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## REGIONAL ASPECTS OF A COMPREHENSIVE ARAB-ISRAELI PEACE SETTLEMENT: NEXT STEPS TO PRESERVE AND PROMOTE THE PEACE PROCESS

### *Executive Summary*

The Middle East peace process is at another historic and critical crossroads. The recent change in government in Israel as a result of the Likud victory will undoubtedly, but both regrettably and understandably, lead to a pause in the peace process as the new Israeli government assesses its options and determines its policies. The results of the election indicate that, while the majority of Israelis continue to support the peace process, they do have doubts about its pace and direction. We suspect that Arab popular opinion would parallel the attitudes of the Israelis in reflecting a similar caution because the "fruits of peace" have not been translated into facts on the ground, especially in economic and social terms in the Palestinian context.

There is little likelihood *in the short term* of either (a) significant progress on the Israeli-Palestinian front beyond possible adherence to commitments made under the current agreements between the two parties or (b) a breakthrough with Syria. There will be a renewed focus on Lebanon as to whether or not movement on that front is possible independent of an Israeli-Syrian agreement and based on the withdrawal of Israeli troops from the security zone in Lebanon and the establishment of necessary security arrangements on the Lebanese-Israeli border. Here a word of caution is in order because there are real risks associated with an attempt to cut a separate deal on the Lebanese front. Syria would not perceive it to be in its interests to have an Israeli-Lebanese agreement move forward, leaving Syria as the "odd man out" in the peace process. The Syrian position was reflected in a recent of-

ficial press statement that "There will be no peace and no security without withdrawal (from Golan)."

At one level, a protracted hiatus risks a, perhaps, decisive loss of momentum in the peace process. But a limited pause can also provide opportunities to set the stage for future progress. Accordingly, it is essential in the near term to provide the "political space" necessary for the new Israeli government to establish its channels to all the Arab negotiating parties, most immediately with the Palestinian leadership, in order to pave the way toward the resumption of serious negotiations with the ultimate goal of a comprehensive peace settlement involving all the parties, especially Syria.

In this context, the United States government has a critical political role to play as the "honest broker" to assure that the principles of the Madrid peace process remain the basis of negotiations: namely, direct face-to-face negotiations on the basis of UNSC Resolutions 242 and 338. Essential to the United States government's ability to do so is adherence to these longstanding bipartisan positions in support of the principle of land for peace, the establishment of meaningful security arrangements and guarantees, and the position that Israeli settlements are obstacles to peace. Departure from these principled positions by the United States administration will undermine the peace process as a whole. A parallel and equally important role for the Europeans and the World Bank to help stabilize the situation is also called for in terms of institution building, especially in the Palestinian context, and economic assistance. A coherent and con-

structive division of labor between the United States and Europe can do much to enhance the prospects for peace in the region.

*Given these realities, emphasis now should be placed on four general areas:*

1. *The Israeli Palestinian front*, which may well be the most immediate flash point. Effective efforts by the Israeli government and the Palestinian authority are called for to avoid provocative acts of omission or commission that could unravel progress thus far achieved and plunge both parties into a downward cycle of recrimination and violence.

a. The Israeli government must establish formal and informal lines of communication to the Palestinian leadership necessary for crisis management and for the initiation of final status negotiations.

b. Access to the Israeli labor market by Palestinian workers with agreed-upon security measures should be resumed as soon as possible to alleviate the dangerous and depressed economic situation in the West Bank and, especially, in Gaza.

c. Israel should carry through the agreement to redeploy IDF troops from Hebron in a manner, which assures the security needs of both sides.

d. A second set of measures involving mutual obligations that should be observed by both the Israelis and the Palestinians is also enumerated in the text of this working paper.

e. The unfulfilled cooperative steps of the Oslo I and Oslo II agreements should be carried out.

2. *Economic cooperation among the various parties to the process with which Israel has concluded agreements: the Palestinians, Jordan, and Egypt.* Such a focus has several advantages. It will increase the economic well being of all involved, most especially the Palestinians, and serve to marginalize extremists. It is less likely to arouse the political sensitivities of the Likud government. Two areas, in particular - energy and water - hold special promise and could provide a model for expanded regional economic cooperation to include, in a later stage, Syria, Lebanon, and other Arab states. Specific proposals are contained in this paper.

3. *Progress on the Israeli-Syrian and Israeli-Lebanese negotiations.* Any Israeli-Syrian agreement must be based on the fundamental principles of the Madrid

Conference as contained in U.N. Resolutions 242 and 338. Peace with security is a corollary requirement, and the elaboration of specific security arrangements that meet the requirements of both sides is essential. This elaboration includes clear agreements on preventing and eliminating acts of violence and terrorism from individuals and groups inside and outside of the region.

4. *A coherent division of international labor in support of a comprehensive settlement.* While coordinating, politically, to the fullest extent possible with the Europeans, the United States should retain its historic role of crisis manager between Arabs and Israelis and "honest broker" in the peace process. The Western Europeans should focus on economic support and institution building, most notably through the Barcelona framework. Private investors and international financial institutions, especially the World Bank, have key and complementary roles to play in economic development.

#### *Background. The Best of Times, the Worst of Times*

The current situation in the Middle East recalls a phrase of Charles Dickens; it is the best of times, it is the worst of times. On the positive side, we see that:

— The fall of the Soviet Union means that the Middle East is no longer a focus of contention between the super-powers.

— The international coalition formed for the Gulf War changed regional stereotypes; Syria broke from Arab radical ranks and aligned itself with the U.S. and moderate Arab states.

— Desert Storm shifted the military balance in the region in a positive direction.

— Arabs and Israelis for the first time met in face-to-face, direct negotiations under the Madrid Peace Conference framework and produced the Declaration of Principles between Israel and the PLO, the Oslo Accords, and the Israeli-Jordanian Treaty.

— Palestinian elections demonstrated a real commitment to democratic principles.

— The global economy presents both opportunities and challenges to the Middle East countries in terms of economic and social development.

On the negative side, we see that:

— Iran and Iraq remain sources of instability, both internally and externally.

— Domestic political considerations will loom larger in United States foreign policy decision making in 1996 - a presidential election year.

— Recent acts of violence and terrorism in the Middle East demonstrate that extremists, religious and secular on all sides, can deal devastating blows to the peace process and regional stability.

— The fruits of the peace process which began with the Madrid conference have not been fully realized in terms of a comprehensive peace on all fronts, especially with the lack of forward movement on the Syrian and Lebanese negotiations.

The door is still open to making dramatic political and economic progress in the region. A concerted effort by the parties in the region, the cosponsors of the peace process, especially the United States, the European Union, and the interested financial institutions, particularly the World Bank, is essential. A failure to act now would constitute a serious setback to the peace process and may undermine the historic progress achieved since the Madrid conference in 1991.

### *The Israel-Palestinian Track: The Central Political Issue*

The central political issue in the Middle East peace process is the Israeli-Palestinian relationship, and this relationship is at a critical point. There is a widespread perception that progress on this track has slowed, even ground to a halt. Failure to maintain the reality and perception of forward movement beyond the Oslo Accords would clearly risk a strong Palestinian political reaction, with serious negative consequences for both Palestinians and Israelis.

To prevent this from happening, we propose four sets of *Immediate Measures*. The first set of measures is designed to forestall an immediate deterioration in Israeli-Palestinian relations:

— The Israeli government must establish the formal and informal lines of communication to the Palestinian leadership necessary for crisis management and the initiation of final status negotiations.

— Safe passages between the Gaza Strip and the West Bank, as specified in the Oslo agreement, should quickly be set up to allow unhindered communication between the different parts of the territories under the Palestinian Authority and, thereby, alleviate the de-

pressed and dangerous economic situation, especially in Gaza.

— Access to the Israeli labor market by Palestinian workers with agreed upon security measures should be resumed as soon as possible to alleviate the dangerous and depressed economic situation in the West Bank and, especially, in Gaza.

— Israel should carry through the agreement to re-deploy IDF troops from Hebron in a manner that assures the security needs of both sides.

*Mutual Obligations.* The second set of measures involves mutual obligations that the Israelis and the Palestinians should pledge to observe.

— No new Israeli settlements and no additional confiscations of Arab land.

- No closing down or hindering Palestinian institutions in Jerusalem which existed prior to September 1993.

— A strong commitment by both sides to security co-operation, with effective measures instituted to achieve this end in order to deter acts of violence and terrorism and to enhance the personal security of Israelis and Arabs.

— A new basic law of the Palestinian National Council should be passed that reflects the declaratory statements made by the council that nullified all the points in their charter on Israel's right to exist, which contradicted the Oslo agreement.

### *Complete Fulfillment of the Oslo I and II Agreements*

*Economic Measures.* The Oslo I and Oslo II agreements outlined a number of specific cooperative steps to be taken to facilitate economic development between the Israelis and the Palestinians. There are twenty specific steps outlined in these agreements covering the following areas:

- management of common resources;
  - economic measures to stimulate development;
  - development of human resources;
  - environmental cooperation;
  - communications;
  - an economic development program for the West Bank and Gaza Strip;
  - a regional economic development program.
- To date there has been little or no progress on

implementing these mutually agreed upon measures, which provide a coherent framework for concerted action and which are listed in the annex to this policy paper. The parties should move as rapidly as possible to implement them.

*Political Measures.* Finally, there are a number of key political steps that need to be taken to help to reinvigorate the Israeli-Palestinian peace process.

— *A trilateral summit* between Israel, the Palestinians, and the United States. Such a summit would both symbolically reestablish the link between the Israeli government and the Palestinian Authority and send a clear message that the United States government accepts its role as an equal partner in the peace process. This summit could reinforce the specific security measures, arrangements, and liaison established by both the Israeli government and the Palestinian Authority to prevent acts of violence and terrorism.

— *Timely renewal of the final status negotiations* based on the Madrid invitations and U.N. Resolutions 242 and 338, with a set time framework for completion.

— Current *working arrangements on Jerusalem* must be maintained; this includes such issues as Orient House, no additional confiscation of land, and certain economic and development activities involving the Palestinians.

#### *The Israeli-Syrian Track.- The Central Strategic Issue*

A comprehensive peace in the Middle East requires an Israeli-Syrian agreement and an Israeli-Lebanese settlement. A continued stalemate increases the possibility of continuing instability in southern Lebanon and conflict across the Israeli-Lebanese border and in the Israeli-held zone in South Lebanon. It also enhances the chance of miscalculation and escalation that, in turn, heightens the prospects of military conflict involving Israel and Syria, despite Israel's clear military advantage. In a worst-case scenario, such a war could be fought with weapons of mass destruction with devastating consequences.

Any Israeli-Syrian agreement must be based on the fundamental principles of the Madrid Conference as contained in U.N. Resolutions 242 and 338. The United States government must adhere to long-standing bipartisan positions in support of the principle of land for peace and that Israeli settlements are obstacles

to peace. Peace with security is a corollary requirement and the elaboration of specific security arrangements that meet the requirements of both sides is essential, including clear agreements on preventing and eliminating acts of violence and terrorism from individuals and groups inside and outside of the region and ending support for them. A settlement based on these principles would have the following positive benefits:

— It would increase the security of both Israel and Syria.

— It would occur in the context of the normalization of relations between Israel and the other countries in the Arab world.

— It would lead to a parallel forward movement on an Israeli-Lebanese peace agreement. This, in turn, would have several beneficial effects, including the withdrawal of Israeli troops from Lebanon and the establishment and consolidation of sovereign control of the Lebanese government over all its territory, including the disarmament of Hezbollah and other paramilitary groups. Finally, an Israeli-Lebanese peace agreement would facilitate the redeployment and eventual withdrawal of Syrian troops from Lebanon, as specified in the Taif Agreement.

— It will open the door to engaging Syria constructively in broader regional security arrangements, including those with Turkey.

— It will lay the groundwork for higher levels of public and private capital flows in the region, including Syria.

— It will promote the process of normalization between Syria, Lebanon, and Israel.

— It will enhance the reconstruction and redevelopment efforts in Lebanon.

As part of this agreement, if requested by both sides, there should be international security guarantees, including the option of U.S. and other international forces on the Golan.

There is recurrent focus on a Lebanese option involving the withdrawal of Israeli troops from southern Lebanon and the establishment of the necessary security measures in southern Lebanon to prevent attacks on northern Israel. However, there are real risks associated with an attempt to cut a separate deal on the Lebanese front. While the withdrawal of Israeli troops from Lebanon under the aegis of UNSC Resolution 425 is a clearly stated goal of the Lebanese and

Syrian governments, it is difficult to foresee how any security arrangements in southern Lebanon could be implemented without Syrian approval and cooperation, especially regarding Hezbollah. The key question is whether Syria would perceive it to be in its interests to have a Lebanese-Israeli agreement move forward leaving Syria as the "odd man out" in the land for peace equation. This is highly unlikely. From the point of view of Damascus, forward movement in the Israeli-Syrian negotiations would lead to forward movement in the Israeli-Lebanese negotiations, and not vice versa.

Another important question is whether a unilateral Israeli withdrawal from South Lebanon would be meant to be and would be understood as a confidence-building step between Israel and its northern neighbors - indicating Israel's willingness to exchange land for peace on all fronts- or rather as a move to isolate Syria. If the latter was the case, such a move is likely to make a Israeli-Syrian agreement more difficult

### *Regional Economic Cooperation: The Road to the Future*

#### *Positive Consequences of Cooperation.*

Progress toward a comprehensive peace settlement in the Middle East would spur economic cooperation on a variety of issues. There is a critical need for cooperation, especially in light of three disturbing trends that have characterized the Middle Eastern region over the past ten years:

1. Exclusive of Israel, there has been economic contraction in the Middle East and North African region, with high demographic rates of growth coupled with some of the worst economic growth rates in the world (since 1980-1982 output per person has declined at about 2.4 percent per annum), leading to rising poverty, unemployment, and real and potential social unrest. There is also a serious per capita GNP gap between Israel and its immediate neighbors.

2. There has been a de-linking of the region from the world economy since 1980. Foreign direct investment in the Middle East represents only 3 percent of global investment flows. The region is missing out on the global marketplace of trade and investment. This is even more disturbing since the Middle East is the

least self-sufficient region in the world, in terms of food production, and the region will need to export goods and services in order to feed the population.

3. The Middle East has been the least successful region in the world in reorienting the role of governments to meet the growing economic and social needs of the people. Economic reforms are called for, and the private sectors of these countries need to be energized and given a more important role. Given the dearth of human capital, this will necessarily be a long-term process.

A comprehensive peace would serve to counteract all three trends. The need for high levels of military expenditure and the distortion of economies to serve the military sector will decline. Confidence by foreign investors will increase as the risks of investment decline. Finally, a climate of peace will make it easier for governments to pursue policies of economic liberalization. It is no accident that three of the countries in the region that have made the greatest Steps toward reform, and are already reaping the benefits of these reforms, are three of the Arab states that have made large strides toward reconciliation in the context of the Arab-Israeli conflict: Tunisia, Morocco, and Jordan. Jordan, in particular, has made significant progress as it has moved into a peace treaty with Israel and has made a serious commitment to democratization, privatization, and economic liberalization.

The other side of the coin of the positive benefits of peace is the consequences of a stagnant or diminishing peace process. Expectations have been raised that peace will mean prosperity: new jobs, higher wages, and a better standard of living. If governments cannot deliver these benefits, they may lose legitimacy, and this will provide an opening for extremist groups, both religious and secular, to increase their influence. Thus, a failure to move forward toward peace may create a downward spiral, leading to more violence and a greater prospect of regional conflict.

#### *Two Specific Initiatives*

The regional economic potential of a comprehensive peace is even greater when one considers the prospects for economic integration. There are a variety of projects that would enhance development and strengthen the prospects for peace throughout the region. Some of these projects can even begin now,

and we would urge that the planning process begin at the earliest moment to facilitate these projects. As progress is made toward a comprehensive peace, these projects can be expanded, and the benefits will increase. It is beyond the scope of this paper to provide a full description of these projects; we will highlight two and follow this with brief suggestions for other projects that can begin now. All offer the prospects of improving the economies of individual countries while, at the same time, expanding regional economic and social linkages. All are also specified or implied in the Oslo I and Oslo II Agreements, noted above.

### *Regional Water Market*

Water is a vital commodity in the region. It is important not only for human sustenance and health, but for the growth of agriculture and of industry. In the Middle East, water has been viewed as one more potential cause of conflict and, therefore, a security issue. But there is another way to look at the issue of water in the region. It is the view promoted by the Harvard Middle East Water Project, chaired by Dr. Franklin M. Fisher of MIT, one of the participants in our deliberations, and created by Israeli, Jordanian, and Palestinian scholars. In that view, water is seen in economic terms as a resource that can be developed and traded throughout the region in a collaborative manner serving both Arab and Israeli interests.

The starting point for this alternative view is to note that no matter how valuable water is, and no matter how necessary it is for security, economically it cannot be worth more than the price of replacing it. Ultimately, the price of water can be no higher than the cost of desalination of seawater, an option available to any country in the region with access to the sea.

We can separate the water issue into two questions. The first question is: who owns the water? The second question is: who uses the water? If water is seen as a security issue, then these are not separate questions; whoever owns the water uses the water. But if water is seen in economic terms, then they are separate questions; water ownership is not necessary for water use; water ownership conveys a property right entitling the owner to the monetary value that water represents. If these rights can be transferred - through

a trading regime the result will be greater efficiency.

If water is dealt with only as a security issue (i.e., cannot be traded), there are a number of negative effects. The relative availability of water leads some countries to view it as an abundant resource, while others view it as a scarce resource.

If a country has an abundance of water, it is employed for both high- and low-priority uses. If a country has a scarcity of water, it is not employed for low-priority uses. In such a situation, both countries would be better off with a water trading arrangement; the water-rich country would receive money for its excess water, and the water-poor country would gain the water it needs.

Current multicountry arrangements on water revolve around the assignment of fixed amounts of water or water within specific areas to countries. The consequences of this type of arrangement may be far more serious than the failure to maximize benefits. For example, the analysis of the Harvard Middle East Water Project shows that if the water quantity allocations of the Oslo II Agreement between Israel and the Palestinians were to become permanent, the West Bank would face a serious water crisis by 2010. This would make water a renewed source of tension. But if water could be traded, the same analysis shows that by 2010 there would be significant gains to both sides. The Palestinians would gain approximately \$25 million per year (valued in 1990 dollars) because they would not have to pay the higher price of desalinating water, and the Israelis could not only compensate their domestic water customers for reduced consumption but also could have \$15 million per year in extra revenue. These gains to both parties provide a natural source of financing for projects that would benefit both Israel and the Palestinians. These projects could enhance the water arrangements between Israel and the Palestinians; for example, water-recycling plants could be built in Gaza and the retreated water sold to Israel for use in the Negev. The gains could also be used to finance one or more of the projects in the unfulfilled obligations of Oslo I and II noted in the annex.

Currently, the question of water rights is viewed as an additional hurdle to forward movement in the peace process. But if water is viewed as a tradable commodity with a monetary value, it can serve to

facilitate a settlement in several ways. First, placing a monetary value on water, rather than viewing it as security matter, will act to reduce the symbolic importance of water. The Oslo 11 agreement provides the Palestinians with eighty million cubic meters a year of mountain aquifer water, but the monetary value of this water, when used for agriculture, is a rather small amount in the context of the total size of the Israeli and Palestinian economies. Second, viewing water as a tradable commodity will encourage countries to trade off water property rights for concessions in other areas, so water can help to solve other outstanding issues between the parties.

A water market could begin with the involvement of just a few countries; there are clear benefits even if the market, initially, only involves Israel and the Palestinians. The system could be expanded later to include Syria and other countries as the benefits of a water market are demonstrated. As well, countries could begin a trade before all issues relating to the ownership of water resources are resolved. Payments could be made into an escrow account and distributed at a later date, when final ownership is negotiated.

A system of trade and cooperation in water would lead to a more efficient use of that resource; this alone would speed the process of economic development in the region. It would also produce a source of revenue that could be used to improve the economies of the region. Finally, a water market, like the other specific actions discussed in this section, would not only contribute to the economic integration of the region but would reinforce the habit of countries working together for mutual benefit.

### *Energy Pipelines*

Energy is a key commodity, perhaps the key commodity, for economic development. Needless to say, individual countries in the region have their own plans for energy development and its links to economic development. But what does not exist is a plan for a regional energy policy. As with water, if each country pursues its own policies, relying on its own resources and the deals it can make, these individual national policies will lead to tremendous inefficiencies and disparities. This is not an optimal situation.

What is needed is a common plan for cooperation on energy. This could serve as a major catalyst

for regional development and integration. It harkens back to the beginnings of the European Union: the formation of the European Coal and Steel Community in 1957. In the Middle East today, a key to energy is natural gas. It is a clean and efficient energy source, particularly useful in the production of electricity. Natural gas is found in a number of countries, but the within-regional distribution of gas has, until now, been stymied by a set of political barriers erected by the conflict in the region.

As with water, even today, with a partial and fragile peace in place, there are possibilities for common energy planning and use; a comprehensive peace settlement would expand these opportunities. The critical component to a common energy policy is the construction and administration of pipelines throughout the region. These pipelines would serve to bring gas where it is needed in the region.

Also in common with the water market, a common plan to construct pipelines and distribute gas would knit together Arab and Israeli economies; the West Bank, Gaza, Israel, Jordan, and Egypt would form the initial core of the plan where peace treaties and agreements are already in place. But, ultimately, it could involve the entire region, including Syria and Lebanon and countries from the Persian Gulf to the eastern Mediterranean. There is an additional gain from a cooperative effort on the distribution of gas through pipelines. The construction of a network of pipelines and associated facilities is a major undertaking. Once the finances can be arranged, the construction activity will provide an immediate economic boost in a variety of locations. This, too, will provide direct and indirect benefits and a tangible demonstration of the benefits of peace. A pipeline project between Egypt, Gaza Strip, and Israel is already in negotiation. It should be seen as a first step in a broader regional energy system.

Eventual involvement of Syria in a regional natural gas distribution network could provide some political and economic incentives for Damascus to embrace the peace process by extending its regional role while providing substantial export income now unrealizable from its rich resource base. So far, Syria's role in a regional energy system has been limited to a proposed point of transit, but the process would likely benefit from investigation of Syria's fuller

participation as an exporter of gas to its neighbors. Syria's identified reserves of over seven to ten trillion cubic feet are probably large enough to support a modest-sized export project, but its potential is much more extensive. Serious search for gas resources inside Syria have not yet been pursued and are likely to turn up well over twenty-one trillion cubic feet, possibly more, leaving Syria with the potential to enhance its role as an energy exporter beyond the region. Investigation of a Israeli-Syrian gas system could be used as a mechanism to advance the peace process should it get back on track.

### *Other Projects*

A number of other cooperative projects can have a positive impact on the region. We briefly mention three: The first is developing a market for selling electricity over a common power grid. Like a market for water, this would ensure a more efficient allocation of a key resource. It would also link to the natural gas pipeline project, since gas is a clean and efficient way of generating electricity. The second is the extension and improvement of the ground transportation network in the region. Currently, the predominant flow is north-south, bypassing Israel entirely. Additional construction on an east-west axis would not only facilitate communication and interaction but serve as a tangible demonstration of the new linkages that develop in the wake of the peace process.

Finally, the integration and economic development of the region is a long-term project. It needs a group of planners who have both the vision and the knowledge both to make the right choices and to carry them out. We can think of no better way to create and nurture the planning process than to establish a Middle East Institute for Urban and Regional Planning. This institute could serve a dual role. It would provide a setting for planners from the entire region to get together and design projects. It would also serve as an educational institute to train current and future planners in both the needs of the region and the nature of the regional planning process. Such an institute would also foster the spirit of cooperation across the region.

### *The Role of Factors Outside the Region*

An undertaking of the importance and magnitude described above will require a major effort and will have to involve a number of actors from outside the region. While it would be a mistake to parcel out roles too narrowly, we believe that it is useful to point out the strengths and unique competencies that external actors can bring to bear on the process of peace and integration in the Middle East. We seek to avoid counterproductive competition and suggest an approach that reflects the different interests and different capabilities of each actor.

— The G7+1 (Russia) can serve an important declaratory role. No approach to peace and development can succeed without the endorsement of the world's largest market economies. Involvement of the G7+1 would also provide an opening for Japan to make a major contribution to the peace process. Japan depends heavily on oil from the Middle East and has a major interest in the stability of the region. They can and should play a major economic role.

- The United States remains the main power broker in the region, a role that is accentuated in the post-Cold War era. It should serve as the primary crisis manager between Arabs and Israelis and the major political interlocutor, or "honest broker," in the peace process. The United States is also the major external military power in the region with the capability to project force, as it did in the Persian Gulf. The United States must maintain an active leadership role in moving the peace process forward.

— The countries of Western Europe play a politically supportive role in the peace process and an even more important role in the process of economic stabilization and institution building in the Middle East. They are geographically close to the Middle East so their interactions and their impacts are greater than that of other non-regional players. As well, the European Union serves as outstanding example of what regional integration can accomplish. Thus, their common experiences give the countries of Western Europe unmatched knowledge and experience in the process of regional integration. The Barcelona framework, aiming at the establishment of a European-Mediterranean zone of peace and stability, should be continued.

International financial agencies, such as the



World Bank, can play a critical role in the economic development of the region. They bring resources and international credibility to development efforts. Most importantly, they also bring knowledge. A good example of this is the World Bank's program of technical assistance (TA) to the Palestinians, which, while only a small part of their overall effort, has been remarkably successful.

— Private sources of investment are critical. In part, this is simply due to the scope of the problem of economic development in the region; it far outstrips the ability of public lenders. But equally important is that private investors will serve, both directly and indirectly, to encourage all the governments in the Middle East to allocate a larger economic - and, ultimately, political - role to the private sector. This, too, will stimulate economic reforms and development. The economies of the region need technical and managerial expertise if they are to move from state-dominated to market economies. Participation of multilateral institutions in the region should be used to help encourage the development of a strong technical/professional class.

### *Dangers and Opportunities*

The Chinese word for crisis is made up of two ideographs: danger and opportunity. This summarizes, precisely, the present situation in the Middle East. Recent events have created an unsettled and uncertain situation. The Arab-Israeli peace process is at another critical crossroads. The road toward a comprehensive peace on all fronts will be a major factor promoting the urgently needed interests of both Arabs and Israelis for personal and state security as well as economic and social development. If the process does not move forward in a timely manner, then the forces of extremism - both religious and secular - will be in a better position to prevail. Therefore, both the parties themselves and the major external parties must do everything possible to move the process forward. The ideas and suggestions in this policy paper are an effort to encourage such actions. Even in the absence of a comprehensive settlement, there are opportunities to foster the mutual economic interests among the parties. But the moment must be seized now; there is little time for delay.

### *Annex*

#### *Obligations of OSLO I and OSLO II*

Below we list specific obligations of Oslo I and Oslo II.

#### *Management of Common Resources*

1. To manage water resources in the West Bank and Gaza Strip;
2. In the production, maintenance, purchase, and sale of electricity resources;
3. In the exploitation of oil and gas for industrial purposes, particularly in the Gaza strip and in the Negev.

#### *Economic Measures to Stimulate Development*

1. Financially, to encourage international investment in the West Bank, the Gaza Strip, and Israel and to establish a Palestinian Development Bank;
2. In transportation and communications to develop guidelines for the establishment of a Gaza Sea Port Area and to carry out the necessary construction of roads, railways, and communication lines to and from the West Bank, the Gaza Strip, and Israel;
3. In studies and promotion programs that will encourage local, regional, and international trade as well as a feasibility study of the creation of free trade zones in the Gaza Strip and in Israel, mutual access to these zones, and cooperation in other areas relating to trade and commerce;
4. Industrial cooperation to establish joint Israeli-Palestinian Industrial Research and Development Centers, to promote Palestinian-Israeli joint ventures, and to provide guidelines for cooperation in the textile, food, pharmaceutical, electronics, diamonds, and computer- and science-based industries.

#### *Development of Human Resources*

1. Development of a program for cooperation in, and regulation of, labor relations and social welfare issues;
2. Development of a Human Resources Development and Cooperation Plan to facilitate joint Israeli-Palestinian workshops and seminars and for the establishment of joint vocational centers, research institutes, and data banks.

### *Environmental Cooperation*

1. The development of an Environmental Protection Plan.

### *Communications*

1. A program for developing coordination and cooperation in the field of communication and media.

### *Economic Development Program for the West Bank and the Gaza Strip*

1. A Social Rehabilitation Program, including a Housing and Construction Program;
2. A Small and Medium Business Development Plan;
3. An Infrastructure Development program (water, electricity, transportation, communications, etc.);
4. A Human Resources Plan;
5. Other programs.

### *Regional Economic Development Program*

1. The establishment of a Middle East Development Fund, as a **first** step, and a Middle East Development Bank, as a second step;
2. The development of a joint Israeli-Palestinian Jordanian Plan for coordinated exploitation of the Dead Sea area;
3. The Mediterranean Sea (Gaza)-Dead Sea Canal;
4. Regional Desalinization and other water development projects;
5. A regional plan for agricultural development, including a coordinated regional effort for the prevention of desertification;
6. Interconnection of electricity grids;
7. Regional cooperation for the transfer, distribution and industrial exploitation of gas, oil, and other energy resources;
8. A Regional Tourism, Transportation, and Telecommunications Development Plan;
9. Regional cooperation in other spheres.

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