



Economic aspects of peace in the Middle East

EXECUTIVE SUMMARY

When this report was commissioned in September 2005, the challenge set was to identify the necessary conditions for economic progress in the Occupied Palestinian Territories (OPTs) and determine how the international community should offer support. The underlying rationale was that a viable Palestinian state, living in peace and security with Israel, requires the creation of a sustainable Palestinian economy. Conditions in the OPTs have deteriorated in the intervening two years, most recently following the Hamas takeover of Gaza, and this rationale, acknowledged by both the Israeli and Palestinian authorities, has become even more compelling.

The world economy has been transformed over the past 40 years. Many countries, including Israel, have benefited from the process of globalisation. The Palestinian economy, however, has been left behind. Its composition today is remarkably similar to that of 1967, with the private sector highly fragmented and unproductive relative to regional, and global, competitors.

Developments since the outbreak of the second *intifada* in 2000 have further reduced economic opportunities, resulting in a 40 per cent fall in per capita GDP, during a time when much of the world was experiencing unprecedented growth.

The current economic outlook for the OPTs is bleak. Despite \$10 billion in international aid since the formation of the Palestinian Authority in 1993, the Palestinian people are getting poorer and 65 per cent now live below the poverty line. For the Palestinians, further economic malaise will only increase humanitarian suffering. For the Israelis, economic deterioration in the OPTs can only increase security risks. For both sides, the current vicious cycle of poverty and unemployment contributing to instability and conflict, and in turn further poverty and unemployment, must be broken.

Sustainable economic growth in the OPTs can come only from the private sector, whose development is currently held back by a number of barriers. While these are numerous, five building blocks of an economic roadmap for sustainable progress have been identified. First, the economy needs to be stabilised by reducing public expenditure, specifically the public wage bill, which could be temporarily underpinned by donor-funded employment and investment programmes. Second, a stable relationship between the Palestinian and Israeli economies needs to be established to provide a reliable framework for private sector led growth. Third, flowing from this, the right balance must be struck between short-term security and allowing movement and access, to allow both prosperity and security for the future. Fourth, the Palestinian economy must diversify its trade links and improve its access to global markets. Fifth, the private sector needs to be supported by enhancing the investment climate.

Realising the economic roadmap requires adopting a number of recommendations, divided between those that can be implemented straight away and those that are conditional upon political progress. Seeing this through will not be easy. But the experience of other conflicts demonstrates the need for economic progress to go hand in hand with political progress. Above all, taking this work forward will require strong leadership from the Palestinians, the Israelis and the international community, working together to achieve the common goal: a strong, democratic, and viable Palestinian state living side by side, in peace and security, with Israel and its neighbours.

FULL REPORT:



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