalem. Algeria played a similar mediating role between the Palestinians and other parties, such as Syria and Libya, and until recently maintained good relations with Iran and revolutionary forces in the third world, as well as with the West.

⁷ The Arab League has revealed its weaknesses in a number of instances since the close of the war. One significant test was its failure to normalize relations between the anti-Saddam group and the rest of the Arab states. Its dismal failure to settle the conflict between Libya and the West over the Lockerbie incident (see following note) before the UN Security Council decided on the embargo against Libya.

opposition to the Iraqi invasion of Kuwait, has no chance of revival without Egypt's cooperation and the end of Iraq's isolation by the international community. Even the Gulf Cooperation Council (GCC), ostensibly a more cohesive group, has not been able to resolve bilateral disputes among its members nor to agree on how to deal with Iran and Arab states outside the Gulf region.⁸

Arab regimes have adopted a two-pronged policy toward Islamists that shows more conciliation toward the mainstream, non-violent groups such as the Muslim Brotherhood, and a crackdown on the small armed radicals who advocate violence as the means to establish Islamic states. The ruling elites have made concessions to moderate Islamists and conservative traditionalists in the hope of gaining their support in the raging war against militant fundamentalists. However, these concessions could turn the authoritarian Arab regimes into more Islamized, national territorial states in which non-Muslim minorities are further alienated.

Today, almost five years after the end of the Gulf War, the outcome of the struggle for power between the Islamist and a heterogeneous array of secular nationalists led by the ruling elite is far from certain. The future will depend largely on three factors:

- i) the fate of the Middle East peace process;
- ii) the state of each country's economy; and
- iii) the prospects for democratization within each nation.

The 'atomization' process has been accentuated by the ever-present lack of trust among Arab political leaders. Groups and states other than members of one's family, tribe, or religion or residential community are not easily trusted. As the US sociologist Morroe Berger, has observed:

Cooperation in the near East is not a conscious effort of distinct groups to come together for mutual benefit, but simply the result of each individual playing his part as a member of his family or other group (Berger 1962:170-1).

1.3.2 Non-Arab powers in the Middle East region

Israel has long been assured of a central role in regional politics primarily because of its military and organizational supremacy; unique strategic alliance with the

⁸ In apparent disbelief in the ability of both the Gulf Cooperation Council and Saudi Arabia to resolve its dispute with Bahrain over territorial waters and islands, Qatar sought arbitration by the International Court of Justice. Qatar, despite Bahrain and Saudi Arabia's disapproval, has not withdrawn its request for international arbitration. GCC countries have dealt with Iran in different ways. For instance, Qatar has signed an economic agreement with Iran, whereas the United Arab Emirates (UAE) remains suspicious of Iranian designs after Iran took over all of Abu-Musa Island. The security role of Iran in the Gulf, as well as the fate of the Damascus Declaration, remains a debatable subject among Gulf Cooperation Council states.

United States; democratic political system; key central location within the Middle East, and control of water resources especially in the occupied territories.

This central role of Israel has been further reinforced because the Gulf War neither neutralized nor weakened its sources of power but considerably reduced the might of its Arab antagonists. At the military level, Israel – having gained additional military and moral support from the United States and other countries – suffered negligible damage. By contrast, Iraq was devastated; Syria was unable to find a country to replace the former Soviet Union as the superpower protector and provider of advanced weapons; and the PLO fell into disputes with former Arab allies and with Palestinian groups, notably HAMAS. Although Israel's strategic importance to the United States appears to have declined following Operation Desert Storm (the code name for the Gulf War), the American government has stated that it remains unshakably committed to the security of Israel and to preserving its qualitative edge over any likely combination of aggressors.⁹

In addition, Israel is more industrialized than any of the Arab states and has considerably more efficient and productive organizations in a variety of economic and social activities, including business, education, and politics. Perhaps more important, Israel, to the extent that it represents Jewish residents, is more democratic than any of the Arab regimes. However, its record of human rights for the Palestinians in the occupied territories remains tarnished.

Another source of Israel's power is its control of water resources. At present, three major tributaries of the Jordan River and the Litani River in South Lebanon are under Israel's control. In the ongoing bilateral and multilateral Middle East negotiations, Israel could use this control to extract concessions from Jordan, Lebanon, and the Palestinians.

Iran's neutral stance during the Gulf War, combined with the declining influence of radicals within its political leadership, helped it to initiate better relations with the Gulf Cooperation Council states immediately after the war. As mentioned earlier, some of the GCC countries would like Iran to assume wider security responsibilities in the region to counterbalance the resurgence of Iraqi military power. All of the GCC members, including Saudi Arabia, have attempted to establish friendly relations with Iran by initially downplaying the recent dispute over Abu-Musa Island and suppressing memories of the Iraq-Iran war when the Gulf Cooperation Council states supported Iraq. However, Iran's insistence on retaining full control over Abu-Musa and its threats of other claims on Bahraini territory have now created friction with all GCC members except Qatar.

Iran is also reaching out to a number of other Arab countries in an effort to maintain old relationships and to develop new friendly alliances. It has widened its cooperation with Sudan and Yemen and maintained good relations for a decade with

⁹ From Assistant Secretary of State Djerejian's statement to a congressional subcommittee (*Mideast Mirror* 1992).

Syria, Hizbollah of Lebanon, and the Islamic opposition parties in Iraq, whose leaders and paramilitary forces are based on its territory. Iran has sought better relations with the Kurdish parties in Iraq, the Palestinian HAMAS, and other Islamic groups in the Arab world. After the long and devastating war with Iraq, it is hoping to regain its military power by acquiring all types of sophisticated weapons, including such mass destruction arsenal as long-range missiles. Whether Iran will acquire nuclear weapons will be seen in the future.

The post-cold war phase is encouraging the strategic role of Turkey:

- i) Turkey is re-orienting its strategies to become a bridge between Europe and the Middle East. For Turkey, the Middle East is a natural environment; it is not the nostalgia of a glorious past. Turkey has already perceived its role and is acting accordingly, serving not only as a link between Europe and the Middle East, but also as a bridge between Europe and the Islamic Republics in Central Asia. Israel and Turkey may become the stabilizing forces in this new era.
- ii) Turkey's relations with the Middle East will be determined by its success in handling two critical domestic problems: the Kurdish rebellion and its dire economic crisis. Failure to solve either problem promptly could threaten the country's political stability. On the other hand, their effective resolution could allow Turkey to become a significant force in the Middle East.
- iii) Not only has the Kurdish insurrection rapidly escalated in intensity in recent months, but Turkish society is becoming increasingly polarized between Turks and Kurds, substantially raising the risk of a broader civil war. The government's refusal to separate the Kurdish issue from the problem of dealing with the terrorism of the Workers Party of Kurdistan (PKK) is at the heart of the dilemma. To be resolved successfully, the Kurdish issue must be addressed on a social, economic, cultural, and political basis and not simply through the application of military force (Carley 1995).
- iv) The most important Middle Eastern countries from Turkey's perspective will remain Iran, Iraq, and Syria, where problems of water, political ambition, religion, boundaries, and the PKK are factors. Iraq will continue to be Turkey's trickiest foreign policy problem among its neighbours, as the waves of Kurdish refugees to Turkey necessitate some accommodation with Saddam Hussein, which may complicate relations with the United States.

Turkey's strategic role is also strengthened by other factors. It controls the pipeline that Iraq is required by a UN resolution to use for all of its oil shipments, thereby rendering the country dependent on Turkey in this vital area. Most important to the region, particularly to Iraq and Syria, Turkey controls the sources of the Euphrates and Tigris Rivers. Dependent on these rivers, both Syria and Iraq have been concerned about the reduced flow of water from the Euphrates because of Turkey's Southern Anatolia development programme (Kolms and Mitchell 1991). Project plans call for the creation of a huge lake to store water for drinking, irrigation, and electric power generation. To fill the reservoir, the flow of the Euphrates to Syria and Iraq has been

reduced for several months since 1990. Rivalry over water resources with Turkey is a potentially explosive area of dispute that is currently being examined in multilateral Middle East negotiations.

1.4 The peace process in the Middle East

1.4.1 The Palestinian refugees and the changing Middle East

Since 1948, the Palestine Arab refugee problem has been the focal point between Israel and its neighbours. During the first twenty years after the establishment of Israel, many observers perceived the refugee problem as the most crucial issue. Consequently, much attention has been devoted to the problem in the expectation that a resolution would be instrumental in ending the conflict. Western policy makers continue to regard the resolution of the Arab-Israeli conflict as a major, if not the most important, prerequisite for achieving political and social stability in the Middle East, and many regard the solution of the refugee problem as one of the main keys to peace in the region. This does not imply that the region is not confronted with a host of other problems which can create instability, or that other issues in dispute within the context of the Arab-Israeli conflict are not numerous. The refugee issue, however, cuts across the spectrum of problems, and the fate of the refugees is related to other complicated issues such as regional economic and social development, the use of water resources, and political stability in several countries in the area.

Great Britain governed Palestine from the time it was annexed from the Ottoman Empire in 1917-18 to May 1948. British authority was given international recognition in 1922 when the League of Nations established a British mandate over Palestine. The Palestine refugee problem began to emerge in 1947-48 as a result of the first Arab-Israeli attempt, following the United Nations resolution, to partition Palestine into an Arab state, a Jewish state, and an international enclave to include Jerusalem and its environs. Arab opposition to the partition resolution erupted in a war between Palestine's indigenous Arab and Jewish inhabitants. The war spread to the surrounding Arab countries as they attempted to defeat the newly established Israel following British departure in 1948. During the course of the war more than 700 thousand Palestinian Arabs fled to neighbouring areas. Most went to Gaza which was under Egyptian rule at that time; to the West Bank which then was a part of the Hashemite Emirate of Transjordan (later the Kingdom of Jordan); to Syria; and to Lebanon.

Defeat in the first Arab-Israeli war led to almost total disruption of the Palestine Arab community and its dispersal throughout the Middle East. The traditional organizations, establishments, and social structure of the community were shattered; most of its leaders were gone; and only a small remnant of the community remained in the area under Israeli control. Of the approximately 800 thousand Arabs originally located in the area annexed to Israel, only about 100 thousand remained in their homes to become Israeli citizens, an Arab minority in the Jewish state.

Since 1948 the refugee problem has been one of the most controversial in the Arab-Israeli conflict. According to the official Arab position, the refugees were driven from their homes by Jewish – later Israeli – forces. Israel and its supporters maintain that Israel was not responsible for the flight but that the refugees departed under instruction from their leaders or at the behest of neighbouring Arab authorities. Recently, however, several Israeli 'revisionist' historians have raised the issue of Israel's shared responsibility for the flight.

The issue of responsibility for the refugee exodus affects many ramifications of the problem, such as compensation, the right to return, and resettlement or repatriation of the refugees; it cuts across almost all other aspects of the conflict and has been a major obstacle to the resolution of hostilities since its emergence in 1947-48.

After the 1967 war, attention shifted to the political aspects of the Palestine problem. There was increasing interest in the question of creating a Palestine state in the Israeli-occupied West Bank and Gaza. The refugee issue, nevertheless, remained unsolved. The number of refugees increased continually and their maintenance led to ever larger allocations of funds from the international community to UNRWA, the UN agency charged with Palestine refugee care (United Nations Relief and Works Agency for Palestine Refugees in the Near East).

The Palestine refugee problem differs from others in several respects. It has persisted longer; close to fifty years have lapsed since the first Palestinian exodus in 1947-48. During this period of nearly half century, the United Nations has accepted responsibility for the care and maintenance of these refugees for whom expenditures total some US\$ 4 billion. According to annual UNRWA reports, these expenditures have risen from US\$ 33.6 million a year in 1950 to over US\$ 254.5 million in 1991. During this period, UNRWA has become one of the largest international organizations, employing some 19,000 people.

Since 1949, the Palestine refugee problem has been on the agenda at every session of UN General Assembly, and it has been the subject of more resolutions than any other item discussed at the United Nations. Support for these resolutions is one area in which the Arab members vote as a bloc. The appearance of the refugee issue on the annual agenda of the General Assembly underscores the importance that the Arab and other members of the Islamic Conference attach to displaced persons. Indeed, the refugee problem has acquired certain symbolism – the continued presence of the refugees symbolizes the continuation of the Arab-Israeli conflict. These factors have given the issue a political significance and urgency not attached to other refugee problems of concern to the international community, some of which are far greater in numbers and in the seriousness of their impact on the people involved.

In recent years and during the ongoing peace process, attention has been focused on the question of a Palestine state, but less emphasis has been placed on the long-term prospects for resolving the refugee problem, although some observers believe that the establishment of a Palestine state will automatically lead to substantial amelioration, if not total resolution, of the dilemma. The issue again acquired prominence as a result of

the Gulf War, and during the subsequent Middle East Peace Conference convened in Madrid.

During the Gulf War, the refugee problem was intensified by the exodus of several hundred thousand Palestinians from Kuwait, many of whom were stateless. Unlike the several million other refugees of the war, many Palestinians who either fled or were expelled from Kuwait had no country to which they could return. Jordan became their principal temporary host because the majority had Jordanian travel documents. A smaller number carried Egyptian documents, but they were barred from entering Egypt or Gaza. The Palestine refugee problem was compounded by the much larger problem of other disaffected persons from Iraq and surrounding Gulf countries. The non-Palestinian refugees also encountered great economic hardship from their sudden dislocation, but most did find homelands willing to accept them.

The refugee issue was not on the agenda of the Middle East Peace Conference that met in Madrid in October 1991. However, it emerged as one of the five important problems that were to be dealt with at the second multilateral phase of negotiations in Moscow in January 1992. More than twenty nations participating in the multilateral discussions in Moscow decided to convene during the spring of 1992 for a third round of talks on the five issues of environment, water, disarmament and security, economic development and refugees. Thus, the refugee issue again became a major, if not the main, focus of efforts to resolve the conflict between Israel and the Arabs.

Although the Palestine refugee problem is a critical factor in maintaining Middle East stability, it cannot be isolated from other issues which also affect regional peace. Settlement of the refugee issue must address problems such as the security of Israel, internal stability in the host Arab countries, and various aspects of international law dealing with refugees in general and specifically with matters such as compensation, the right to return, and human rights. The issue is also intimately related to defining the borders between Israel and its neighbours.

International aid to the refugees raises questions about the future of UNRWA and the type of assistance refugees will receive in the coming years; should the emphasis continue to be on education, vocational training, social welfare assistance, or should it be on development programmes which could integrate the refugees within the region?

It is evident that the Palestine refugee question has to be part of both an internal and final solution to the conflict because the interests of Diaspora Palestinians are closely linked with the needs of Palestinians in the West Bank and Gaza. Failure of negotiators to consider the concerns and interests of those outside the borders of (the former) Palestine would undermine the credibility of the peace process. Diaspora refugees would perceive neglect of their interests as betrayal, and this could stimulate further unrest in Diaspora communities where disenchantment with the leadership, the governments of host countries, and the international community is already increasing.

By the early 1990s there were approximately 1.7 million Palestinian Arabs in the Israeli-occupied West Bank (East Jerusalem excluded) and Gaza; over a million of these

people were in the West Bank and over 600 thousand in the Gaza Strip. About 470 thousand Palestinians in the West Bank were classified by UNRWA as refugees, over 120 thousand of whom were living in camps. The refugee population of the Gaza region was over 580 thousand, with more than 320 thousand in camps. In each region there were two groups of Palestinians: the indigenous Arab population, whose families have lived in the West Bank and Gaza since mandate times or before, and refugees who came during the 1947-48 exodus from the areas of Palestine that were annexed to Israel.

The one million Palestine refugees in the West Bank and Gaza Strip are still within the borders of Palestine, not in the Diaspora. However, their living conditions are often as difficult as those in the Diaspora, and at times even worse. Their prospects depend on the future political status of the occupied territories.

Although Gaza was under Egyptian military rule, Cairo authorities permitted local Palestinian organizations to exist, thus fostering a certain degree of local self-government, and co-opted Palestinians into paramilitary units. A small number of Palestinians were allowed into Egypt for educational and employment purposes. Some refugees in the Gaza region were employed by local land and factory owners, but the majority were jobless and depended for their survival on assistance from UNRWA. Unemployment and the impoverished living conditions caused tension between the refugees and the Egyptian and native Gazians. Refugee infiltration across the border into Israel, where many had owned farms, homes, and other property before the 1948 war, caused enmity between Israel and Egypt and was a contributing factor to the 1956 and 1967 wars. Because Gaza was never annexed to Egypt, the Palestinians living there did not have Egyptian citizenship becoming, in effect, stateless. (With the end of the mandate, Palestinian citizenship ceased to exist and passports issued by the British authorities were no longer valid for travel abroad.) Little was done to encourage economic development in Gaza, and it became one of the most overcrowded and poverty-stricken areas of Palestine refugee concentration.

The situation of the Palestinians living in the West Bank was better. After King Abdullah annexed the West Bank to Jordan in 1950, its Palestinian population gained citizenship rights. They have been represented in Jordan's parliament and many have held high governmental offices.

In June 1967, Israel occupied Gaza and the West Bank, placing both regions under military government. Jordanian East Jerusalem was separated from the West Bank and Israeli law was imposed a few days later. Thus Arabs in the former Jordanian-ruled East Jerusalem were given the option of becoming Israeli citizens, a choice that was accepted by only a few score. Although Israel considers East Jerusalem and adjoining West Bank areas as part of the Jewish state, the Arab inhabitants of these areas have not accepted integration.

The economic systems of both the West Bank and Gaza have become mere adjuncts to Israel's economy. Economic difficulties and problems created by Israeli occupation are examined in other parts of this study.

Since the start of the Israeli-PLO peace process, international aid for Palestinian refugees has been slanted towards Gaza. To make matters worse, the decline in aid, both from the UN and from international relief agencies, has coincided with the phasing out of the PLO as the provider of jobs, pensions, scholarships, and medical services. The Palestinians' situation in Lebanon is unique in the fact that very little is known about it. Even the size of the community is a matter of dispute: UNRWA works on the assumption of 338 thousand people, but it is merely the roughest estimate. Despite a health-care crisis, there are few health statistics. Facts essential for the intelligent deployment of aid such as the extent of unemployment and underemployment, the number of female-headed households, orphans and old people on their own, mortality rates, children of school age out of school, simply do not exist. This lack of information discourages people who might have otherwise tried to help (*Economist* 1995).

1.4.2 *The peace process and its stages*

Since 1945, and particularly in the cold war period, plans for a Middle East order were often defined by extra regional powers in terms of an outward-oriented strategic identity also serving the global interests of these powers, particularly the United States. Is it thus possible for the Middle East in the post-cold war era to define the future from an intra-regional perspective in terms of an inward-looking identity based on security, economic cooperation-integration and ecological sustainability (water issue)? Turkey and Israel strongly support this idea. The vast majority of Arab states are also receptive. The participation of many Arab countries – particularly representatives of the Gulf Cooperation Council and the Arab Maghreb Union – in the multilateral talks of the Arab-Israeli peace process is an important illustration of the current trend toward the establishment of a new Middle East order or 'the changing Middle East'. But the building of the new Middle East order by Arab countries is dependent on the successful outcome to the peace process.

In the aftermath of the cold war and Gulf War, there are many changes which impact on the Middle East peace process. In destroying the military might of Iraq, the United States not only tipped the balance of military power in the Middle East heavily in Israel's favour, but also shattered some myths that had lingered among Arabs for decades. Egypt had already shaken off these myths when it decided to normalize relations with Israel. Taking this dramatic step for pragmatic reasons, the Egyptian government concluded that it was impossible to regain by force all the territory lost to Israel in previous wars. It not only recognized the depth of the US commitment to Israel's security, but also became aware that pan-Arabism was in sharp decline; and it believed that the enormous resources that militarization would consume could be better spent improving the general welfare of the population.

Other Arab states were less willing to give up the belief that if they could attain strategic military parity with Israel, it would be a prelude to regaining the lost territories and to establishing a Palestinian state in place of Israel. Gradually, however, Arab governments have become aware that the qualitative military edge Israel has had over any likely combination of Arab forces was based on a permanent commitment to Israel's security by the United States and that the US would not, under any circumstances,

compromise it (*Mideast Mirror* 1992). Today, all members of the Arab League, including the PLO, openly endorse UN Resolutions 242 and 338, which call for the recognition of the state of Israel and its right to exist within safe borders in exchange for its withdrawal from the occupied territories.

Another myth was the belief that pan-Arab solidarity would surface when one or more Arab parties became engaged in a conflict with non-Arabs. Although the irrelevance of pan-Arabism had been evident years before the Gulf War, the crisis provided stark confirmation. The failure of the Arabs to resolve the Iraq-Kuwait conflict peacefully, and the striking absence of solidarity when the Iraqi army was defeated by the Western coalition troops during Operation Desert Storm, proved once and for all the fictitious quality of pan-Arabism. Given these past experiences, it is unlikely that the Arabs will be able to join ranks to take unified action toward a peaceful resolution of issues like the Arab-Israeli conflict.

Operation Desert Storm neutralized Iraq's ability to sabotage the prospective peace process through a third party of the Arab world. Jordan and the PLO were weakened and censured by their victorious Arab brothers for showing sympathy toward Iraq during the Gulf War. Consequently, even without pressure from moderate Arab states, both countries were willing to participate in the peace process, hoping to recoup their war losses and some of their perceived rights. The US seized the opportunity and initiated a two-track peace process with a bilateral and a multilateral focus. The process had been faltering until the 1992 Labour Party victory in Israel increased the possibility of its reinvigoration.

When discussing the peace and security building process, we should remember the various stages in the history of the region marked by wars: 1948 to 1967, the period from the founding of the state of Israel to the 1967 June War; 1967 to 1982, the period from June War to the Lebanon War; and 1983 to 1994, the period of changes at the grassroots level both externally and internally. The Arab-Israeli conflict has led to five wars and numerous diplomatic initiatives to resolve the long-standing disputes in the region, and the official peace talks which began in Madrid in 1991 were the result of international diplomatic efforts as well as of developments on the international and regional stage. Before the official Arab-Israeli peace talks, Crown Prince Hassan of Jordan, brother and likely successor to King Hussein, presented to international audiences a concept for a 'Helsinki-type' approach to the Middle East hostilities. He proposed an alternative definition for the term 'security' to address the root causes of conflict, including questions of demography, human rights, the environment and ideology; a plan which identified democracy, security and prosperity as interrelated elements of stability in the Middle East (Talal 1991 and 1991a).

The Middle East peace talks began at the international conference in Madrid on 30 October-1 November 1991 with hopes based on a two-track approach. One track convened bilateral meetings between Israel on the one part and Syria, Lebanon and a joint Jordanian-Palestinian delegation on the other. The second track, initiated at a conference held in Moscow on 28-29 January 1992, addressed regional issues in multilateral meetings. Five working groups were formed to review the questions of arms

control, the environment, economic development, refugees and water. These meetings were attended by representatives from the principal countries and the Palestinians, as well as delegates from other Arab and European states, China, Japan, Russia, the USA, Canada and Australia. The multilateral negotiations supplemented the bilateral talks by in-depth debates on some issues, and they provided an opportunity for outside powers to create an atmosphere congenial to the development of peace. Syria and Lebanon have boycotted the multilateral meetings from the very start.

It is valuable to review the events of 1993 in the context of changes in the regional and international environment which led to these developments:

- i) the collapse of the Soviet Union and the subsequent loss of Soviet support, among others, for Syria, Iraq, and the PLO;
- ii) the alliances formed in the 1991 Gulf War and the resulting impact of the war on the region;
- iii) the shift in Israeli domestic politics;
- iv) the rise of Islamist groups in the West Bank and the Gaza Strip.

Each factor had far-reaching implications on the entire region, including the Arab-Israeli and Arab-Palestinian conflicts. In 1993, two rounds of bilateral talks took place in Washington. These, in sequence the ninth and tenth rounds, were held from 27 April-13 May and 15-30 June. Unaware of the secret talks between Israel and the PLO, the delegates at these meetings endeavoured to narrow the differences in the Arab-Israeli conflict on all fronts but produced no tangible results.

The Jordanian track has proven to be less contentious than the Israeli-Palestinian or Israeli-Syrian negotiations. However, progress has been tempered by the pace of talks on other fronts. Early on in the Madrid process, Israel and Jordan had been negotiating a common agenda on which a partial agreement was reached approximately a year later and full agreement in June 1993. Jordan, however, would not sign the agenda until progress was made in the other bilateral talks and tracks. On 14 September 1993, a day after the signing of the Israeli-Palestinian Declaration of Principles (DOP), Israel and Jordan initiated their common agenda. While simply confirming the intentions of both parties to conclude a peace agreement, the common agenda is notable in so far as it delineates the common interests of Israel and Jordan. Both agree to the goal of a 'just, lasting and comprehensive peace', and they commit themselves to address the issues of security, water, refugees and dislocated persons, borders, and territorial matters.

The secret talks held over the course of eight months in Norway were a surprise to the world.¹⁰ Taking place at a time when the official negotiations were all but stalled,

¹⁰ The Norwegian Institute for Applied Social Science (FAFO) in Oslo was instrumental in facilitating the secret contacts between the Israelis and Palestinians. What began as exploratory discussions between Israeli academic and political activist Yair Hirschfeld and PLO aide Ahmed Krai turned into serious direct negotiations between Israel and the PLO, engaging the attention of, and in the later stages the direct involvement of, Yitzhak Rabin and Yasser Arafat. The talks took place in secluded villas, private homes

they shocked even the Arab and Israeli delegations meeting in Washington when it was revealed that these contacts had been going on without their knowledge and had resulted in a Declaration of Principles which by August 1993 had been initiated by Israel and the PLO.

The international commitment to fund the development of the West Bank and Gaza Strip provides a strong motivation for other countries in the peace talks. With financial commitment also comes access to international markets and a long-term interest in the development of the region. Additionally, according to several analyses, countries in the region stand to benefit considerably from the integration of their own markets and trade into a regional system. As one study prepared by the World Bank for use by the multilateral Working Group on Regional Economic Development shows, the benefits are both financial and political. 'Regional cooperation in the areas of trade, labour, capital and especially multi-country projects will contribute to region-wide prosperity and will help strengthen interaction in political and social spheres', the study points out (Diwan and Squire 1993). The authors counsel, however, that cooperation needs to be combined with domestic reforms and with creating a more welcoming environment for private investment.

At present, the region is not highly integrated in trade, communications, water utilization, environmental management or energy use. These are areas in which cooperation is likely and can be very beneficial. In 1993, only 6 per cent of trade in the region was between neighbouring countries (Diwan and Squire 1993). Much work needs to be done. For example, in the field of communications, it is impossible to make direct telephone calls between many countries in the region and links are routed through Europe.

In October 1993, Jordan and the PLO initiated an economic agreement which established a framework for cooperation in the fields of banking and finance, trade, labour, investment, tourism, customs, and tariffs. The agreement was subsequently signed with few amendments in January 1994 (Harvard University 1994, Amr 1994).

and apartments in Norway, Sweden and France under the sponsorship of the then Norwegian Foreign Minister, Johan Jørgen Holst, and key figures of FAFO. Without the involvement of third-party interests of a superpower such as the USA, this small Norwegian group helped set the stage for a successful outcome. After the discussions in Norway, when they arrived at an agreement, Arafat and Rabin then had to sell the agreement to their home constituencies. The internal discord that resulted among the Palestinian leadership led to the resignation of several members of the official negotiating team, as well as to conflict within the PLO. In Israel, the disclosure served to deepen the rift between Labour and Likud Parties.

The success of the negotiations that resulted in the Declaration of Principles has encouraged Israel and its other interlocutors to pursue other opportunities for direct discussions.

Bilateral peace efforts are strengthened by progress in multilateral and private initiatives. Although political agreements are required before real changes can take place on the ground, developments particularly in the areas of economic cooperation and regional environmental protection have contributed to instituting a culture of Arab-Israeli and international cooperation in the Middle East. Likewise, once political agreements are implemented, the resulting stability is likely to allow considerable economic benefits.

Focusing first on banking and trade, Jordan in particular is eager to secure the economic benefits expected to result from the implementation of the Declaration of Principles. As contentious political questions are being resolved, business people are eager to make contact with one another and to take advantage of the change in political climate. Jordanian and Israeli business and economic leaders have been meeting formally and informally since the September 1993 Declaration of Principles (*Ma'ariv* 1993). Once the Jordanian-PLO economic agreement was signed, Jordan and Israel came to an understanding on the establishment of Jordanian banks in the territories, Jordan's first priority in the accord. In the field of energy, engineers from Israel and Egypt are exploring the possibility of linking the electricity grids of the two countries to improve the system in each and to service Gaza as well.

One study suggests 'a potential after-peace' market for US\$ 2.2 billion a year in Israeli goods to Syria, Jordan, Egypt, Saudi Arabia, and the United Arab Emirates (Sandler 1993). Another assessment predicts that Jordanian access to West Bank and Gazan markets alone will provide Jordan with an estimated US\$ 300 million in annual revenues (Tal 1993).

In the environmental field, Arab and Israeli delegations have had cordial meetings on the problems of the region. Since the first multilateral meeting on the environment in May 1992 in Tokyo, protection of the Gulf of Aqaba has been emphasized as a major concern. Numerous proposals had been introduced on joint environmental projects, but without an agreement on the political front, little progress was made until the signing of the Declaration. Shortly afterwards, at the meeting of delegates from 40 countries and international as well as regional organizations on 15-17 November, an agreement was reached on approximately twenty environmental projects on oil spills and other ecological disasters in the Gulf of Aqaba. The agreement marked the first settlement negotiated between Israel and Jordan in over two years of peace talks. Cooperation in the environmental sector and the ensuing contacts contribute to the web of interdependent relations and thus to the stability of the region (Eisendorf and Gerstein 1994).

The progress made in terms of agreements signed, relationships forged and perceptions transformed is not irreversible, but events have proven the advances to be durable. In March 1994, a serious challenge was faced by the Arab-Israeli negotiations when a US-born Israeli fanatic opened fire on Palestinians in a mosque in Hebron on the West Bank. This act deeply shocked both Muslim and Jewish communities in the region and beyond. The personal bonds, political commitment and political investment that had already been made were instrumental in strengthening the cause of a peaceful settlement and the peace talks survived the tragedy. Other efforts to sabotage the agreements can be expected and it is impossible to predict whether an incident in the future will reverse the progress that has already been made or damage the prospects ahead.

The Arab-Israeli peace talks are premised on the need for a comprehensive settlement of the conflicts. One dimension apparent in these negotiations is the cross-fertilization among the various bilateral and multilateral tracks. Progress in one area contributes to development in others, increasing the momentum towards a

comprehensive peace. The Declaration of Principles; the Israeli-Jordanian common agenda; the economic and environmental relationships; the very recent Israeli-Jordanian developments and achievements all attest to the day-to-day improvement of the Israeli-Syrian track. Success puts pressure on other areas and successive agreements can generate others. With the positive steps taken in 1993, the cycle of violence that has characterized the region for the past 45 years can begin to be replaced by a cycle of peace, but peace at what cost?

1.4.3 *Israel and the challenges of peace*

Lasting peace is still a long way off. HAMAS, the Islamic movement, murderously opposes the very principle of peace with the Israelis. Groups within PLO refuse to endorse the deal and the Arab world at large has been very slow to make peace. Many Israelis believe that the Arabs are merely bidding time to renew the conflict, this time from advanced bases within the occupied territories.

External forces have considered partition the only obvious solution for Palestine. It was recommended by Britain's Peel Commission in 1937, and again by the United Nations when it voted for the creation of Israel in 1947. The tragedy is that the obviousness of partition has never been acknowledged by both sides at the same time. From the 1930s onwards, the Palestinians have rejected the idea of sharing the land – their land, they believe – and ended up losing it. It was not until 1988 that the PLO – faced with a growing recognition of Israel's permanence and of the need to capitalize on the Palestinian uprising (*Intifada*) in the occupied territories – stated that it would settle for a separate state alongside Israel.

Some PLO intellectuals have been saying for more than twenty years that liberating all of Palestine was impossible and that unless they settled for the West Bank and Gaza, Palestinians would once again get nothing. The need for compromise became urgent after the Gulf War, when Yasser Arafat's support of Saddam Hussein isolated the PLO from its patrons and paymasters. The demise of the sympathetic Bush administration in Washington added to the pressure.

Israel's strength in comparison to the Arabs has been growing with each passing year. Israel entered the 1990s nuclear-armed, relatively prosperous, and fortified by an influx of new immigrants from Russia. The Arab world, in contrast, remained cruelly divided after the Kuwaiti war and militarily weakened by the collapse of the Soviet Union.

Although the Likud Party defeated Labour Party in successive elections, the population seemed to remain evenly divided on territorial compromise and most Israelis showed a profound lack of interest in the occupied territories. Despite lavish loans and subsidies, Likud was able to coax less than 120 thousand out of Israeli's total population of 5 million, to new homes over the Green Line in Gaza, and the West Bank. Some settlers were like-minded nationalist zealots, or religious Jews inspired by Israel's remarkable victory in the Six-Day War of 1967. But for most, the motivation was not

ideological at all; they simply wanted cheap homes within commuting distance of Tel Aviv and Jerusalem.

Since 1989, when the Soviet Union decided to let its Jewish citizens emigrate, more than 500 thousand have arrived in Israel, adding to the country's population by more than 10 per cent. Generally, with a higher standard of education and training than the native population, these new settlers have been the ideal type of immigrants many countries only dream of.

Most reached Israel in 1990 and 1991 when the influx totalled 200 thousand and 176 thousand respectively. Desperate to escape chaotic conditions in Soviet Union, many simply arrived at Ben Gurion Airport between Scud-missile attacks by Iraq during the Gulf War. As news of the hardships trickled home, the inflow slowed and less than 80 thousand arrived in 1992, with only about 60 thousand in 1993. But over a million Jews in Russia and other ex-Soviet republics have inquired at one time or another about Israeli visas.

Coinciding with the arrival of the Russian immigrants, Israel was also struggling to absorb some 30 thousand black Jews airlifted from Ethiopia in two secret operations. Most were Sephardim, and like the Russians, virtually no-one spoke Hebrew. Culturally, they had little in common with the Europeanized *Yishuv* and it took a long time before these newcomers thought of themselves as Israelis rather than as Jewish Arabs. Their main advantage – and what most Russian immigrants lacked – was a strong sense of Jewish identity and the continuing observance of Jewish tradition. But this, oddly, sometimes made their assimilation into Israeli society more difficult and the territorial issue became more important for Israel than in the past.

Israel's Sephardim often consider themselves as second-class citizens. But it is the country's Arabs who are truly at the bottom. With a higher birth rate, they have become an increasingly large proportion of the population. Israel now has just under one million Israeli Arabs compared to 4.3 million Israeli Jews. The Palestinians who did not flee in 1948 acquired both Israeli citizenship and, in principle, full political rights including the vote. But since then, they have been torn by conflicting desires – to identify with Israel on the one hand and to remain Palestinian on the other. During the period 1948-67 they were isolated from the West Bank and Gaza Palestinians and when the 1967 war brought the two communities together again, they had become estranged. Wealthier than their cousins across the Green Line, the Arabs in Israel had learnt fluent Hebrew and had adopted many Jewish customs. Consequently, they are still not fully trusted by the Palestinians in the territories.

Now that Israel is inviting the Palestinians to build the foundation of an independent country in the West Bank and Gaza, this policy of exclusion, always unpalatable, has become unwise as well. The loyalties of Israeli Arabs are delicately poised. Israeli Arabs wish the new Palestinian state well. But, like American Jews who wish Israel well but are better off and more at home where they are, they have no desire to live in it. What Israeli Arabs do expect is a sharp improvement in their own status within Israel once peace comes. If they are disappointed, their present muted calls for

'cultural autonomy' within Israel will grow louder and more will probably turn to the already buoyant Islamic movement.

A Jewish state whose most orthodox citizens question its legitimacy; a democratic state whose Arab population are still treated as second-class citizens – how is Israel to solve this dilemma? A few intellectuals have long urged for radical constitutional change; others go further, arguing that Israel should merge with the emerging Palestine to form a new binational state.

Peace more or less is inevitable. But the momentum behind peace could disappear altogether if the Israeli occupation is not lifted soon or if there is no conspicuous improvement in the quality of Palestine life. It is a fight – either in war or in peace – between two nationalities for the same country. And partition, albeit the only workable compromise, leaves most Palestinian refugees without balm or redress.

A more serious danger is that peace might not end communal strife and terrorism. History and geography have bound Israelis and Palestinians too tightly together for the partition to introduce total separation. Like Siamese twins, they share a single beating heart, the City of Jerusalem, which each side claims for its capital. Furthermore, partition will leave many members of both communities on the wrong side of the border, wherever they may be. Israel will still have its Arab citizens and the new Palestine may retain some Jewish settlements. Can these stranded minorities form a bridge between the fragile peace of the new neighbours? In this situation, locked together with the Palestinian Arab neighbours, peace is the only acceptable solution. While some Israeli political and military leaders, looking bleakly around the Muslim world, conclude that the Jews will always be the few against the hostile many and therefore advocate the need for nuclear weapons, this cannot be a response to the inevitable postulates of living together.

1.4.4 Regionalization – subregionalization of conflict resolution

Conflict resolution in the Middle East presupposes a regional approach, since the main conflicts affect in one way or another most states in the region. The multilateral negotiations may well be a first step towards conflict resolution on a regional basis. These multilaterals are devoted to talks at the workshop level on refugees, water, economic development, environment and regional disarmament and confidence building measures. Although conflict resolution mechanisms have not as of yet emerged on the regional level – the major breakthroughs have so far occurred in the bilateral tracks – it should be acknowledged that progress has been made, and the mere fact that the delegations meet on a regular basis in order to discuss issues of interest for all parties is an important accomplishment in itself. The Israeli-Jordanian peace treaty acknowledges the necessity of regional cooperation in security-related matters:

Article 4. Security. 1a. Both Parties, acknowledging that mutual understanding and cooperation in security-related matters will form a significant part of their relations and will further enhance the security of the region, take upon themselves to base their security relations on

mutual trust, advancement of joint interests and cooperation, and to aim towards a regional framework of partnership in peace.

b. Towards that goal, the Parties recognize the achievements of the European Community and European Union in the development of the Conference on Security and Cooperation in Europe (CSCE) and commit themselves to the creation in the Middle East, of a Conference on Security and Cooperation in the Middle East (CSCME).

The commitment entails the adoption of regional models of security successfully implemented in the post-world war era (along the lines of the Helsinki Process) culminating in a regional zone of security and stability (Article 4. Security, in the Treaty of Peace between the State of Israel and the Hashemite Kingdom of Jordan, 26 October 1994).

These words imply regional change and while Europe is used as the paradigm or the model, it is interesting to speculate about the future prospects it could have in a changing Middle East.

II REGIONAL DEVELOPMENT COOPERATION: THE INFLUENCE OF PEACE

2.1 The hopes, realities and prospects of economic cooperation-integration

There have been many programmes, and illusions of inter-Arab cooperation. Over 60 official pan-Arab and inter-Arab organizations are currently in existence but progress toward Arab integration has been slow. Intra-regional trade ranges between 6-8 per cent of total trade and rises to 10 per cent if oil is excluded from both intra- and extra-regional trade flows. Labour flows and the associated capital flows in the form of remittances closely correlated with developments in oil markets are far more important than regional trade in goods.

Beyond the political problems, the failure of regional integration-cooperation in the Arab world is due to three main factors:

- i) the unequal character of demographic and economic development, and the great differences between the countries in the level of development and structure;
- ii) the failure to adopt outward-oriented development strategies in the region; and
- iii) the divergent interests of countries in the region.

The number of treaties, agreements and protocols signed by the member countries of the Arab League on the promotion of their mutual trade and economic cooperation-integration is impressive, totalling nine at the League level, and eight at the subregional level. But this proliferation of treaties, in effect, reflects the repeated failures of various political efforts striving for economic unification as well as the launch of new initiatives whenever feasible. Therefore, the fact that signed integration treaties and agreements in the Arab countries are not subject to ratification by democratically elected parliaments makes their repetition a common occurrence. The absence of democratic institutions and the frequent coups d'etat in these countries are behind the apparent disrespect for decisions and agreements made by successive governments and regimes. Each successive parliamentary body wants to have its own magnum opus of duly signed agreements on Arab economic and political integration, and to do so, it must repudiate what has been done before. This is the only way that successive regimes can prove their validity and eagerness to promote Arab unity even if it is on paper only. In fact, governments are not discouraged by having to repeat these efforts simply because they are either able to exonerate themselves from these failures by blaming external forces for intervening, or because the new leaders are confident that they will do better (Grissa 1993). In some cases, the success of the attempts for integration seemed assured because efforts have been made, amid considerable publicity and fanfare, by regimes with the same political and economic orientations. But

unfavourable changes in political or economic direction in one of the participating countries have just as quickly eroded these attempts.

In the region, it is widely believed that by an effective opening of their frontiers to each other, they can accelerate the development of their mutual trade. The existing frontiers, however, are not responsible for the rather low level of trade between the Arab countries. Their current level and structure of production, the composition of their exports and imports, the distances between the major economic areas and the insufficient communication methods are the major constraints.

While it is increasingly recognized that economic integration should not be considered as an objective in itself, but as the means to promote trade and economic development, politicians have failed to understand that it can succeed only between compatible economies which have completed, or at least nearly completed, the process of internal integration, and which are thus able to make satisfactory reciprocal concessions. No two Arab countries, however, have had compatible, contemporary regimes economically and politically capable of achieving voluntary and durable cooperation. In fact in most of these countries, the process of internal integration remains far from being realized, which in itself constitutes a major handicap to the development of durable external political and economic relations. A country without consolidated internal integration lacks the necessary national political and economic cohesion to face the full implications of an external integration.¹¹

Each Arab country should concentrate its efforts on the development of its economy and on the promotion of its proper integration. At the same time it should negotiate for progressive liberalization of its commerce with its neighbours without imposing added restrictions on their trade with the rest of the world. Resources differ considerably from one Arab country to the next and this affects potential for development, and how each country can exploit its comparative advantages to promote its own economic growth.

A comparative analysis of economic development in the region is indispensable for understanding the problems, the challenges and the opportunities for more developed cooperation. A more peaceful climate between countries in the region is also essential to revitalize more domestic and foreign investment, more trade and tourism, and to lower military expenditures. Recent peace agreements between Israel and the PLO and Jordan, and ongoing talks between Israel and Syria and other Arab countries are encouraging in this respect. It may eventually be possible in Israel, Jordan and Syria to redirect 5 per cent of GDP from military expenditures to more productive civilian sectors, generating additional growth as much as 1 per cent.

The economic outlook in the changing Middle East for the years to come largely depends on: i) international oil market conditions; ii) successful implementation of the

¹¹ Concerning the political and economic development of Italy of the 1920's, Poulantzas (1974) wrote, 'Cette in, galit, de developpement du Nord et du Sud explique, galement l'inach vement du processus de formation de l'unit, nationale'.

economic reform policies; iii) the state of regional economic cooperation; and iv) progress made in the peace process. If significant progress is made in the peace negotiations, the political and economic contexts will improve, entailing positive effects on economic growth and development in the region.

2.2 Israel, its modern economy, and the Palestinians

Israel has many of the characteristics of an advanced economy. Services make up 51 per cent of GDP; manufacturing and construction 44 per cent, while agriculture constitutes only 5 per cent. A well-trained workforce (15 per cent of all workers are classified as engineers or technical specialists) has helped to create a number of successful export-oriented high-tech companies, more than 40 of which are listed on the American stock market.

A high-tech boom is boosting the Israeli economy, helping to cut the jobless rate to less than 7 per cent, down from 11 per cent in 1993. There are 1,800 high-tech outfits in Israel; many top research institutions are clustered in industrial parks and exports for 1995 are expected to top US\$ 9 billion, nearly double the 1990 level. The Israeli economic growth of approximately 6 per cent a year rivals that of Southeast Asia.

To maintain strategic superiority over the Arabs, the Israel Defence Forces (IDF) controlled high-tech development for decades. With security paramount, the IDF discouraged commercialization of technologies such as jam-proof radio communications gear. Foreign investment was scant. But now, military technology is reaching the civilian market mainly as employees leave defence manufacturers and elite IDF units to form companies, bringing top technology and entrepreneurial zeal with them.

The economies of the West Bank and Gaza are in a state of crisis. Economic difficulties started in the early 1980s and stagnation set in after 1987. Expectations of peace fuelled a recovery in 1992, but this was followed by a severe crash in 1993. Open unemployment has increased sharply, underemployment is rampant, and poverty has risen dramatically. One fifth of the population of the West Bank, and one third of Gaza now live in poverty. Many public services are in disarray; municipalities are starved for cash; power cuts are frequent; public water supply does not meet WHO quality standards; and rats fester in the garbage on the streets of refugee camps in Gaza (FAFO 1993).

In September 1993, the PLO and Israel signed the Declaration of Principles, which is valid until a final settlement is reached on the issue of the occupied Palestinian territories. The mechanisms to make the Declaration operational, both on the security and economic fronts, are still being negotiated. Economic treaties with Egypt and Jordan have already been signed, and talks are continuing with a view to reach specific agreements on trade and finance. But certain key economic issues are clear. Future growth in incomes will have to be generated at home. Expansion of domestic production is needed to create jobs for the unemployed, to make room for the Palestinians working or living abroad, and to increase the diversification and autonomy of the economy.

In the past, economic growth in the West Bank and Gaza was driven by the demand for Palestinian labour in Israel and the Gulf. These sources of employment are gone and most Palestinian households are more insecure economically than they have been for many years. Peace can open opportunities for trade, for more independent public action, and for more foreign money. These opportunities can be used to reorient the economy toward new, domestic sources of growth or they can be squandered. Choices over economic strategy are likely to make the difference. Five specific areas are vital: i) maximizing trade linkages; ii) providing a suitable environment for private investment; iii) building institutions, from a health ministry to a private banking system; iv) providing a safety net, especially via temporary public-financed employment, for what could be a tough transition; and v) managing aid to foster autonomy rather than create dependency, not least by expanding the domestic tax base. Fulfilling some of these conditions will mean internal conflicts or involve negotiations with Israel and Jordan, but forceful action in all of these areas is needed to shift the economy towards a path of autonomous development (Diwan and Walton 1994).

Palestinian businessmen from the occupied territories and beyond react cautiously to the enthusiastic overtures of their Israeli counterparts. As Israelis speak of cooperation and joint ventures, Palestinians fear 'economic colonialism' imposed on Gaza and the West Bank by the stronger Israeli economy.

Regarding the role of the state in the Palestinian economy and its prospects, a near consensus exists in support of a market economy with a very limited role for the state. The state should encourage private sector investment by creating a suitable legal and regulatory framework, and by promoting those areas where the private sector is reluctant to invest such as infrastructure and public services. Some Palestinian officials have avidly supported commercialization of 'public' commodities, such as higher education, electricity, water, etc. This would undoubtedly avoid price distortions and ensure the best utilization of available resources. These tendencies appear encouraging but do not inevitably restrict the expansion of the government sector. There are many examples of market economies where a belief in the central role of the private sector exists side by side with widespread government bureaucracies.

Setting strict limits on the expansion of the Palestine public sector is one of the basic conditions of establishing a viable, dynamic economy able to ensure sustainable growth. The general development framework and the roles of the various sectors in the economy must be defined with utmost care. In addition, the establishment of any government institution must be rigorously based on accurate socio-economic research and multidisciplinary feasibility studies. Finally, employees must be hired strictly according to their professional qualifications in order to prevent any possibility of discrimination, favouritism, and abuse of power (Abdallah 1994).

2.3 Cooperation and Palestinian self-rule (self-government) arrangements

The Declaration of Principles on interim self-government arrangements for the Palestinians signed between Israel and the PLO on the 13th of September 1993 is not only the first step towards closer relations between these two countries, but it also opens the door to a new future for the entire region. In the agreement, the parties underlined the importance of:

... recognising the mutual benefit of cooperation in promoting the development of the West Bank, the Gaza Strip and Israel, upon entry into force of the Declaration of Principles, an Israeli-Palestinian Economic Cooperation Committee will be established in order to develop and implement in a cooperative manner the programs identified as Annex III and Annex IV (Article XI).

As detailed in both Annex III and Annex IV, the Israeli-Palestinian cooperation is to deal with economic and development programmes. In Annex III, the areas of mutual cooperation cover water, electricity, energy (oil), finance, transport and communication, fields of trade, industry, labour relations and social welfare issues, a human resources development and cooperation plan, an environmental protection plan, a programme for developing coordination and cooperation in the field of media and communication and finally all other programmes of mutual interest. Annex IV, detailing the Israeli-Palestinian cooperation on regional development programmes stipulates:

The two sides will cooperate in the context of the multilateral peace efforts in promoting a development program for the region, including the West Bank and the Gaza Strip, to be initiated by the G7. The parties will request the G7 to seek the participation in this program of other interested states, such as members of Organization of Economic Cooperation and Development, regional Arab States and institutions, as well as members of the private sector (Annex IV).

Questions have been raised on whether it is possible to initiate, before a full peace settlement is reached, a credible process of economic cooperation and development and while the West Bank and Gaza are still under Israeli control. Based on the experience of the first 25 years of Israeli occupation under Labour, Likud, and National Unity governments, such development is unlikely. Even after a peace settlement, major problems will be encountered in reversing the effects of the occupation when the economies of the territories were made ancillary to Israel's economy and were geared to the needs of the occupying power. The road network was planned, expanded, and integrated with Israel's roads; the electricity grid became part of the overall Israeli system; priority in water use and development was given to Israeli needs; agriculture, industry, trade, and commerce were allowed to develop only according to a larger Israeli scheme. Even the Palestinian labour force in the territories became so entwined in Israel's economy that it will be no easy task to sever the links (Benvenisti 1984 and 1986a, Peretz 1990).

At present, a large percentage of Arabs in the occupied territories work in Israel. Since the Gulf War and the influx of Russian Jews, the number has been reduced by about half, causing widespread joblessness in Gaza and the West Bank. Estimates of unemployment in the territories are as high as 50 per cent or more. The economic impact of the Gulf War has created a severe crisis that is unlikely to diminish before substantial progress is made in the peace process and the negotiations. The situation has been further exacerbated by Israel closing its borders to West Bank and Gaza Arabs following attacks by other sides on civilians within the Green Line.

As a result of the war and declining economic conditions, various forms of direct and indirect economic assistance have ended. Assistance to Palestinian institutions from several Arab countries has stopped and remittances sent by relatives working in the Gulf have come to a halt. Trade between the territories and surrounding Arab countries has declined. Many home workshops that provided piecemeal work to Israeli establishments have been cut off from contacts across the Green Line.

From the time of the occupation in 1967, Israeli authorities have done little to develop the economy of the West Bank and Gaza. True, material fulfilment for many has greatly improved after 1967. But a UN official reported in 1991 that Israel's long-term policy of suppressing large-scale commercial activity in the occupied territory has resulted in a weak economy, with a limited manufacturing sector largely dependent upon Israel. Palestinian industry operated in a captive market dominated by Israeli industrial products.

Israeli authorities made little effort 'to encourage further agricultural development through basic structural changes such as investment in infrastructure, extension of irrigation systems, or land reform', and Palestinian agriculture was 'allowed to develop only insofar as it would not affect Israeli agriculture, and on condition that its development would not involve a fiscal or economic drain on the Israeli economy or government' (Benvenisti 1986a).

Overall investment opportunities were limited to those complementing the better organized and richer Israeli economy. The poorer economy was unable to use traditional policy instruments such as tariffs or exchange rate adjustments to serve their own economic objectives. Unable to modify public policy decisions or the market process in order to meet local needs, the West Bank and the Gaza Strip economies have been affected by Israeli tariffs, exchange rate adjustments, and fiscal and monetary policy necessarily framed to meet the needs of the Israeli economy.

Prospects for major improvement of the economy in the occupied territories are not bright, especially in view of the difficult problems Israel will have to face. At present, Israel's most daunting priority is the need to absorb about a million new Russian immigrants by the end of the decade. Consequently, neither Israel nor its supporters abroad are likely to make the investments needed to improve the Palestinian economy.

Among the first problems to confront a Palestine entity is the large number of refugees already within its borders, constituting approximately half the total population

in the West Bank and Gaza. More than a fifth of the two-million-plus people in the prospective Palestinian state still live in UNRWA camps. Before the entity can begin to admit additional refugees, it will have to absorb the disaffected persons in camps within its borders now.

Another major obstacle is the approximate 250 thousand Jewish settlers who since 1967 have established some 250 East Jerusalem, West Bank, and Gaza locales. These settlers now constitute approximately 13 per cent of the population in the occupied territories (*Journal of Palestine Studies* 1992).¹² Although it would not be difficult to relocate many of these settlements, several have developed into sizeable urban centres whose inhabitants will not leave willingly.

Despite these difficulties, several rather optimistic studies have predicted that an economically viable sovereign or autonomous Palestine within a decade after independence. Among such studies on the Palestinian economic potential are reports by G. T. Abed (1990) and by the Center for Engineering and Planning in Ramallah for American Near East Refugee Aid (ANERA). These studies envisage the absorption of the million refugees now living in the territories as well as the integration of several hundred thousand additional Palestinians.

UNRWA and Palestinian grassroots organizations, many of which were established before the occupation, can provide the core-group of skilled personnel to initiate a new development programme. Since 1967, these groups have expanded their development activities, including health, education, agriculture, land reclamation, and women's activities. Local councils, charitable societies, professional associations, voluntary committees, [and] production cooperatives – now numbering over 400 and found in virtually all Palestinian towns, villages and camps – sprang up, especially in the past decade, in part to fill a widening gap in officially supplied services (Abed 1990). Many of these activities intensified during the uprising, *Intifada*, and a new type of organization, the 'popular committee', was added to the existing infrastructure. The Palestinian national movement's previous neglect of traditional differences between urban and rural communities was also corrected during this period.

Palestinian economists believe that these organizations, once freed from the restraints of occupation, can make great strides. Current studies postulate an independent Palestinian state free to determine its own economic policies and plans. Both assume total Israeli withdrawal, including surrender of control over land and water resources, departure of Jewish settlers unwilling to become Palestinian citizens, and severance of the economic ties that Israel imposed during the past quarter-century. Both assume an overland link between Gaza and the West Bank.

¹² According to a report entitled *Israeli Settlements in the Occupied Territories* (cited in *Journal of Palestine Studies*), about half the land in the West Bank has been dedicated by Israeli authorities for Israeli use, although Jewish settlements occupy only a fraction of the West Bank area closed to Arab use. About one-third of the Gaza area has been reserved for Israeli use.

Abed envisages the return of nearly 750 thousand Palestinians to the West Bank within the first two to three years of independence. Preference would be given to those living in refugee camps in Jordan, Syria, and Lebanon, who would 'seek to return almost immediately within the framework of a phased repatriation programme' (Abed 1990:6). These refugees would be in addition to the more than 500 thousand camp occupants presently living in the territories.

These demographic estimates suggest that the population density for the whole state would reach the rather high figure of 500 persons per km² by the year 2000. Gaza's density would exceed 2,700 per km². These figures, although high, are not impossible: Israel has a population density of 210 persons per km²; Belgium 325; Japan 325; the Netherlands 360; Taiwan 555; Hong Kong 1,900; and Singapore 4,200 (Abed 1990:7).

The vital question is whether an independent Palestinian entity can sustain a population between 3.3 and 4.8 million people? The two studies cited assume that the country, despite its limited resources but relatively skilled labour force, can become with radical economic reconstruction and reorientation relatively viable. The basic infrastructure – road network, transportation, housing facilities, education system, electricity grid, and water resources – needs to be redirected from its present orientation of Israel's needs to the requirements of an independent Palestine. Productive capacity in agriculture, industry, and services must be greatly increased through substantial investments in modernization.

Abed estimates that in addition to the cost of revitalizing the infrastructure, another US\$ 12 billion will be required for private-sector development of industry, agriculture, and services such as tourism and banking. Funding would come from diverse sources; about US\$ 6 billion from Arab countries, US\$ 4 billion from bilateral assistance, and US\$ 2 billion from international financial and development institutions. Private-sector funding would come largely from local and international business interests investing in projects from which they expect to profit.

A considerably lower estimate of the costs of reviving the economy of a Palestine entity in the West Bank and Gaza is provided by the World Bank assessment of September 1993 (World Bank 1993). According to the Bank's conservative analysis, high priority investments in the public sector over the next ten years should be about US\$ 3 billion with initial focus on upgrading water supplies, sewage plants, solid waste disposal, the road system, electricity grids, and education and health facilities.

Private capital investment of US\$ 2.5 billion would also be required over the next decade, much of it to come from prosperous Palestinians abroad. It should be noted, however, that these calculations are based on the requirements for the existing population in the West Bank and Gaza and do not take into consideration mass repatriation of refugees or other Palestinians.

The five-year interim agreement signed between Israel and the PLO in September 1993 includes a protocol calling for the establishment of an Israeli-Palestinian Continuing Committee for Economic Cooperation to deal with matters such

as water resources, electricity production, energy development, transport and communications, trade and industry, human resources, and finance. Another protocol stipulates that the two sides will cooperate in raising funds for these projects from the Group of Seven (G7) industrialized nations, the OECD, regional Arab institutions, and private sources. Soon after the Israeli-PLO agreement was signed, an international donors conference attended by 43 countries pledged US\$ 2 billion in assistance over five years, including US\$ 600 million from the European Community and US\$ 500 million from the United States (*Washington Post* 1993).

The Israel-PLO Declaration of Principles signed on 13 September 1993 as well as Palestinian self-rule agreement signed in May 1994, the signing of the Treaty of Peace between Israel and Jordan in 1994 have all provided material to enrich the vast volume of literature on the economic development and cooperation in the changing Middle East that is currently available. One comprehensive report is the six volume study, *Developing the Occupied Territories – An Investment in Peace*, prepared by the World Bank (1993).¹³

In addition, the World Bank has prepared a series of studies on the occupied territories as a result of its work since 1992 on the economic underpinnings of the Middle East peace process.¹⁴ The reports, like their predecessors, have been designed to respond to the priorities of the Palestinian leadership and their contents reflect the substantial contributions of an able and dedicated team of Palestinian experts. They also reflect the valuable inputs of representatives of multilateral and bilateral donors, and the helpful cooperation of the Israeli authorities. Thus, while being introduced by the World Bank, the reports represent a distillation of the collective wisdom of all parties concerned with the priority requirements for supporting social and economic development in the occupied territories – a process which, in turn, represents an essential element for achieving a lasting peace in the Middle East.

The Treaty of Peace signed by Jordan and Israel on 26 October 1994 is a landmark, ending nearly fifty years of conflict. As detailed in a World Bank report on

¹³ At the request of the sponsors and organizers of the Middle East Peace Talks, the World Bank has been supporting the work of the Multilateral Working Group on Economic Development and Regional Cooperation by providing analyses of the key economic issues and developmental challenges facing the Middle East region. At its second meeting in Paris in October 1992, the Working Group requested the Bank to expand its contribution to include, *inter alia*, an assessment of the development needs and prospects of the economies of the West Bank and the Gaza strip (commonly referred to as the occupied territories). In response to this request, a Bank mission, led by Pre Garg, comprised five teams focusing on the following areas: private sector development, agriculture, human resources, infrastructure and macroeconomics. Each team was in the field for about two weeks. Mission members also travelled in Israel, as needed, and paid several visits to Amman. The representatives of the key bilateral and multilateral donors in Jerusalem, Tel Aviv and Amman responsible for the occupied territories were kept briefed about the work of the mission. Close contact was also maintained with the field staff of UN agencies. The Bank mission was received warmly by all sides, who took keen interest in the work of the mission and provided superb logistical and counterpart support for the field work.

¹⁴ The first of these studies was the aforementioned *Developing the Occupied Territories: An Investment in Peace*, presented in September 1993, immediately before the Israeli-Palestinian accord; the second, *Emergency Assistance Programme for the Occupied Territories*, was completed in March 1994.

the economic opportunities and challenges of peace for Jordan, the country has within its grasp most of the tools needed to deal with the major economic challenges and to seize the opportunities they offer, but peace makes economic reforms more urgent. Speedy success will create its own momentum but the help of the international community is also needed. Jordan's current debts limit its ability to attract sustained, high levels of private foreign investment. While a gradual process of debt reduction is possible, it will not provide the rapid and sustained growth needed to reinforce the peace agreements. Debt relief could sponsor greater creditworthiness and faster growth.

The DATA report, volume II, on trade and the Palestinian territories concluded that positive changes in the political *status quo* of the Middle East could hopefully lead to a large-scale inflow of capital as a basis for regional stability. The West Bank and the Gaza Strip require large investments of capital to offset the years of neglect and destruction under occupation. The size of the Palestinian territories, and their location, dictate the necessity of close economic ties with their neighbours. To exist and prosper the Palestinian territories (PTs) must work closely with the two important border countries, Jordan and Israel. The possibilities for regional cooperation are enormous. Many regional projects dealing with such issues as transportation, energy sources, water supplies and tourism can be initiated once the political barriers are removed. Tourism and trade will benefit greatly from any peace accord. Tourism, an important source of income for many countries in the region, has so far been hampered by the unstable political climate of the Middle East. Free trade zones (FTZs) and trade agreements between the different countries will also bring prosperity to the area.

In light of the events that have transpired in the region, the balance of trade between Jordan and the Palestine territories since 1967 to the present has been in favour of Palestine. It is inevitable that this balance will swing to the advantage of Jordan. In addition, future trade will shift more towards Arab, Islamic, and European countries. However, trade relations with Israel would still continue and development in certain fields may be possible.

After reviewing the different scenarios, the best future option could be a market agreement based on a free trade area between Israel, Jordan and the Palestinian entity, entailing harmonious development and relations on equal basis. In this respect, future trade relations would be delineated to protect the Palestinian and Jordanian economies, and to avert fears of Israeli economic dominance. The proposed economic agreements would facilitate the establishment of a common market for the Middle East which, in turn, would sustain the peace process and co-existence in the region.

The undefined asymmetrical intermingling of politics and economics in the area will influence in what direction the Palestinian financial sector should proceed in the future. Whatever the outcome, Palestine – as a participant of any regional agreement on monetary issues – would benefit financially. When the notion of a Middle East development bank fully matures, it will open wider prospects for the region as a whole, and will increase economic cooperation among neighbouring countries. This will be the first step towards regional integration that is expected, in its initial stage, to take the

form of a free trade area. This could also lead to a common currency similar to the ECU in Europe.

It is imperative to institute in the West Bank and the Gaza Strip a strong financial sector with definite structure, determined by independent Palestinian monetary and fiscal policies. Customs duties and taxes should be the main sources for financing government expenditures. A central bank should supervise banking activities and determine interest rates. It is worth noting that to achieve the desired development in the financial sector, the following two prerequisites are necessary:

- i) A stable political environment induced by the desire and commitment of all parties to attain peace in the region;
- ii) Financial resources necessary to get the wheel of development turning in the Middle East region.

The absence of these two factors will hinder any real development, and will thus give rise to fundamentalism which very often causes political and economic instability. In such an eventuality, the Middle East as the main export market of Europe will lose credibility. Therefore, economic success in the region is imperative, especially in Palestine. An interesting exercise in that context as outlined in volume IV of the DATA report on the agriculture sector of the Palestinian territories suggested:

- i) Under free trade relationships between the West Bank and Gaza with Israel and Jordan, the increases in the agricultural exports in both regions will be highly statistically significant. In the West Bank, agricultural exports are expected to be doubled. This will increase the proportion of agricultural exports to total exports from 20 per cent to 33 per cent. In the Gaza Strip, agricultural exports are anticipated to increase their proportion from 80 per cent (under restricted trade) to 86 per cent. Consequently, under free trade, both West Bank and the Gaza Strip will stimulate their market shares in the Jordanian and Israeli markets.
- ii) The West Bank and the Gaza Strip farmers and exporters will increase their surplus in both domestic and export markets under free trade conditions. On the other hand, Palestinian consumers will suffer from increasing prices determined by the local markets and consequently their surplus will be reduced. That could be attributed to the fact that domestic demands for agricultural goods are inelastic. An increase in the prices will lead to decreased quantities demanded by small percentages and consequently consumer surplus will significantly fall.
- iii) While free agricultural trade may benefit the Palestinian economy in the short-run rather than in the long-run, free trade is not only subject to the removal of non-trade barriers (NTBs), but also, to the elimination of Israeli constraints on land and water utilization. Also, producing locally other non-major inputs (feeding stuffs and fertilizers) or importing them at low costs will improve the competitiveness of the Palestinian agriculture.

- iv) The capacity of the agricultural economy in the West Bank and the Gaza Strip with respect to Jordan indicate that agricultural cooperation in the input and output markets is a necessary condition in order to benefit from free trade. Diversifying agricultural production and exports through crop mix will be the major bases for agricultural economic integration (DATA Report 1993-95).

Volume V of the said report on manufacturing in the Palestinian territories came to the conclusion that in order to achieve a sustainable and competitive development in the PTs both the private and public sectors should plan and operate in parallel and in almost cohesion. Any course of action in that regard should be recommended by private sector instead of public sector officials. It is essential to note that in a majority of cases where governments have planned for development in industry without input from the industrial and private sectors, the end result exceeded or fell short of the needs and aspirations of the sector participants.

The need for strong economic underpinning to the region's external and internal peace has been emphasized by governments, banks, universities, and think-tanks in numerous documents, and in the intellectual output of various conferences and seminars over the past 2-3 years concerned with the economics of peace in the Middle East region. Still, one cannot ignore other opinions in this respect which express grave concern. First, the dangers and challenges inherent in economic dealings with Israel are presented and proponents of this view say that Israel will turn to neo-colonialism in destroying Arab economies. One theory predicts that Israel, in planning the establishment of an economic trade market in the Middle East, will allocate a central developed role for itself. It will set up joint ventures with the Arabs and it will undertake the role of financial or technological broker between the Arab region on the one hand and the capitalist developed countries on the other. However, in so doing, Israel poses a threat to the newly established industries and projects in some countries like Egypt, Algeria, Iraq, Morocco, Syria, and Lebanon. It also threatens the financial position of Gulf Cooperation Council countries as well as the traditional trading centres in Lebanon and Jordan. It even threatens the oil reserves in Saudi Arabia, Kuwait and other Gulf countries. Basically, it is a programme to ensure that Israel becomes the economic trustee of the Arab world at large. As such, it is too big for Israel to conceive without the collusion of the world capitalist centres.

Israel, in addition to fruits and vegetables, has a volume of manufactures for export to the Arab states including cement, agricultural equipment, insecticides, fertilizers, medical drugs, electric equipment, electronics and some consumer goods. Israel also aspires to become a regional centre for services. Its geographical location ensures it a special position particularly in trans-Arab trade. Transport between Egypt and the Arab states in the East can only be undertaken through Israel. Hence, control of communication roads for international or trans-Arab trade would make Israel the centre of transit trade. Consequently, Israel seeks to supplant the cities on the land routes servicing trans-Arab trade, namely Beirut, Lazikia, Tartous as well as centres such as Tripoli, Sidon, Baniyas by Israeli ports. Israel also plans to connect the country to the Arab world by a network of new communications.

Domination of the Mediterranean ports, particularly Haifa, would enable Israel to benefit from the trans-Arab trade with Jordan, Iraq, and the Gulf, hoping to become an outlet for oil, particularly from Iraq and Saudi Arabia. Should Israel succeed, it would mean a death blow to the maritime transport facilities of the Gulf states, particularly Kuwait who owns a fleet of tankers. Likewise, Israel will seek to dominate the Arab world through its technological capacity and superiority.

Another theory predicts that the next development stage will provide Israel with the economic peace that has been one of its targets. The link between economic peace and the ambitions of Israel should be not overlooked and peace in this regard would allow Israeli economic capabilities to take off at full strength. Israel has the economic base and the technical work force for a strong take-off and the region's capabilities will make its industrial expansion meaningful. In other words, the unemployed, under-utilized productive capacities in Israeli industries can work at full capacity only if there is a working force able to operate and a market where to sell the products. Hence, Israel is able to provide the material basis to advance to the stage where it can become a partner to the new institutionalized global economy in exploiting the resources of the region. This opens the way for Israel to become the secure base for the region's institutional economics.

According to yet another theory, Israel's plans are reflected in a strategic dream to become a world power in the Middle East. In his book *The Voice of Israel*, Aba Eban, the ex-foreign minister of Israel presents a Utopian project based on a relationship with the Arab states similar to that of US and Latin America, an alliance between a world power and surrounding backward, weak states. Is the process zooming in on its final objective – the containment of the Arab economies and the exploitation of Arab capabilities and natural resources?

Another belief claims that the Israeli economy is not independent. It has to accommodate Zionist targets, particularly those focused on absorbing more Jewish immigrants. At the same time, with scarce natural resources and crude materials, it must depend on international economic relations. The industrial sector provides the obvious means for accomplishing Israel's economic development, particularly as agricultural development has been realized to its optimum exploitation. The Arab countries, because of their absorbing and purchasing capacity, are the natural markets for Israeli industry. Opening such markets will inevitably give Israel access to economy of scale, greater specialization, operation at full capacity and up-grading production efficiency.

According to some speculation, Israel's plans for the future proceed from the basic premise of wanting to realize the exploitation of the region's resources. Their qualitative superiority in comparison to the ability of the Arab nations is the basic justification of the Israelis and they aspire to take over as the intellectual, manufacturing and cultural centre of the region. The Israeli vision of future relations is founded in the Zionist plan itself. Instead of a normal alliance based on partnerships, such relations would only add to hegemony and domination by Israel. Israel has been able to demonstrate its superiority with a series of victorious wars. However, Israel is now seeking to realize its hegemony through a clear strategic preconceived strategy in terms

of outline, targets, meticulously prepared strategy representing a network of alternatives in which the opponent – inefficient and lacking future visions or any real realization of the strategic interests in the long-run – must be stopped.

A second approach, which advocates the elimination of the danger to Arab economic development, is based on a number of considerations. First, the Israeli entity to this very day is dependent on imported capital to meet its needs. Second, the scarcity of resources prevents the Israeli economy from taking on the role of neo-colonialism in the region and from imposing its hegemony on the Arab economies. Third, the geographical breakdown of Israeli foreign trade, due to its highly concentrated nature, is a large impediment for orientation to Arab markets. If Israel were able to adjust to the broad Arab markets, it would have to withdraw from its major European and American markets where it has acquired a rather stable foothold. Of course, such a change would create a state of mutual dependence between the economies in the region, and Israel, by virtue of its strong economic structure and its rational decisions, will be able to secure a special place in Arab markets. This special position does not negate the fact that mutual dependence in the interest of Israel can also mean the continued Zionist reliance on Arab economies, creating a situation unacceptable to Israel because of ideological and national priorities.

The structure of Israeli exports, mostly arms and diamonds, is a disadvantage to securing Zionist domination of Arab economies. For social and strategic reasons, it will be difficult for Israel to find a market for these products in the Arab world. Moreover, Israeli technology, however advanced, does not compare to the industrialized countries and there will always a preference for non-Israeli technology. Even if it were to develop its technology to the level of the advanced countries, Israel would not be able to secure monopolies nor would it be able to impose its techniques and technology on the Arabs.

Many ideas had already been formulated and presented on the following areas where future cooperation and joint economic actions will provide benefits from the peace building process in the Middle East region:

- i) **Production:** opportunities exist for joint production, particularly in the areas of agriculture, agro-industries, and manufacturing industry. Such cooperation initially may take the form of subcontracting arrangements, to be followed by joint ventures and direct investments.
- ii) **Trade:** in the early stages of a peace era, trade would be dominated by those products and services in which each side has an overwhelming comparative advantage. On the Israeli side, this could include high value-added agricultural and relatively capital-intensive light manufacturing products, while the emphasis on the Arab side would be on food products, oil and other raw materials, and labour-intensive manufacturing goods. One could argue that the proposal of a free trade zone to include Jordan; Palestine and Israel is not expected to materialize in the short and medium terms for several reasons: a) the establishment of this zone requires a political and economic feasibility study; b) Arab countries have tried since the mid-1950s to establish an Arab common

market but have failed because of the economic and political differences among them. Thus, how can a free trade zone be established, with Israel included, in the Arab region when some social and economic differences with Tel Aviv government still exist even after peace is achieved? c) As trade relations among Arab countries have been regulated by agreements since the mid-1950s, it is unlikely that Jordan and Palestine would change this norm by establishing a free trade zone with Israel; d) For political, social and economic reasons it is more feasible for Jordan and Palestine, as the first stage, to establish a free trade zone with Syria, Lebanon, Iraq and Egypt rather than with Israel. However, the establishment of a free trade zone in the Arab region which could include Israel might be more feasible in the long-run after peace has been achieved (Amerah 1994).

- iii) Infrastructure: key regional infrastructure projects – including water management programmes, electric power grids, networks of gas and petroleum pipelines, improved road, port, and rail access, and regional tourism activities – could be financed to a significant extent by intra-regional foreign direct investment flows. The issue that has attracted the most attention is water programmes, namely the importance of an agreement on the management of the currently dwindling water resources. With regards to water in Israel and in the occupied territories, it has been pointed out that the overall picture is rather grim. In the West Bank, water scarcity is an illusion created by the inequitable distribution of resources. In Israel, the problem of water is serious indeed and as its population continues to grow, its domestic, agricultural, and industrial demands for water will also grow. Moreover, the populations of Jordan and the West Bank are also growing at rapid rates. This increases the likelihood of conflict over the limited water resources. Furthermore, the allocation of water among the different sectors in Israel is also problematic. Israel is already using its renewable water resources almost to the maximum (Jadallah 1993), allocating 80 per cent of its water to agriculture, 15 per cent to domestic consumption, and 5 per cent to industry (Benantar 1993). Finally, with improved infrastructure, the region would be in a position to attract larger tourist inflows with package tours that include several countries.
- iv) New institutions building: the following list, perhaps still incomplete, offers additional regional issues and mechanisms relating to the wider concept of security and peace building process, possibly in cooperation with appropriate UN agencies. However, each of these proposals has its benefits as well as its limitations, and would need to be considered in depth in light, *inter alia*, of the evolution of political considerations.
- Establishment of a Middle Eastern 'Marshall Plan', the creation of a regional development bank (similar to the recently created European Bank for

Reconstruction and Development),¹⁵ and the strengthening of existing regional institutions (such as the Arab Fund for Economic and Social Development and the Arab Monetary Fund).

- The creation of a new regional institution, a Middle East Bank for Reconstruction and Development (MEBRD), would allow for a fresh specification of membership and operational procedures in line with the new conditions in the region.
- The socio-economic and political impact of labour migration, whether to Europe or the Middle East, should also be considered by a relevant institution.
- Agreeing on an oil pricing policy acceptable to all producer and consumer states; dealing with the problem of inequitable distribution of oil resources, debt relief.
- Setting up a regional institution on waterways and water resources to deal with problems related to inequitable access to scarce water supplies and to maritime outlets.¹⁶
- Setting up a regional institution on environment in relation to the use of the environment as an instrument of war, through the creation of a regional environmental agency (institution) with links to UNEP.

2.4 A peace dividend for the region

The countries in the Middle East that can expect more directly to benefit economically from common efforts to bring peace to the region include Egypt, Jordan, Lebanon, the West Bank and Gaza, Syria, and Israel. With respect to international finance, these countries similarly are net debtors to the rest of the world; they receive large amounts of official assistance, and/or rely on large unrequited transfers and worker remittances to equilibrate their balance of payments.

During the period 1970-90, net flows of capital averaged 16 per cent of GNP in these countries and 14 per cent in Israel. These, by international standards, are very high flows and for several countries, capital flows were a more important source of foreign exchange in the late 1970s than exports of goods and services. As such they had a proportionately large effect on the evolution of these economies, especially the expansion of the public sector, and have marked deeply their current state of operation. By 1990, capital inflows, while still large, had shrunk to about 8 per cent of GNP in the

¹⁵ Proposal by former US Secretary of State G. Baker. The issue has been discussed intensively at the Casablanca Summit 1994.

¹⁶ It is interesting to note in this connection the suggestion advanced by President Özal of Turkey of a 'peace pipeline' to channel Turkey's water to Syria and Iraq, the Gulf states, Saudi Arabia and maybe even to Israel. Turkey was due to host an international conference in November 1991 entitled 'Water Summit in the Middle East' to discuss, *inter alia*, the region's claims to the Tigris and the Euphrates, both of which originate in Turkey (*Financial Times* 1991).

region. More recently, official capital flows have risen to offset the effects of the Gulf War, but this is likely to be short-lived.

However, a focus on flows exclusively would miss vital information on stocks, the outstanding stocks of debt on the one hand and capital flight on the other. For the region as a whole, these stocks are estimated respectively at about 90 and 135 per cent of the regional GNP in 1991. These are large by international standards; in Latin America, for example, the ratio of debt and capital abroad to GNP stood at half and one-quarter of these levels, respectively. These legacies from the past offer both exciting prospects and difficult challenges. Future prospects are linked to the possibility of fuelling the strategy for economic development for the private sector by enticing capital back to the region. The challenge lies in the debt overhang. Besides the burden imposed by the debt on current resources, the severity of public debts is scaring away both domestic and foreign private investors and delaying the return of past capital outflows.

Consequently, in assessing future prospects, it is important to consider the need for exceptional debt relief measures as countries move towards more market-oriented paths of development. Indeed, as in Latin America, debt relief has become a crucial component of ongoing reform programmes. But most of the debts in the Middle East are bilateral, so the 'Brady Initiative' does not hold much promise. Instead, the most feasible model lies with the conditional debt reduction programme granted by the Paris Club to Egypt in 1990-91, which set a new precedent for linking reduction with reform. An alternative approach – an increase in grants sufficient to offset the outflows related to debt payments – can achieve the same aim and has been pursued in Israel. These alternatives are contrasted, and the conditions under which either one prevails could be analysed.

A review of past external financing strategies and prospects for the future suggests the need to place more reliance on private sector financing. Is this feasible and consistent with the restoration of external creditworthiness? The answer is positive but qualified. Past external debt management strategies – debt reduction for Egypt and increased reliance on grants for Israel – have already ensured the creditworthiness for both. For the West Bank and Gaza and Lebanon, the picture is blurred by their unusual financing needs *now* and in the immediate future; but assuming a plausible increase in grants, the demands can be met and external creditworthiness maintained. For Jordan and Syria, given the current high level of grants in the former and the need for a significant increase in the latter, the required financing and restoration are likely to be compatible only if the stock of debt is reduced (Diwan, Squire and Underwood 1993).

One of the World Bank's top Middle East experts, Caio Koch-Weser, has argued recently that the region requires at least 3 per cent annual growth in income per capita to secure political stability. But it is easier said than done. From 1980 to 1992, average income per capita in the non-oil economies of the region rose only by around 1 per cent per year (see following table).

The drop in oil prices caused incomes in the richer countries to fall. Ambitious proposals for regional infrastructure projects, ranging from international highways and

railways to water and gas pipelines, have emerged from the multilateral talks between Israel and the Arab countries. Executives were summoned to Casablanca in 1994 to see whether some of the projects could be pushed along. The prospects have not been encouraging; for a start, political cooperation remains constrained. Despite the end of the boycott of Israel, the consequences have been indirect and most oil-producers remain wary of direct trade with Israel. Bilateral accords are probably a better option and Israel and Jordan have made economic cooperation the cornerstone of their peace treaty. Many still believe that the only way to quickly raise living standards of the Palestinians is through close cooperation with Israel, who directly or indirectly generate nearly a quarter of Palestinian GDP. But is this still possible? Meanwhile the economies of the countries that matter in the long-run – Egypt and the Maghreb – remain menaced by forces who induce economic instability and let the (reasonable) caution of businessmen and tourists do the damage. No one expected 'Casablanca model' to produce an answer to this dilemma (*Economist* 1994).

MIDDLE EAST ECONOMIES

	1992 Population	Average annual % change, 1980-92		1992 US\$
	million	GDP	GNP per capita	GNP per capita
Egypt	54.7	4.4	1.8	640
Morocco	26.2	4.0	1.4	1,030
Jordan	3.9	0.8	-5.4	1,120
Tunisia	8.4	3.8	1.3	1,720
Algeria	26.3	2.6	-0.5	1,840
Saudi Arabia	16.8	0.4	-3.3	7,510
Israel	5.1	3.9	1.9	13,220

Source: World Bank

The chief executive of Koor Industries, Israel's largest and most profitable industrial group with an estimated turnover of US\$ 2.5 billion for 1994, believes that a fifth of Koor's future growth will come from the peace dividends. Koor Peace Enterprises, with Arab and European partners, has set up a US\$ 100 million company to invest in Palestinian territories and a US\$ 60 million company in Tunisia to finance regional infrastructure projects. Tourism, agrochemicals, agro-industry, software and multimedia education are mentioned but the dividends of peace will be won only by those Israeli companies willing to take calculated risks and to relinquish the leading role in every new venture.

We are going to have a market of 300 million consumers, and a new era and 'new attitudes of business over ideology', and if I have a choice to invest in Eastern Europe or the Middle East I will invest in the Middle East. It is the responsibility of the Israeli business community to assist political leaders by cementing peace on the solid ground of business. But we must not push too hard. Our attitude is not to exchange military colonialism with 'economic colonialism'. We must be sensitive and build real credibility between two business parties which have a common interest and start on an equal basis and do things that are good for both sides (*Financial Times* 1995).

The vital question is whether the mix of Turkish, British, Egyptian, Israeli and Jordanian laws inherited in the Palestinian territories can be forged into a coherent, hospitable commercial code for foreign investors or is the problem still political?

With the recent initiation of the peace process in the changing Middle East, the countries in the region have a unique opportunity to pursue economic as well as political change, namely, to liberalize their economies to take full advantage of the anticipated rational peace dividend. The possible advantages of closer economic ties among Middle East countries have come to the forefront in policy discussions. Greater integration of the Middle East could contribute to added food security in the region as well as to the economies within the region and the world.

Despite the fact that the Middle East countries can be grouped according to whether they are oil-exporting, labour-exporting, or major food-producing countries, they are still predominantly middle-income developing countries whose economies are highly sheltered from import competition. Particularly the extensive use of high distortionary non-tariff barriers (NTBs) denies consumers and internationally competitive producers in the Middle East the opportunity to benefit from expanded trade relations with countries that lie within region and beyond.

On the supply side, economic incentives for greater efficiency and productivity in the food and agriculture sectors are adversely affected by import-substitution policies favouring industrialization and, more generally, diversification away from more traditional activities. On the demand as well as supply side, protection against agricultural trade limits the integration of markets for food and agricultural commodities, regionally and internationally.

Analysing the benefits of increased integration of food markets among countries, trade liberalization corresponds to greater integration of Middle East markets for staple food commodities, under existing and new schemes for economic cooperation in the region or alternatively, under more general policies to increase the integration of Middle East food markets with markets in Western Europe (Mediterranean) and the world at large. The direct benefits of trade liberalization are measured in terms of the reduced instability of food supplies under the different policy regimes *vis-à-vis* the present levels of instability in the Middle East markets for staple food commodities.

The liberalization of intra-regional trade in food among a wider group of Middle East countries than those included in either the Arab common market or Gulf Cooperation Council – namely to include the West Bank and Gaza Strip, Israel and also important peripheral countries of Turkey and Iran, and in greater sense, all North African countries (Maghreb) – is beneficial in most cases. In some instances, however, the integration of Middle East markets under a number of regional cooperation scenarios for major cereals, including especially wheat and barley, has not resulted in substantial gains in food security because of the present extent of regional and international grain imports by these countries on a commercial basis as well as the additional food imports by Egypt and several countries under international aid programmes.

The largest margins for improving food security in the Middle East through trade liberalization exist mainly in increasing the integration of Middle East commodity markets with those in Western Europe and the world at large. In other words, to reduce the instability of food supplies in Middle East markets, international integration over regional seems preferable and consequently the dominance of non-discriminatory over preferential trade liberalization.

The importance of these findings for policy deliberations on economic policy reforms and possible initiatives for greater regional integration in the new Middle East peace era must be tempered by some caveats. It would be advised to recognize the still limited, albeit important, sample of staple food commodities examined and the importance of the liberalization of agricultural trade policies in Western Europe and other world regions, as well as the Middle East. Also, present analytical findings must be tempered by recognition of the partial equilibrium nature of the analysis. In this last regard, the economic gains from intra-regional versus more general liberalization of trade relations in the Middle East should be judged in a wider context than the instability of food market supplies. Specifically, with particular reference to the underlying comparative advantages (and disadvantages) of the Middle East countries in producing a wide array of primary and industrial commodities and goods, they should be judged on the basis of more formal measures of the economy-wide and sectoral gains from trade to producers and consumers, inclusive of the concerns of policy makers for food security in the region (Derosa 1994).

III WATER – THE CRITICAL ECO-POLITICAL ISSUE

3.1 Water – a key for the future

Water resources in the Middle East are of crucial importance for any peace settlement and for sustainability concepts. No conclusive answers can be presented, no fundamental solutions given for the contradiction, and no magic measurements for sustainability either for resources use (water) or institutions can be introduced in the changing Middle East. One of the most important issues underlining the existing regional integration is the scarcity of water and joint dependency on the same water sources. The issue has been complicated by the fact that the rivers and aquifers of the Middle East are often shared by two or more states. Growing populations exert further pressure on natural resources, at the same time as the utilization of water has already reached its limit.

The water question has not been solved in the Israel-PLO agreement and it continues to remain on the agenda of issues to be negotiated. In the Jordanian-Israel negotiations, water was one of the most difficult issues to resolve and the current agreement stipulates that Israel is to divert water from the Jordan River to Jordan. Both countries are committed to develop new and additional water resources with the help of international donors. In Gaza, the scarcity of water is a ticking time bomb. To Israel, relations with surrounding Jordan, Syria and Lebanon are to a certain extent marked by the issue of water, through the Jordan River basin. In the relations between Israel and the West Bank and Gaza, water is a highly important matter. Israel's water requirements and the joint dependency of Israel and the West Bank on the River Jordan and groundwater aquifers in the highlands of the West Bank, are crucial factors in the Israeli occupation.

The acute water shortage poses unprecedented problems to Middle Eastern states – problems which can be resolved only through regional cooperation on questions such as how joint management of water can be established. Water was also on the agenda for the multilateral Middle East peace talks, which were held within the framework of the Madrid conference. There has been also a number of schemes based on wider regional cooperation, such as water pipes or shipments of water from Turkey, and diversion of Nile water to Gaza, etc. The dire predictions of nearly a decade have resulted in a vast number of articles, papers, and reports relating to this grim scenario. Yet, no attempt until now has been made to organize the burgeoning literature into a constructive resource tool that could help policy makers address the underlying sources of the water conflict.

The Charles R. Bronfman Foundation (CRB) stepped in to fill the void through its support for a Middle East water resource bibliography prepared by the University of Toronto's Centre for International Studies. This 100-page document is a crucial component of ongoing efforts by CRB to generate a substantive basis for successful

water management strategies in this critical and changing region. The water issue accordingly highlights the widest range of relevant topics, including history, politics, economics, environment, water resources management, conflict and cooperation.

In the very near future, water can prove to be either the catalyst for continued conflict or the vital pathway to lasting regional peace. Water resource conferences and meetings linked to the peace process now occur with such frequency that they have been described as a 'booming business'. Moreover, the Water Multilateral Forum, established as part of the Madrid peace process by the United States, the World Bank, the European Community, as well as Canada and Japan, has offered crucial technical experience and financial support to bolster Middle East water negotiations. Despite over-abundance of studies on Middle East water, there is still no common pool of reliable yet neutral data. Most parties to the conflict, including academics and journalists, have had the tendency to present facts, and interpret figures to support their own political preferences. Countries in the region, with the exception of Lebanon and Turkey, are arid and threatened by desertification. Therefore, the shortcomings and deficiencies in water sector planning typically come into sharper focus during drought cycles, resulting in accelerated reliance on crisis intervention.

In short, the international community must chart a proactive, rather than reactive policy in Middle East water negotiations. One such venue could be the creation of a policy board or centre on Middle East water resources, an official body granted the mandate to aggressively pursue regional policy coordination, technological innovations, data collection, management training, and regional investment planning, as well as the provision of a forum for dispute resolution discussions.

Middle East water is at the point of no return. A creative response to water cooperation could potentially forge a path to regional peace. It is also vital to the economic survival of regional participants at the negotiating table and must be viewed as a strategic regional priority (Starr 1995).

Organized by the UN University, the Middle East Water Forum, held in Cairo in 1993, proved highly successful and made an informal but an important contribution to the progress of the Middle East peace talks. As a part of the UN University's continuing efforts in this field, two authoritative books related to water issues and conflict resolution have emerged and are part of a series of books on the topic (Murakami 1995, Wolf 1995).

3.2 The international nature of Middle East water

Many water issues in the Middle East are international in nature. There are over 280 international water treaties worldwide and they span issues arising from joint water resources, surface and groundwater, to the environmental issues resulting from water use upstream and their effect on downstream users. For example, the Nile Treaty of 1957 between Egypt and the Sudan does not include any of the other seven riverside countries, notably Ethiopia which is the origin for approximately 70 per cent of Nile's

total flow. The 1987 treaty between Jordan and the Syrian Arab Republic on the utilization of the Yarmouk River waters excludes Israel, a fellow riparian. The 1990 agreements between Iraq and Syria to share the Euphrates flow that crosses the Turkish-Syrian borders does not include Turkey, the northern most country on the river. No treaties or comprehensive agreements exist for the Jordan River, the Tigris, the navigational Shatt-al-Arab, or the Orontes.

More can be said about the status of international agreements on the shared groundwater resources in the region. Several important aquifers underlie the territories of more than one Middle East country. Some aquifers are renewable groundwater resources,¹⁷ and others, consisting of mostly fossil water, are non-renewable. The water quality of the fossil aquifers varies with location. In some locations as the Saq formations underlying Jordan and Saudi Arabia, it is fresh; in some other areas, it can also have salinities and can be used in plant production. No agreements have as yet been concluded for sharing the groundwater among riparians nor have understandings been reached for protecting the quality of mutual aquifers.

In view of today's prevailing scarcity of water in the Middle East region, the conclusion of treaties or agreements among all those utilizing each water basin is important. Jordan and Israel have recognized the urgency of an agreement on the shared water resources – the surface resources in the Jordan River basin and the groundwater resources, mostly fossil waters – underlying their respective territories in Wadi Araba. Prospective negotiations should pave the way to a comprehensive water treaty among all parties concerned with the Jordan River basin. Attempts are still being made by Iraq, Syria and Turkey, the three riparians on the Euphrates and the Tigris, to reach a mutual solution. Syria and Turkey reached a temporary understanding in 1987 to ensure a minimum flow of 500 m³ of water per second to cross into Syria. A bilateral agreement was concluded between Iraq and Syria to share the waters coming into Syria in a ratio of 58 per cent for Iraq and 42 per cent for Syria. These arrangements, however, are far from the objective of a comprehensive treaty among the parties. Additional agreements are also needed on the Orontes between Lebanon, Syria and Turkey. While negotiated terms are the most durable and the highest form of commitment on the part of the signing parties, international rules and practices are definitely helpful in assisting the parties to conclude the desired agreements. The work of the International Law Association and of the International Law Commission of the United Nations can serve as a guide to the negotiating partners.

Although seemingly an internal matter relating to the sovereignty of a country over its territories and resources, the conditions of water utilization and management within a given riparian country, are reflected in the concepts normally adopted in the process of negotiating the division of water among riparians. The institutional set-up for water management may be a happy outcome of successful negotiations, and examples can be set in the Middle East region that could be helpful to other arid and semi-arid countries of the world.

¹⁷ Jordan and Syria; Palestine and Israel; Lebanon and Israel; Syria and Turkey have joint ground water resources.

Major water resources in the region are shared between countries. The three most important, albeit contentious, river basins are those of the Jordan, Nile and Euphrates-Tigris. While the Jordan Basin is entirely within the Middle East region, most of the flow in both the Nile and the Euphrates-Tigris originates from outside the region.

3.2.1 The Jordan River basin

The sources of the Upper Jordan and its tributaries are in Syria, Israel and Lebanon. Both Jordan and the West Bank also have vested interests in the flow of the Jordan River. The Upper Jordan is fed by springs with a relatively steady flow; the largest of which is the Dan Spring in Israel. Springs in Lebanon contribute to its northern tributary, the Hasbani River, and the Baniyas River is fed by the Hermon Spring in the Golan Heights in Syria. The Upper Jordan discharges its waters into Lake Tiberias, a major reservoir within the basin and Israel diverts water directly from the lake to its national water network. The main tributary is the Yarmouk River running between Syria and Jordan for about 40 kilometres before joining the Jordan 10 kilometres downstream from Lake Tiberias. Syria and Jordan extract water from the Yarmouk to irrigate about 15 thousand hectares and 12 thousand hectares respectively. Below the confluence of the Jordan and Yarmouk rivers, springs and irrigation run-offs add to the river before it discharges into the Dead Sea. This waterway is heavily polluted on both banks, a condition aggravated by Israel's large-scale diversions of water before the river reaches the lower Jordan Valley. The main issues concern the conflicting claims of the river-side countries; the salinity and heavy pollution of Jordan River proper; Israel's and Jordan's high population growth and heavy utilization of water that exceeds, or soon will exceed, the renewable water resources in both countries.

3.2.2 The Nile River basin

The Nile is the main source of water for Egypt. Measured at Aswan, about 85 per cent of the average annual discharge originates in the Ethiopian highlands with the balance originating in Central Africa. To secure its water supply, Egypt has sought agreements with only Sudan. A treaty between the two countries was signed in 1959 that specified their annual water shares. Since evaporation from the Aswan Reservoir is substantial, about 14 per cent of average flow, provision was made for sharing losses and gains equally through joint water development projects. As Egypt and Sudan share the entire flow of the Nile, the treaty stipulates that claims from other riparians would be jointly considered. If the claims resulted in an allotment to a third country, a corresponding amount would be deducted from Egypt's and Sudan's allocation in equal proportions. Despite the provision in the Egypt-Sudan agreement for subsequent amendments with other riparian countries, Ethiopia has refused to recognize the 1959 agreement, declaring that the treaty violates its interests. Recently, however, the situation appears to be more promising; technical contacts between the countries of the Nile basin are developing and awareness appears to be growing that the riparian nations must cooperate in the development, management, and conservation of the limited water resources available in the basin.

3.2.3 *The Tigris and Euphrates basins*

The Euphrates originates in Turkey, which contributes 94 per cent of its waters, 4 per cent are added in Syria and insignificant amounts originate in Iraq. The Tigris receives about 40 per cent of its waters from Turkey, 50 per cent from Iraq, and 10 per cent from Iran. The two rivers join to form the Shatt-al-Arab waterway before reaching the Arab Gulf. Irrigation is the predominant use in both basins, accounting for more than 80 per cent of total abstractions. In Iraq, more than a million hectares are watered from the Euphrates, and more than two million hectares from the Tigris and its tributaries. Although Syria and Turkey have much less land under irrigation, both have ambitious reclamation programmes, but they may not produce the desired result as a significant proportion of the flow can be lost through evaporation from existing and proposed reservoirs. Projections show substantial reduction in water resources, especially in the Euphrates. While the Tigris is believed to have more water and to be less susceptible to depletions, it would also be substantially affected by the full development of all proposed irrigation projects, and in any case, the two river systems are increasingly interconnected. These developments could lead to severe flow reductions in the Shatt-al-Arab, deteriorating the situation in the lower reaches of the river system and the delta. Cities grow and modernize and per capita consumption of water also increases. Thus, the main issue is reconciliation of conflicting interests of all the riparian countries.

3.2.4 *International aquifers*

Several very large aquifers exist in the countries in North Africa and the Arabian Peninsula. Some of these cross national borders and are subsequently claimed by neighbouring countries. The most important of these disputed aquifers are the Eastern Erg, the Nubian, and the Saq/Disi. The Eastern Erg is located south of the Atlas mountains in Algeria and extends into Tunisia. It covers an area of almost 400 thousand km² and its artesian wells extend over most of this area. The volume of water stored is about four times the average annual renewable supply of the entire Middle East region although only 0.04 per cent of this volume is recharged annually. The Nubian Sandstone Aquifer lays under parts of Egypt, Libya, and Sudan, extending over an area of 1.8 million km² of which about 150 thousand km² are under artesian conditions. The volume of available water is nearly twenty times the average annual renewable supply for the region, and the aquifer is fairly well recharged annually with a rate equal to about 2.5 per cent of its volume. The most contentious issue is the massive exploitation in south-eastern Libya and the transfer of water to the Libyan coastal region via a man-made river project. There is the fear that this can reduce substantially the groundwater reserves in the two other riparian countries. The Saq Formation (Disi Aquifer in Jordan) covers an areas of 106 thousand km², extending in the east from Jordan to Saudi Arabia in the south and is considered the best groundwater resource in Saudi Arabia. Jordan is concerned that the Saudi exploitation of the aquifer for low-return wheat cultivation will reduce water availability for higher priority uses and harm Jordanian interests. Jordan itself has also exploited the aquifer for agricultural purposes but is currently planning to devote it to urban and industrial uses.

The nature of these large aquifers requires extensive investigation to determine their characteristics, possible exploitation rates and the potential impacts on neighbouring countries. Generally, however, they are characterized by shallow gradients and low permeability. Therefore water levels and volumes are not easily affected over large distances. Pumping can, however, lead to a rapid decline in local water tables and to the exhaustion of a specific well or well field. Exploitation near national borders can thus still damage the interests of neighbouring countries, and cooperation and management on utilization would undoubtedly provide the basis for the most equitable solution to disputes.

3.3 Water resources of Israel, the West Bank, and the Gaza Strip

The water resources in Israel, the West Bank, and the Gaza Strip are indeed limited and, under the current allocation system, are stretched almost to their limit. Water shortages are largely artificial, resulting from an uneconomic allocation to agriculture. While these allocations do not make economic sense, they do make political sense and hence the current situation of unrealistic water allocation serves political aims.

In Israel and its annexed areas, there are four primary sources of water: i) the Upper Jordan River/Lake Kinneret; ii) the Yarmouk River and the Lower Jordan; iii) the Yarkon-Tannain aquifer; and iv) the coastal aquifer. In addition, there are a number of smaller aquifers as well. The long-term sustainable water yield for the region is slightly above 2,100 million cubic metres (mill.m³) per year. Current sustainable yield is roughly 1,900 mill.m³. Presently, Israel can recycle 100 mill.m³ of wastewater each year and long-term potential for wastewater reclamation is envisaged at over 450 mill.m³.

The water consumption of Israel, the West Bank and the Gaza Strip has been greater than currently sustainable water yields, resulting in a drop in the water tables and infiltration of sea water into the aquifers. Annual water consumption in the mid-1980s totalled 2,049 mill.m³. Domestic consumption in Israel accounted for 325 mill.m³, industry 125 mill.m³, and agriculture 1,320 mill.m³. In comparison, the West Bank was allocated 170 mill.m³, of which 30 mill.m³ was used by the Palestinians for household and industrial purposes and 95 mill.m³ for agriculture. Israeli settlers used 45 mill.m³. In Gaza, consumption totalled 103 mill.m³, with 23 mill.m³ allocated to households and industry, 80 mill.m³ to agriculture, and 6 mill.m³ reserved for Israeli settlers (UN 1992).

The West Bank and Israel share the Yarkon-Tannain aquifer and the current allocation of water between the inhabitants was largely determined by earlier patterns of consumption. Since its occupation of the West Bank in 1967, Israel has increased Palestinian access to water for household use, but not for agriculture. The remaining the water in the Yarkon-Tannain has been appropriated by Israel (UN 1992). For the Palestinians, no reserved water rights – such as those recognized by the United States for environmental purposes (e.g., the protection of salmon) – are acknowledged in the current Middle East practice, and there is no unexploited water left in the Yarkon-Tannain system for further growth. There has been no water restrictions in Gaza, resulting in subsequent over-pumping and salinization.

Given the current conditions and allocation rules, the water situation in the region is very tight. For instance, if Palestinians were to use water at the current Israeli consumption rates, they would either need an additional water supply estimated at 107 mill.m³ or they would be forced to reduce the allocations earmarked for agriculture by more than half. Similarly, realistic projections of Israeli growth indicate requirements for water considerably beyond the current safe yield and that 2,550 mill.m³ will have to be achieved with vigorous reclamation. One solution to the water problem is to build large-scale projects; current suggestions include schemes for water transfers from Lebanon or even Turkey as well as a desalinization project that would require a diversion from the Mediterranean to the Dead Sea. Another solution would be to re-allocate water to allow part diversion of the 75 per cent currently being used for Israeli agriculture to industrial and household use.

Reducing water usage for agricultural needs is rational economic policy. Often agriculture does not produce sufficient value to pay for the marginal production cost of water used. Nevertheless, in Israel and the West Bank, there is a price/quota system that blatantly favours agriculture.

All water users are metered and have non-transferable quotas. Following recent pricing reforms made necessary by drought conditions, agricultural users are charged 12.5 cents per cubic meter (m³) for the first 80 per cent of their water allotment, after which the price is 20 cents per m³; 26 cents per m³ after the allocation is exceeded. Industrial users are charged a flat rate of 15 cents per m³ while the cost to households ranges from 32 to 123 cents per m³ with the maximum charge for those who use more than 8 m³ per person in a two-month period (World Bank 1990). These prices do not vary by location, nor do they vary over wet and dry years. The price/quota system is subject to change at the discretion of the government and individuals have no secure property rights over water.

The average variable cost of water production is 19.5 cents per m³. If imputed capital costs are included, the average total cost is 33 cents per m³. Depending on transportation expenditures to remote regions, marginal costs vary between 2 – 50 cents per m³ and over 40 per cent of Israel's water is sold at less than its marginal cost (World Bank 1990). The use of water at less than marginal cost causes over-exploitation of resources and an economic burden. For example, subsidization of water costs Israel US\$ 250 per year per person (Kislev 1990).

As can be seen, the region's water crisis is really an agricultural crisis. Four-fifths of the region's water is devoted to irrigation, a large portion of which may be producing little, if any, value net of cost. This misallocation of resources makes no sense economically. Yet, to a far greater extent than generally appreciated, the justification for this distortion in water distribution is in the incentives created by the continued state of war that exists in the region. Israeli water policy is determined by the perceived necessities created by war and ideology, rather than by concern for economic efficiency. Four factors dominate the Israeli strategy on water and agriculture:

- i) **Emphasis on food security:** As a nation besieged, Israel has pursued a variety of policies aimed at lessening its dependence on outside sources for vital products. These policies include, at great expense, the development of the arms industry as well as stockpiling huge quantities of raw materials. Fear that food and fibre supplies could be disrupted encourages favouritism toward agriculture.
- ii) There is need to assure physical control of the remote areas in order to combat infiltration and guerrilla operations, the goal of Israeli agricultural settlement activity since the pre-establishment period. In the 1950s, increased settlement of the Jezreel Valley, the Northern Galilee, the Arva, and the Lachish, was promoted to limit the operations of the *Fedayeen* (or guerrilla) infiltration units. Israel's earliest settlements in the West Bank and Gaza were located in the Jordan River Valley and the Katif Bloc in order to secure the infiltration routes that were commonly used by PLO units following the 1967 conflict.

Israel Defence Forces are so convinced of the military value of agricultural settlements that a specialized unit, the Nahal Brigade, is dedicated to the continual development of new agricultural settlements, even though such operations disrupt training and impose financial burdens.
- iii) Israel has also sought to settle outlying regions to assert control over areas with Arab majorities, such as the Galilee and the Negev, and to segregate the Arab population in Israel from the border areas of other Arab states. There is concern that the predominantly Arab regions of Israel are subject to separatist/irredentist pressures and that a strong Jewish presence is necessary to re-enforce Israel's permanence and the legitimacy of the borders.
- iv) Agricultural development has been integral to Israel's approach toward settlement of the region since the inception of the Zionist movement. Many people, particularly older generation, have a romantic attachment to agriculture and to the communal/cooperative settlements that dominate in Israel, viewing them as the 'soul' of the Jewish state and living testimony to the struggles that helped establish the state.

As a reflection of these military and ideological considerations, Israel has pursued pro-agricultural policies at the expense of other economic sectors. Inordinate scientific resources have been devoted to the development of agricultural technology. Finally, agriculture has enjoyed a lion's share of Israel's water resources at prices that fail to reflect the marginal cost of supply or the recouping of capital expenditure. If Israel were to transfer water rights or charge the marginal cost for the commodity, it would transfer water away from the target regions and would undermine these political aims.

The Palestinians of the West Bank and Gaza have powerful motives to favour the agricultural sector as well. Although Israel does not promote or subsidize agriculture in these areas, Palestinian farmers reap considerable benefits from Israeli policies. Israel has protected its local agricultural sector from competition with trade restrictions and quotas, causing local prices to be far higher than international rates. Much of the agricultural produce of the West Bank and Gaza slips through the porous Green Line to

be sold in Israel at higher prices. Consequently, subsidization of Israeli agriculture results in the subsidization of Palestinian agriculture as well.

Aside from these economic incentives, Palestinians have strong ideological and military motives to pursue agriculture and it is believed that Palestinians are willing to pursue even unprofitable farming for the following reasons:

- i) There is fear that Israelis will starve Palestinians into submission. This has grown more acute since the *Intifada* and has encouraged massive efforts to attain local self-sufficiency. Over the past five years, victory gardens have sprung up throughout the West Bank and Gaza.
- ii) Agriculture is one of the few sectors where Palestinians are able to exercise economic and entrepreneurial control. Political uncertainty and policies pursued by Israeli administrators have hampered industrial development. As a result, agriculture promotes Palestinian self-reliance, making local agriculture more appealing than the otherwise low returns would suggest.
- iii) Few Palestinians hold formal title to the land or water that they use. As everywhere else in the world, poorly delineated property rights are detrimental to the efficient allocation of water resources in the Middle East. Under laws originating from Turkey, but also applied by Britain, Jordan, and Israel, land not actively tilled and water resources not tapped can be expropriated. Indeed, Israel has laid claim to large tracts of West Bank land and much of the Yarkon-Tannain aquifer based on this legality. Since both land and water have option value, even marginal farming operations seem attractive (Benvenisti 1986b). Thus, the Palestinians also have political reasons to support the existing allocation of water between agriculture and urban uses.

In addition to the strategic motivations for current water-allocation policy, there is no reason to assume that Israelis and Palestinians are immune to the political rent seeking that characterizes water policy in much of the rest of the world. Maintaining agricultural allocations satisfies influential political constituencies at a relatively low political cost. For example, let us assume that growth increases the demand for industrial and urban water by 20 per cent. A new desalinization plant would cost approximately 60 cents per m³ (World Bank 1990). Currently 450 mill.m³ of water is available for urban and industrial uses, and a desalinization plant could increase supplies by 20 per cent at an additional charge of 10 cents per m³ for the 540 mill.m³ which would then be available. In terms of the individual, this water bill would be about US\$ 8 per person per year, a price increase not likely to have substantial political effect. In comparison, a reduction in allocation to farmers would target a relatively small group for a relatively large loss. As argued by Stigler (1971) and Peltzman (1976) a small loss to a large sector of the population may have more political wisdom than a large loss to a small group, because these will have the incentive to organize political opposition and contribute money to opposing political candidates. In Israel, this pressure would be particularly effective because authority for water is under the jurisdiction of the Minister of Agriculture, who is largely responsible for agricultural interests. Thus, the political-economic system makes the political costs of the current system fairly small.

In the absence of peace, neither Palestinians nor Israelis have any incentive to reform the current system of water allocation and most certainly not the over-allocation to agriculture. Conversely with the onset of peace, there are gains to both Israelis and Palestinians in revising the water allocation system.

The three groundwater aquifers in the West Bank now provide 30 per cent of Israel's annual water supply, which amounts to about 1.9 mill.m³. The Israeli occupation of the West Bank and the Golan Heights also secured access to a much greater share of the water from the Jordan River and its tributaries (MEED 1992). Available water resources in the West Bank are estimated at 650 mill.m³ per year, 90 per cent of which comes from groundwater sources. In the Gaza Strip, total water resources are approximately 70-80 mill.m³ per year (Water in Palestine 1992).

More than 80 per cent of the water resources of the occupied territories are used by Israel. In the West Bank, 30 per cent of the Arab population is without piped water, and about 40 per cent of the water consumed in urban areas comes from the Israel Water Company at prices higher than those paid by Israelis living in the homeland or the Jewish settlements in the West Bank. Water losses from the supply network are as high as 50 per cent due to leakages caused by aged and poorly constructed networks. Most operating wells are in need of repair or maintenance to increase capacity and efficiency.

In the Gaza Strip, groundwater resources, which constitute the only available source, are badly affected by seepage of sea water and pollutions from municipal and agricultural wastes which have left 85 per cent of drinking water wells unfit for human consumption (MEED 1992). Israeli settlers use 70 per cent of the water available in the Gaza while the Palestinian population of approximately 750 thousand receives only the remaining 30 per cent.

The total annual water consumption for domestic and industrial purposes in the occupied territories is estimated in the Gaza Strip at around 27 mill.m³ and 33 mill.m³ in the West Bank for a total of 60 mill.m³. Water consumption for irrigation and other agricultural uses is estimated at about 160 mill.m³ in a ratio of 65/95 mill.m³ for Gaza and for the West Bank respectively. For comparison, it is interesting to note that the average per capita consumption in 1990 for domestic and industrial purposes in the occupied territories was estimated at approximately 72.6 litres per day while in Israel, it was 360 litres per day. The estimated average for agriculture and irrigation purposes was 193.4 litres per day compared to 728 litres per day for Jewish utilization (ESCWA 1992). Thus Palestinian water consumption for domestic and industrial purposes as well as irrigation are 20 per cent and 26.6 per cent, respectively, of Israeli consumption. Restrictions by Israel on the Palestinian utilization of their water resources have been a major constraint to Palestinian socio-economic development in the occupied territories.

The water situation in the Jordan River basin is characterized by problems of scarcity, quality degradation and poor distribution. Israeli control over the upper Jordan river has deprived the Arab riparians of any influence on the control and equity of water

allocation. It has also enabled Israel to fully exploit the Jordan River waters north of Lake Tiberias by diverting them to the south (ESCWA 1992).

On the problem of sanitation services, only 12 of the 29 municipalities in the West Bank have sewerage networks. Ramallah city is the only one to have a sewage treatment plant, built in 1975 and now in urgent need of expansion. All effluent from urban sewerage systems is discharged into adjacent valleys, causing health hazards and contamination of groundwater sources downstream. In some cases, untreated effluent is used for crop irrigation, which is extremely critical to the public health and protection of environment. In the Gaza Strip, only 30 per cent of houses are connected to sewerage systems. Most households rely on septic tanks or open channels. Sewage is collected in open ponds which frequently overflow, resulting in chemical and microbiological damage to underground water as well as environmental problems and pollution to coastal waters where untreated sewage is discharged into the sea (MEED 1992). In all future talks and negotiations, these issues should be given high priority.

3.4 Jordan's water resources

Jordan has been witnessing a substantial imbalance in the equation population-to-water resources, triggering a chain of adverse impacts. Not only have deficits in the foreign trade of agricultural commodities been chronic over the past three decades, but also the ability to supply urban water has been impaired. The per capita share of water has been decreasing in proportion to the rapidly increasing population. Consequently, rationing of water supplies has been the general practice for many years. The water extraction rate from many groundwater aquifers has considerably exceeded the rate of replenishment. Subsequently expensive inter-basin transfers of water have been customary since the late 1970s to cope with the rapidly escalating municipal and industrial needs and has been only partially replaced with treated municipal wastewater.

In Jordan in 1992, total water supply from surface, ground and wastewater resources for various uses was about 950 million cubic meters (mill.m³). The available water resources are usually not sufficient to meet the demand and the country had been forced exceed the safe yield of its groundwater resources by 172 mill.m³ to compensate for shortages. Surface water capacities are estimated at 692 mill.m³ per year, of which only 55 per cent were utilized in 1992. Because of arid conditions in the eastern, south-eastern and southern basins, and because of other economic constraints, about 475 mill.m³ of these resources can be developed economically. Surface water in Jordan are procured from:

- i) Flood water is estimated at 334 mill.m³; however, only 110 mill.m³ can be stored annually owing to the above reasons (World Bank 1993).
- ii) River baseflow and spring water are estimated at 358 mill.m³, to which the Yarmouk River contributes an estimated average of 165 mill.m³.
- iii) Groundwater, in 1992 Jordan extracted approximately 514 mill.m³ from its groundwater resources. Annual safe yield of renewable sources is estimated at

277 mill.m³ per year. However, during 1992 Jordan utilized more than 443 mill.m³ over-pumping by 197 mill.m³ – in other words, 180 per cent over the replenishable limit. For non-renewable water, the estimated annual yield of the fresh fossil aquifer is about 143 mill.m³ per year, a level which can be sustained for 100 years. In 1992, only 71 mill.m³ were pumped from this source. Groundwater pumped from renewable and non-renewable resources comprised 54 per cent of the total flow utilized in 1992.

Irrigation in the highlands depends primarily on groundwater, which is utilized by the private sector under government licence. This explains the high rate of groundwater usage. Jordan's efforts to impound the Yarmouk River floods and to regulate its flow have not been successful because of the complicated riparian issues. Such regulation would have increased the availability of surface water for various uses. The Water Authority of Jordan has initiated a programme to monitor, measure and control the pumping of groundwater.

Treated wastewater, considered an important resource in Jordan's water strategy, is already used to replace a portion of irrigation water that has been diverted to municipal and industrial uses. In 1992, more than 55 per cent of the population of Jordan was served by wastewater collection networks and treatment systems. Fourteen treatment plants are in operation (World Bank 1993) handling over 52 mill.m³ of treated wastewater mainly for irrigated agriculture which, more or less, conforms guidelines set by WHO for reuse for irrigation.¹⁸ This output of treated wastewater was equivalent to more than 25 per cent of the municipal water consumed in 1992. Water resource authorities have recognized the importance of this vital resource and future plans aim at improving the quality and expanding the reuse of treated wastewater. Given the water scarcity in the country, the social and economic benefits all justify the efforts on wastewater treatment.

Jordan's water situation is a chronic state of deficit because demand has been greater than the available resources, and the gap is widening. Between the years 1991-2005, water demand is projected to increase by 50 per cent; during the same period the deficit is projected to increase by 78 per cent.

Projections on municipal water needs for the year 2000 for a population of 5.3 million people indicate a demand of 350 mill.m³ while industrial needs will amount to 150 mill.m³, which would constitute 66 per cent of the total renewable water resources that can be economically developed. This projection adopts a per capita share of 65 m³, which is below the recommended 73 m³. Based on the utilization of arable lands in the Jordan Valley and Southern Ghor plus two thousand hectares in Wadi Araba, water requirements for irrigation purposes are expected to increase from 800 mill.m³ to 1,088 mill.m³ by the year 2000. This projected demand must be reduced by increasing efficiency, and a conjunctive use pattern between surface, ground and treated wastewater resources has to be devised.

¹⁸ The As-Samra treatment plant serving Amman, Zarga and environs needs upgrading badly. Designed to treat 68,000 m³ per day, it is being operated at a flow in excess of 125,000 m³ per day.

As part of the process of ever-increasing cooperation for development of the Jordan River watershed, the preliminary watershed analysis calculated water supply and demand for a 30 year planning horizon. The framework for option evaluation suggested a four-stage process for regional development:

- i) Negotiate an equitable division of existing resources.
- ii) Emphasize greater efficiency for water supply and demand.
- iii) Alleviate short-term needs through interbasin water transfers, if available and political viable.
- iv) Develop a regional desalination project in cooperation-inducing stages.

Water resources are a key element in the social, political and economic stability of Jordan and of the entire Middle East region. To achieve the set goals of this vital sector, any national water policy should take these factors into consideration.

The contention over water from the historic perspectives can be summarized as follows:

- i) that water, as a strategic resource, has played a larger role in regional conflict than is generally known;
- ii) that water issues have precipitated some conflict and added to existing tensions in the region; and
- iii) that, occasionally, water issues have led to dialogue and attempts at cooperation.

The lessons from the past could be useful in helping to formulate options and solutions to water-induced tension. To be successful, negotiations for a political settlement will also need to address solutions to the water conflict. Similarly, feasible solutions to the problems of regional water shortage should also address the constraints posed by regional politics. The hydrologic limitations of the region will have to be incorporated in successful negotiations over Jewish immigration or Palestinian right to return. Strong third-party involvement will be necessary for successful negotiations. The United States, or other sponsor of negotiations, should be prepared to induce cooperation with a comprehensive strategy, with particular emphasis on the upstream riparians. Progress in water resource negotiations may encourage dialogue on other, more contentious issues. Water continues to dominate the peace talks, but other projects to induce cooperation can be designed from the bottom-up with small and 'do-able' issues, and leading eventually to ever-increasing cooperation/mitigation. The two contentious issues of equity and control, will have to be addressed fairly early in negotiations. Unless a water-sharing agreement can be worked out with consideration given to each party's historic factors as well as future needs, any negotiations over intricate cooperative projects will be built on accumulated ill will.

The importance of an interdisciplinary approach to water conflict analysis is paramount. In examining the conflict in the Jordan River watershed, any one discipline alone could miss opportunities to evaluate the options or to provide the necessary guidelines to reduce conflict. By interacting in an integrated framework, however, the disciplines build on each other to provide new opportunities to circumvent entrenched positions, and to allow options to induce cooperation. The issues are not of disciplines and theory, but of people and water. As a changing Middle East peace negotiations attempt to lift the riparians of the Jordan River watershed incrementally out of a perpetual cycle of violence, water can continue to lead the process towards ever-increasing cooperation.

The present hydropolitical situation in the Middle East is one of intricate problems and delicate solutions. The distribution of scarce water resources in the Jordan River watershed is particularly precarious. The dangers of conflict and the opportunities for cooperation are both growing as annual supplies are currently being reached and surpassed. As Gideon Fishelson (1989) of the Armand Hammer Fund for Economic Cooperation in the Middle East writes:

The danger of war over water hangs over the heads of the Middle East countries, yet there is also the possibility of cooperation and harnessing new technologies and capital that would prevent such wars. Solving the water issue is one of the essential prerequisites to achieving a meaningful and lasting peace in the Middle East.

IV INSTEAD OF A CONCLUSION

4.1 Efforts made – efforts needed

In October 1994, the European Commission called on EU member states to create a Euro-Mediterranean Area with neighbouring North Africa and Middle East countries with a view to establishing a free trade zone in ten to fifteen years. Countries targeted for membership included Morocco, Tunisia, Algeria, Libya, Egypt, Jordan, Syria and Lebanon. In August 1994, negotiations for a free-trade area between the EU and Israel had met with difficulties over EU's reluctance to grant concessions requested by Israel which was seeking special status with improved access to research and development programmes and EU agricultural markets. The EU and the GCC had already discussed the possible establishment of a free trade area during talks in Riyadh in May 1994. This was in effect a follow-up of the April 1994 meeting where GCC members grouping Saudi Arabia, Oman, UAE, Kuwait, Bahrain and Qatar, agreed to harmonize progressively tariffs by product groups as a first move towards a free trade area. In addition, at the April 1994 summit of the AMU countries grouping Tunisia, Algeria, Morocco, Libya and Mauritania, heads of state signed an agreement confirming their intent to gradually establish a free trade area. A working group was appointed and charged with the preparation of a convention to further this goal. A preferential trading scheme adopted by the AMU in 1990 has not yet been implemented.

The need of cluster contacts among intellectuals, scholars and academics has become more urgent and more important since the post-cold war era has brought with it a number of impacts in the regions of Europe-Mediterranean-Middle East and North Africa. Collaborative efforts between non-governmental organizations and governmental institutions are needed to establish a 'development network' in the region. The presupposition for the development network is the clear understanding of mutual interests on economic as well as social, cultural and political issues and other areas of concern such as environmental and security prospects which affect the current population and future generations. The proposal is to find common ground as well as determine a common denominator for the regions of Europe-Mediterranean-Middle East and North Africa (E-ME-MENA) in the 21st century.

4.1.1 *Development network for Europe-Mediterranean-Middle East and North Africa*

Although development network is a relatively novel approach based on different rationale and orientations, lack of literature on the concept should not hinder attempts to find innovative ideas on the incentives, constraints and prospects in Europe-Mediterranean-Middle East and North Africa.

Briefly, the incentives can be summarized as:

- i) economic complementarity;
- ii) geographical proximity;
- iii) political commitment;
- iv) policy coordination;
- v) infrastructure development; and
- vi) institutions building.

Economic complementarity

Economic complementarity derives from the parties' different stages of economic development or from differences in factor endowments. A redistribution of labour-intensive industries from the well-developed to relatively less developed would be mutually beneficial. The abundance of both hard and soft technology could develop rapidly the managerial, operational and logistical networks which allows for the integration of the capital, technology, natural resources, agricultural resources and the abundant labour. A development network in E-ME-MENA could create the economic complementarity as a production structure which should lead not only to inward-looking market but also towards export-oriented market.

Geographical proximity

Empirical studies have shown that countries tend to trade with their neighbours if transportation and communication costs can be minimized. Moreover, some similarities and sharing the historical, cultural backgrounds are conducive to better understanding and closer business relationships.

Political commitment and policy coordination

The political commitment of the governments involved and policy coordination among the parties are the other key factors for the success of such a networking process and network processing. At the national level, there is a need to implement appropriate policies relating to tariffs, employment regulation, real estate, finance, foreign investment, and foreign exchange. All such policy directives and initiatives must be strongly supported and implemented by both central and local governments of the countries concerned.

Infrastructure development

Infrastructure development is the single most important factor in the creation of an economic environment conducive to the development of the network. Water supply, power supply, roads, and navigation lines should be open to traffic, telecommunications to business, and land levelling for rational use and building. An infrastructure development programme on an even larger scale could be

initiated focusing on more efficient infrastructure for promoting such network, especially, seaports, airports, railways, roads, communications, electricity, and water supply.

Institutions building

In the preparatory phase of establishing a development network, emphasis should be given to determining the type of activities which can be rendered more efficient in the process of institution building. The interim period before the development network becomes operational, say in the coming ten years, should also be considered. In the analysis, the pace at which countries can be expected to move forward and the costs and the benefits involved should be answered.

The current unprecedented situation in E-ME-MENA also poses some constraints to the development network and the following factors need to be taken into consideration:

- i) New threats surfacing in Central and Eastern Europe, the former Soviet Union and the Balkans;
- ii) The peace process in the Middle East and its final outcomes;
- iii) The strengthening positions of some religious extremist groups in northern Africa;
- iv) The global competition, in comparison with the Far East and Southeast Asia;
- v) The recession and the vulnerability of the European model;
- vi) Is security issue becomes the common denominator of the common foreign policy and towards whom?

Based on the rather promising incentives of the region, the potential prospects are exciting but they would also involve considerable efforts and certain costs.

Most studies on regional cooperation have been theoretical and descriptive, and have not assessed in detail their prospective and potential benefits. Data for measuring costs and benefits accurately are not available in most cases especially when E-ME-MENA is be considered. Furthermore, cost-benefit analyses are likely to differ from country to country, and spill-over effects, which are important benefits, are inherently difficult to measure. Yet without a proper assessment of actual and potential costs and benefits, resource use cannot be optimized. Perhaps more important, a clear understanding of the balance and distribution of costs and benefits is critical to productive and sustainable relations among member countries. Finally, knowledge of the costs and benefits is needed not only for the efficient expansion of the proposed network, but also for a realistic assessment of the possibilities and limitations of the future in general.

Although the novelty of the topic preclude definitive conclusions, some fairly robust observations may be made. The first is simply that the development network is an

appropriate form of regional cooperation beyond-the-region or let us put it as extra-regional form of the emerging new regionalism. Development networks are more external-oriented than inward-looking form of old trading areas or fortresses old regionalism. It is a multi-dimensional-levelled dynamism in the context of counter-impact between globalism and regionalism, globalization and regionalization. It is a needed level of extra-regional nature or to put it in other words regionalism beyond the region or open regionalism or redefining regionalism on territorial and non-territorial basis. The time is not ripe yet to say whether development network of defensive or offensive nature could be the right mix of economic-political-strategical-geographical-environmental spaces, and if that, is that an expanded definition of new regionalism or is the new liberal project (fortress regionalism) viable?

While the potential benefits are substantial, so too are the costs. Major direct costs relate to capital development expenditure and physical maintenance. Other significant costs include those involved in stemming large-scale population movements. Substantial hidden costs result from environmental degradation and increased income disparities.

On the whole, however, the future of development network in E-ME-MENA seems appropriate. The willingness is also facilitated by continuing economic reforms, which will hopefully lead to an increased flow of investment funds. Finally, with trade blocs and protectionist trends emerging in other parts of the world, development network in E-ME-MENA could handle the harsh effects of the (new comer) World Trade Organization (WTO) especially on the short and medium terms. It could also protect against the harsh global realities of 21st century, but only if an answer can be found to the question of whether it is possible to synchronize the ongoing peace process with the progress of the development network.

4.2 The role and response of the UN, international and regional organizations to the changing Middle East

The challenges imposed by the peace process and the changing Middle East on UN organizations and its agencies as well as other international and regional organizations are tremendous and crucial. The question in a prospective sense is very critical, especially from a longer-term perspective. These organizations, as far as circumstances allowed, met the challenges and responded in a functional and operational way. The future requires some kind of resilience not only in both functional and operational activities but also extending more flexibility towards the institutional dimension. Such new activity could and should rationalize the institutions-building process. Prefeasibility studies could put the landmarks related to this concern to all organizations at all levels in an interrelated, coordinated and harmonized way.

4.3 Limitations of studies and research

Studies and research concerned with the peace process in all its dimensions in the changing Middle East should cope with a number of key issues bearing upon the

future development of the occupied territories. For example, the allocation of land and water resources, the disposition of Israeli settlements in the occupied territories, the future status of expatriate Palestinians, the territorial issues surrounding Jerusalem and, most importantly, the nature of the interim 'self-rule' are the subject of the ongoing bilateral negotiations between the Israelis and the Palestinians. The resolution of these issues is likely to be based primarily on political and security considerations.

Research has been hampered by very serious data gaps and inconsistencies. Much of the data on the occupied territories are, directly or indirectly, from official Israeli sources. A population census, for instance, has not been carried out in the region for more than 25 years. As a result, most of the demographic and labour force data are based on extrapolations and on sample surveys, the reliability of which are undermined by non-response, especially since the *Intifada* in 1987. Data on East Jerusalem and on Jewish settlements in the occupied territories are mostly unavailable. Also, data detailing trade between the occupied territories and Israel and on the profitability and competitiveness of the agricultural, industrial, and services enterprises are also very limited. Statistics, when they exist, are often based on *ad hoc* surveys that do not lend themselves easily to cross-sectional or longitudinal comparisons. Data differences among various sources are particularly pronounced, for example, population, unemployment and social indicators. The analysis, especially for the longer term, is necessarily incomplete. Consequently, in view of the limitations, all the conclusions of all studies are only 'indicative' of broad trends and priorities. Further in-depth studies and feasibility work will be required before the findings can be used for operational decisions.

More elaborative research has to analyse 'national-regional' levels and the effects of interaction in economic reform, structural adjustment, productivity, etc. Within the framework of the new regionalism in a changing Middle East, industrial, local, national and regional layers have to be reviewed. Multi-disciplinary research should study the linkages in all directions – horizontally and vertically, backward and forward – in a tight and consistent way to avoid distortions. Explorations need to look at classifications in the region such as gender (male and female); locations (rural and urban); roles (government and market); distribution (rich and poor); coordination (local and spatial); and, cooperation/integration (national and regional). New orientations should support attitudes and actions focusing on democracy, dynamism, dialogue, deliberations, and diversity. Priorities which sustain elasticity and stability include reforms on legislation, management, finance, resource reallocation, and the remobilization and participation of the people.

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