

**Local Business, Local Peace:  
the Peacebuilding Potential of the  
Domestic Private Sector**

**Case study  
Israel and Palestine\***

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## Israel and Palestine

# Israel and Palestine: doing business across the conflict divide

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*Editors' note: since the completion of this report, the situation in Israel/Palestine has changed dramatically, increasing instability in the region and threatening future prospects for peace. The election of the Islamic group Hamas in early 2006 has stalled any possibilities of continuing down the US-backed 'roadmap for peace', reinforcing Sharon's conviction that Israel cannot engage with Palestinian counterparts, but must act unilaterally in its attempt to ensure security. Despite his recent critical illness, Sharon's newly formed Kadima party claimed victory in the March 2006 Israeli elections under the leadership of Ehud Olmert, who has continued his predecessor's legacy of acting unilaterally, with the drawing of a disengagement plan for the West Bank. This emerged in the context of increased violence between the two sides, through both targeted killings against alleged Palestinian militants and rocket attacks from Palestinian territories into Israel. The failure to form a united Palestinian government after the elections has even increased tensions among the Palestinian leaderships with bursts of in-fighting between Hamas and Fatah militants. This escalation of the conflict has led to the tightening of security by Israel with increased roadblocks and the closing of borders such as the Karni crossing in the Gaza Strip, which is featured in this report. Events will inevitably have important impacts on both Israeli and Palestinian businesspeople, and any role they may have in seeking lasting sustainable peace in the region.*

The Israeli-Palestinian conflict is a sub-set of the more comprehensive Israeli-Arab conflict, which arose as a result of the Israeli-Arab war in 1948. Israel refers to it as its 'independence war' and 15 May 1948 as Independence Day, while Arabs, and more particularly Palestinians, call it *Al-Nakba* ('The Disaster'), in reference to the loss of life and land that resulted from the creation of the Israeli state. Seven hundred thousand Palestinians fled the conflict areas and have never been allowed to return.<sup>1</sup>

A second legacy of the conflict was Israel's continuing occupation of lands that comprise the future Palestinian state – East Jerusalem, the West Bank and the Gaza Strip – until August 2005 when, under the 'disengagement' plan, Israel withdrew its settlers and armed forces from Gaza and the northern West Bank. Israel captured the occupied Palestinian territories, the Golan Heights in the north and the Sinai Peninsula in the south during the Six Day War in 1967.<sup>2</sup> Tensions between Israelis and Palestinians escalated in the late 1970s when right-wing Israeli groups, strongly influenced by the trauma of the *Yom Kippur* war in 1974, began a programme of large-scale settlement on Palestinian territory in the West Bank and Gaza, which Palestinians refer to as a *de facto* colonisation. At first, the government of Israel (GoI) opposed the settlements, but the settlers later gained its political, military and financial backing.

After the first Palestinian *intifada* ('uprising') in the late 1980s and the first Iraq war, the GOI and Yasser Arafat's Palestinian Liberation Front signed the Declaration of Principles, or 'Oslo Accords', on 13 September 1993. The outcome was the establishment of a Palestine Authority (PA), which was designated to rule for an interim period while final status negotiations were discussed. Though Palestinian moderates accepted the agreement, more extreme groups, led by Hamas, launched a series of suicide attacks against Israeli civilian targets. Israeli extremists also regarded the agreement as a betrayal and, as a result, an Israeli student assassinated one of its brokers, Prime Minister Yitzhak Rabin, in November 1995.

### The second *intifada*

The period following the Oslo Accords was frustrating for both sides in that an escalating cycle of violence was accompanied by stagnation on the political front. Palestinian frustration climaxed in September 2000 when the then Israeli opposition leader and later prime minister, Ariel Sharon, visited the Jerusalem holy site known to Muslims as *Haram el-Sherif* and to Israelis as Temple Mount. After the visit there was an unprecedented level of violence by groups opposed to the Oslo Accords, such as Hamas and Islamic Jihad, but also by Fatah, the ruling party in the PA. This surge of violence was answered by an unparalleled use of force by the Israeli Defence Forces in an effort to quell the uprising. After the death of PA Chairman Yasser Arafat in late 2004 and the election of Mahmoud Abbas in January 2005, Palestine and Israel declared a ceasefire. Despite sporadic outbursts of violence, both sides have largely observed the ceasefire up to the time of writing this report. More than 4,000 Palestinians and over 1,000 Israelis died during the four years of fighting.

The second *intifada* brought to Palestine what the World Bank has called one of the worst recessions in modern history, with average personal incomes declining by more than a third.<sup>3</sup> Unemployment in the Gaza Strip rose from 17 percent on the eve of the *intifada* to 29 percent in 2004 while poverty levels (defined as living on less than \$2.10 per day in 1998 prices) increased from 32 percent in 1999 to 64 percent five years later.<sup>4</sup>

The Palestinian economy collapsed due to the restrictions placed by Israel on the free passage of goods and labour to, from and within the Palestinian territories – the so-called ‘access’ problem. Palestinians regard the restrictions, which come in the form of sudden closures or road-blocks, as a form of collective punishment. Israel claims ‘access prevention’ is necessary to prevent suicide bombers bringing mayhem to its cities.

However, the access problem also caused significant hardship in Israel. The Bank of Israel estimated that the *intifada* caused economic damages equivalent to 0.7-1.8 percent of GDP in 2003, compared to losses of 3.1-3.8 percent of GDP in 2002. Taking the years together, the *intifada* is estimated to have cost 8 percent of GDP, or around 40 billion New Israeli Shekel (NIS) (approximately \$8.5 billion).<sup>5</sup> Restrictions on the entry of Palestinian workers hit Israel’s agriculture and construction sectors hardest. The damage incurred by these industries since the *intifada* began until the end of 2001 alone was estimated at NIS12.2 billion (approximately \$54.9 billion), accounting for 2 percent of GDP.

### Disengagement plan

Prime Minister Ariel Sharon announced a ‘disengagement plan’ in 2004 that provided for the removal of the Israeli presence from the Gaza Strip and the northern West Bank within a year. After implementation of the plan in mid-August 2005, both sides had returned to the ‘road map for peace’, President George Bush’s strategy for the establishment of a Palestinian state within three years – though subsequent events have decisively derailed this framework.

### Wall and fence barrier

As part of the disengagement, Israel is completing a 400-mile (640 km) wall and fence barrier in the West Bank, annexing 15 percent of Palestinian territory to Israel in the process. The construction triggered widespread international condemnation in late 2003 and an advisory opinion by the International Court of Justice in July 2004, obtained by the PA and UN General Assembly, termed the barrier ‘illegal’ under international law. Meanwhile, an Israeli court ruling ordered the wall to be re-routed in some areas because of the hardships it would cause Palestinians. Israel claims the barrier is being erected solely for security reasons, and it has been effective in preventing the entry of suicide bombers.

### Economies

On the Palestinian side, employment in the Gaza Strip is dominated by services (66 percent), followed by industry (21 percent) and agriculture (13 percent), and the division is broadly similar in the West Bank. Palestine’s GDP as a whole is around \$800 per head of population, but unemployment was 50 percent in 2002. The situation in the Gaza Strip is very different from the West Bank. An

estimated 2.2 million Palestinians live in the West Bank on 5,860 km<sup>2</sup>. By contrast, there are over 1.2 million people in the Gaza strip, which is just 360 km<sup>2</sup> in size. Recent figures put the population density in Jebalya, Gaza's largest refugee camp, at 74,320 persons per km<sup>2</sup>, compared to 25,850 people per km<sup>2</sup> in Manhattan. This phenomenon is driven by Gaza's high population growth rate of 3.5 percent annually, meaning the population will double in 20-23 years.<sup>6</sup>

Israeli GDP per capita is \$19,000 and the unemployment rate is 10.1 percent. The economy is dominated by services (67 percent), followed by industry (30 percent) and agriculture (3 percent). Israel has an advanced, technology-driven, market economy, but it is hampered by significant government participation, and the conflict.

### Economic inter-dependency

Since the Six Day War and Israel's subsequent occupation of the West Bank and Gaza, the PA economy has been overly dependent on Israeli consumer demand and international aid.

Until the Oslo Accords, one third of Palestinian jobs were located in Israel, mainly in the construction industry and agriculture. As a result of security concerns, Israel reduced the number of work permits given to Palestinians with devastating impact on the PA economy. The Israeli economy reduced its dependency on Palestinian labour through a massive influx of 300,000 foreign workers from Thailand, Nepal, Romania, Ghana, Nigeria, Turkey and China.

**Table 1 – Number of Palestinians permitted to work in Israel, Israeli-controlled industrial zones and Israeli settlements**

						January	Mid-	End-	January	March
1987	1991	1992	1993	1996	1998	2000	2002	2002	2004	2004
180,000	100,000	116,000	65,000	35,000	56,000	125,000	7,532	31,018	17,000	33,386

Source: International Labour Organisation (ILO) (2004) *The Situation of Workers of the Occupied Arab Territories* 92nd Session of the International Labour Conference (Geneva, Switzerland: ILO).

The PA has no independent airports or seaports, forcing traders to export and import goods through Israel. This greatly limits Palestinians' ability to develop international trade and transactions by dramatically increasing costs in any of its dealings with worldwide markets. It also reinforces the PA's dependence on Israeli raw materials and the willingness of the Israeli market to buy Palestinian produce.

The signing of the Agreement on Movement and Access on 15 November 2005 by the GoI and PA opens new opportunities in that respect. First, the PA will have control of its international border with Egypt at Rafah (though its international

border with Jordan remains under Israeli control). Second, the construction of Gaza seaport has been agreed and will begin shortly.

It is unlikely that these reforms will provide the Palestinians with a cost-effective solution on the export of manufactured goods and import of raw materials. The construction of the seaport will not be concluded within the coming year. Even when completed, it will not be able to compete with the services and capacity offered by Ashdod port in Israel. The cost of importing and exporting goods from Rafah is relatively high and remain under Israeli control. These reforms, therefore, are currently more important for Palestinian state-building, but in the short term neither the seaport nor Rafah can bring about solutions to the movement of goods problems. Reforms of border management at Israeli-Palestinian border crossings are likely to be the key to improving the issue of access and trade.

Due to its lower wages and skilled labour force, Palestine benefited from considerable Israeli investments, chiefly in textiles manufacture and furniture making. As a consequence of the increased violence, however, the GoI prohibited the entry of Israeli traders, while the closure in April 2005 of the Erez Industrial Estate on the Israeli side of the Gaza border ended their access to the Palestinian territories and their factories.

### Promoting economic linkages: case studies

Four case studies on business cooperation across the Israeli-Palestinian conflict divide are presented below. They illustrate the existing and potential opportunities for businesses to address some of the economic and conflict challenges outlined above, and thereby make a contribution to peace.<sup>7</sup>

The security constraints at border crossings because of the four-year *intifada* are the main obstacle to economic development in the PA and in PA-based businesses. Two of the cases – the Israeli export company, Agrexco; and the phenomenon of ‘logistic zones’, were selected because they are both attempts to address the problem of access. Both also offer models of partnership – between growers and manufacturers on the one hand, and exporters and logistic providers on the other – in which both sides exploit their own resources and strengths. From Agrexco’s point of view, Gaza farmers are a reliable source of high-quality products in profitable volumes in a sector where there are insufficient Israeli farmers to meet demand. In exchange, Agrexco offers Palestinian growers world-class marketing and distribution, as well as a source of income. The logistic zones are aimed at providing solutions to Israeli investors seeking to pursue business opportunities in the PA and Palestinian investors seeking to export their production into, or via, Israel.

The two Palestinian cases showcase the golden opportunities that briefly emerged after the peace process advanced in the mid-1990s. Tourism is a motor that could stimulate growth, generate income, create jobs and justify investment in the rehabilitation of the PA's battered infrastructure. Closer cooperation between Israeli and Palestinian tourism businesses in the brief interlude before the second *intifada* demonstrated their ability to work together to promote customer satisfaction and repeat business in a competitive, regional tourism environment. The second case outlines early bilateral cooperation in the IT sector, and a later trilateral joint venture, that illustrated demonstrable synergies between foreign investors and the Palestinian computer industry.

The cases suggest that private sector cooperation has the potential to contribute to peaceful coexistence in the following ways: by addressing some of the immediate challenges posed by the current conflict status quo; by strengthening the Palestinian economy and livelihoods; by normalising relations and fostering day-to-day interactions; and by integrating Israel and Palestine economically in ways that are mutually advantageous, equitable and peaceful.

### **Agrexco: partnership between Israeli export company and Palestinian growers**

Although security in the Gaza Strip steadily deteriorated throughout the *intifada*, the volume of exported fruit and vegetables from the region increased to \$15 million by the end of 2004. A long-standing partnership between the Israeli produce exporter, Agrexco, and five Gaza growers' associations enabled the PA's horticultural sector and the foreign currency it earns to withstand the turmoil and even to flourish. This case examines the relationship between Palestinian growers and Agrexco, the economic and historical reasons behind it, and any potential peacebuilding elements. The focus is on two aspects of the relationship: access and value-added.

The access aspect is derived from the *de facto* quarantine of the Gaza Strip. Israel is free to shut the region off from the world in the event of any security breach, leaving any exporting venture at high risk. As a consequence, the level of unpredictability for Palestinian exporters and importers is high, and it is difficult for them to offer timely services and delivery. The value-added aspect of the relationship is defined as the supplementary efficiency one side of the relationship derives from the other through interaction.

At the core of the partnership are Gaza's agricultural exporters who typically grow strawberries (66 percent of land used), as well as cherry tomatoes, peppers, spices

and carnations. There are currently 10,000 Palestinian growers working in Palestinian-owned fields in Gaza. Before the transfer of the settlers' greenhouses to the Palestinians during the disengagement, an estimated 3,000 Palestinians worked in Israeli settler farms, alongside 750 foreign workers (typically from Thailand and Nepal) and 700 Israelis. After the transfer, 1,700 Palestinians were hired full-time, 800 part-time and sub-contractors took on a further 400. After the greenhouses are rehabilitated, 3,000 additional jobs will be created for Palestinians. Most production from the greenhouses will be sold to the European market.

While Palestinian growers export around \$15 million in agricultural produce annually, exports from Gaza's Israeli settlers amounted to \$100 million, suggesting there is considerable room for growth. The total amount of agricultural land in Gaza is 120,000 *dunam* (29,640 acres),<sup>8</sup> or 32 percent of the total area.<sup>9</sup> Most produce is sold at local markets for low prices. A typical grower sells his produce through a fruit, vegetable or flower association that aggregates the harvest of thousands of farmers. These associations exist to help farmers with their professional needs and offer services like refrigerated storage, warehousing, marketing and distribution mainly through their partnership with Agrexco. The associations allow farmers to reduce the cost of these services by grouping them under a single umbrella.

Agrexco, Israel's largest exporter of fresh agricultural produce, is a partnership between the GoI (50 percent), Israeli growers (25 percent) and the Tnuva cooperative (25 percent). It is by far the largest distributor of Gaza-grown produce, although six other Israeli firms operate in the Strip. Disengagement has not changed this situation since PED/Paltrade, the Palestinian company that took over management of the greenhouses, has decided to maintain the link with Agrexco.

Once a government monopoly, Agrexco has an annual turnover of \$700 million, of which \$30 million is earned from the Israeli market. Agrexco markets over 300,000 tonnes of fresh produce per year, of which 20 percent are fruits, 30 percent vegetables and 30 percent flowers. Agrexco's global network includes branches in London, Frankfurt, Madrid, Milan, Paris, Rotterdam, Vienna, Zurich and New York, as well as agents in Eastern Europe, Latin America, Africa and the Far East. Western Europe accounts for 80 percent of its export market.

The most important players in this relationship are foreign, mostly European, retailers. Until 2003, Palestinian and Israeli products were marketed under the 'Carmel' brand and labelled 'Product of Israel'. Palestinian products are currently marketed under the 'Coral' brand because Gaza farmers asked for their own distinctive mark, and are labelled 'Product of Palestine'. The Coral brand has been well received and was strongly supported by Agrexco's marketing division.



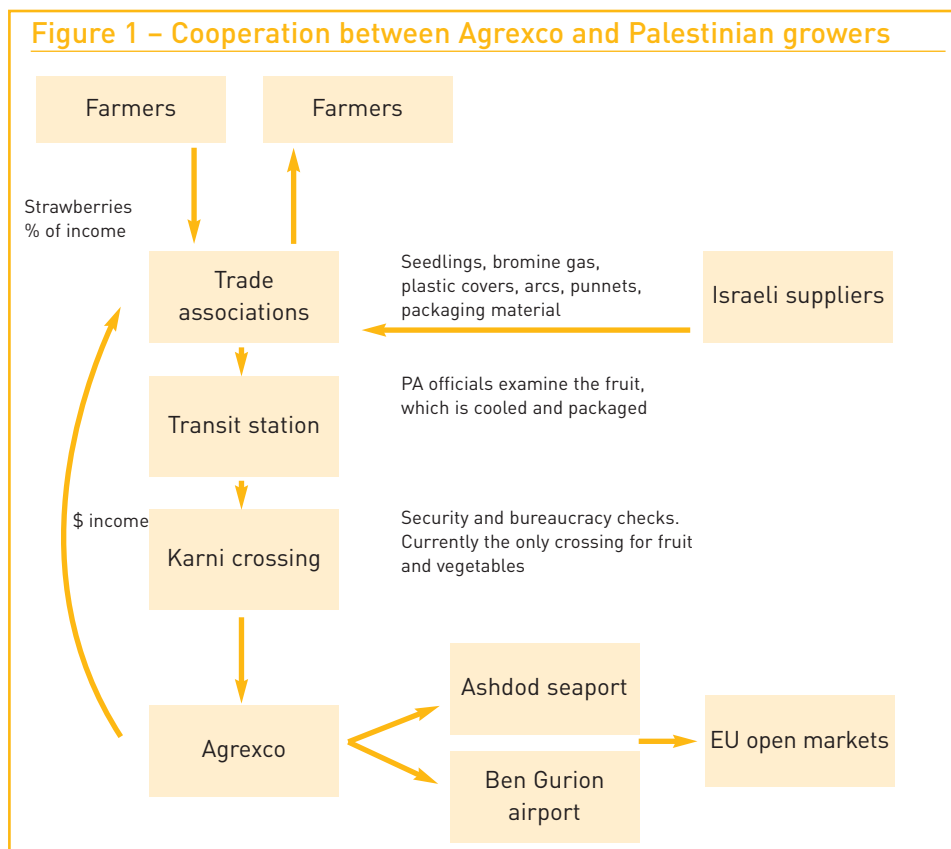
Following access problems caused by a bombing incident at the Karni border crossing on 14 January 2005, the only transit point for agriculture produce from Gaza, reliability issues have clouded the brand's reputation, although Agrexco executives are confident the damage is reversible.<sup>10</sup> Roughly half of the strawberries Agrexco exports to the EU are of Palestinian origin, with demand far exceeding supply.

### The partnership

The vegetables and fruit (mainly strawberries) are grown on around 3,000 *dunam* (741 acres) in Gaza and are exported by Agrexco to EU markets. A typical Israeli farmer grows on 30-40 *dunam*, while a Palestinian grower uses only three to four. As a result, Palestinian growers work through crop-based associations to establish economies of scale in their relationships with suppliers and clients. Agrexco has working relationships with the five largest associations of Palestinian growers, who are charged a fixed percentage from the payments they receive from Agrexco.

Besides the growing component of the value chain, carried out by the individual farmers, the associations are Agrexco's true partners. Months before planting, they purchase the components needed to grow the crops. Seedlings are bought in from two authorised growing corporations in Israel. Bromine gas, plastic covers, arcs, punnets and packaging materials are also procured. The associations are responsible for training growers on best-practice techniques, such as irrigation systems, packaging and use of pesticides. This role has become more important since the introduction of the European Partnership for Safe and Sustainable Agriculture (EurepGap) protocol in the late 1990s, which set a series of standards required by retailers such as Marks & Spencer, Sainsbury and Ahold.

When crops are harvested, the associations transfer them to Agrexco. The strawberries are moved to a transit checkpoint operated by the PA Agriculture Office, which conducts minimal phyto-sanitary tests and deals with bureaucratic procedures. The fruit is cooled and repackaged by association workers. From the transit station the fruit is transferred to Karni crossing. At that point, the fruit is transferred to Agrexco, which conducts further phyto-sanitary tests, repackages the fruit and deals with Israeli administrators. The fruit is then moved either to Ben Gurion International Airport near Tel Aviv or Ashdod seaport. Agrexco uses cargo jets for daily transportation of produce to EU and US destinations, while refrigerated vessels ship to other markets.



### Rationale for engagement

The partnership began around 25 years ago when Palestinians started growing strawberries on Israeli farms. Once they had obtained the necessary skills, they started growing them in their own fields with the active encouragement of Israeli officials, who were looking to migrate Palestinian growers to more water-efficient and profitable crops. Access was not an issue at the time, and the flow of goods to and from Gaza was reliable. The partnership was established on the value-added aspects that Agrexco and Palestinian growers offered one another. From Agrexco's point of view, Gaza was a reliable source of high-quality products for which there was a strong demand that Israeli farmers could not satisfy. From the growers' point of view, Agrexco offered world-class marketing and distribution services that they could not establish themselves.

More importantly, Agrexco offered its partners transportation and logistics support founded on economies of scale. Handling and transporting the produce is very

capital-intensive and requires high levels of expertise. For example, Agrexco purchased two new refrigerated vessels in 2004 at about \$42.3 million each. Over the years, Agrexco has assisted growers with working capital financing, phytosanitary (plant health) education and training for EurepGap standards. The latter is important because the Coral brand has not yet managed to attain these standards and so is rarely sold at branded retail stores. To bring Palestinian growers up to required levels, Agrexco invested in computer systems, software and intranet applications, and direct training. Both partners are optimistic that the EurepGap standard will soon be reached.

Agrexco has a direct incentive in seeing the Coral brand succeed and expand. Since Coral has access to EU retailers as a result of the excellent reputation of Agrexco/Carmel, Agrexco has a vested interest in enabling Coral to meet the same level of standards as Carmel produce. The closer Coral comes to meeting EurepGap requirements, the more profits it will produce for Agrexco.

It could be argued that the economic asymmetry between Palestinians and Israelis is such that it leaves Palestinians with no alternative to entering this kind of cooperative arrangement if they want to sell their produce abroad, begging the question whether they actually have a choice. In the assessment of this report, this arrangement continues because of mutual value-added, not purely because of the lack of alternatives on the Palestinian side: Agrexco is the largest of five Israeli exporters to provide these services and has developed a reputation for professionalism among European retailers. Theoretically, Palestinian growers could export through the seaport of El-Harish in Egypt, going via Rafah, and avoid dealing with Israeli companies altogether, but this would be costly and would deny them access to Agrexco's network and expertise. Considering that Palestinian farm produce accounts for only 2 percent of Agrexco's total volume, it will be difficult for Palestinians to develop a competitive alternative to the existing arrangements. Asymmetry in this case is a result of Agrexco's scale, expertise and network reach, with which Palestinians cannot compete at this stage.

### **The role of the international community**

Since the PA provides little support to growers in the Gaza Strip, one might assume that international organisations would be active in Palestinian agriculture, given its potential for rapid growth. In fact, the only support that local growers enjoyed until recently was from small Israeli NGOs, such as the Israel/Palestine Center for Research and Information and The Peres Centre. However, an exciting development occurred in June 2005 when USAID announced the establishment of the Palestinian Agribusiness Partnership Activity (PAPA), a programme that aims to develop the agricultural sector. In addition to providing technical assistance,

PAPA has established support plans, such as providing 50 percent of farmers' investment capital needs. Part of PAPA's activities will be to rehabilitate the Israeli greenhouses transferred to PA ownership during the disengagement.

### Peacebuilding aspects

The most prominent peacebuilding aspects of the relationship are its economic and political impacts, and the creation of people-to-people relationships. The economy of Gaza is one of the most confined in the world, and agriculture one of very few ways in which Palestinians can export and earn hard currency. The sector has the potential for greatly increasing employment.<sup>11</sup> Taken together, these ingredients tend to foster popular support for stability, given that any return to violence entails the closure of border crossings, and the loss of opportunities and incomes. In principle, therefore, the advantages that agriculture confers may be said to translate into political support for peaceful relations at least on the part of those involved.

As explained earlier, any disruption to the flow of goods through the Karni border-crossing impacts on Agrexco's reputation as a reliable supplier. Interviews with Palestinian growers and Agrexco executives revealed many cases where Agrexco has successfully intervened with military and political officials to maintain open access amid growing levels of violence. This was particularly true in April 2004, when Karni crossing was closed for long periods after a terrorist attack in Asdod port; and again in February 2005 after a terrorist attack the previous month. Agrexco executives cite not only business reasons for their intervention, but also the loyalty they feel towards the Palestinian growers who have been the company's partners for 25 years.

The relationship is more ambivalent for Palestinian growers. Agrexco enables them to export their products, avoid interaction with the Israeli administration and acquire the necessary training to match the standards of a competitive EU market. On the other hand, some growers feel that they could make more profit by exporting directly to European retailers, though it is far from certain that they could feasibly compete with the services currently provided by Agrexco.

### Facilitating access for economic interaction: logistic zones

Security constraints on the border crossings to and from Israel have been the main obstacle to economic development in the PA during the last four years of *intifada*. They are also the main obstacle to greater economic interaction between the Israeli and Palestinian private sectors. Businesses on both sides have an interest in encouraging initiatives that will overcome the problem of access. This is particularly true after the disengagement, since the GoI prohibited Israeli companies and

individuals from investing in the territories from which the settlers have now withdrawn.

In addition to the security constraints, trucks from either side are forbidden from entering the other's territory. This led to the creation of the 'back-to-back' system, whereby Israeli transporters unload goods to Palestinian trucks, and vice-versa, when leaving the West Bank and again on entering Gaza. The system further slows the flow of goods, creating long queues at cargo terminals, the need for added storage facilities, as well as new partnerships between Palestinian traders and Israeli providers of transport and forwarding services. The areas where these transactions take place are known as 'logistic zones'.

The GoI decision in late 2004 to demilitarise the crossings between Israel and the West Bank will create a more appropriate environment for the development of logistic zones. The GoI appointed a team in the Ministry of Defence to examine how to improve conditions at border crossings so as to facilitate the movement of goods and persons. By modernising border crossings, the GoI is implicitly adopting a more supportive position to the logistic zones and is inclined to assist them further by integrating these private sector initiatives within the redesigned crossings.<sup>12</sup>

Within that context, regional, business and non-government actors in Israel are seeking to enhance the logistic zones with the objective of providing solutions for Israeli investors interested in business activities within the PA and Palestinian businesses interested in exporting their products to, or via, Israel. Because Israel is the main importer of Palestinian manufactured goods, Palestinian businesses are responding positively to these initiatives.

The following analysis focuses on the impact of logistic zones on the issue of access and the influence they have on the creation of Israeli-Palestinian joint ventures and business associations.

### The actors

Because Palestinian traders are not allowed to move their goods into Israel on Palestinian trucks, they outsource logistics to Israeli companies, which transport cargos from point of arrival to the Karni and Qalandia border crossings and handle Israeli customs formalities. While most Palestinian companies use individual logistic services (mainly transportation and customs), larger importers and exporters have partnerships with Israeli companies that offer integrated logistic services, handling cargos from the point of production to the final market, including transportation, delivery, customs and security checking. Smaller companies cannot generally afford the integrated service.

One of the main Israeli logistic providers is Maman, which has a monopoly on non-agriculture cargo handling in the airport. Maman was privatised in 1991 and only 10 percent of its stock is still owned by the state of Israel. A Maman subsidiary, Logisticare, is a leader in logistics outsourcing with 180,000m<sup>2</sup> of storage and distribution, a large fleet of vehicles and some 600,000 item-types managed on behalf of customers. Maman is planning to develop a logistics zone on the Israeli side of Karni border crossing.

The regional councils in border areas are another driving force behind logistic zones development. There are three main initiatives: Gilboa Regional Council's project adjacent to the Jalame cargo terminal; Lev Hasharon Regional Council's 'Park Hashalom' project at Shaar Efraim cargo terminal; and 'Erez Intermodal', an initiative by Erez Logistic and Marketing Zone at the Erez terminal, which is being promoted by YDT Initiatives and Management on behalf of Kibbutz Erez. Maman is a private investor in both the Gilboa and Lev Hasharon logistic zones.

The projects give Israeli communities opportunities to develop their regions, reap the benefits of cross-border activities, provide jobs and earn revenue from the lease of land to the logistic zones. As a result, the regional councils have a vested interest in pushing the initiatives forward, including undertaking feasibility studies, planning, and acquiring authorisations from the Israeli Land Authority and the Ministry of the Interior.

To facilitate the development of these projects, regional councils are looking for Palestinian counterparts but there is little political will in the PA for initiatives that promote cooperation with Israel. Such partnerships are crucial if regional councils are to raise funds from international organisations to move their projects forward. It is also an important element if the councils are to promote the development of parallel structures in the PA to facilitate coordination with the various Palestinian actors. The councils have not yet succeeded in developing any real partnerships with local, municipal or governorate entities in the PA.

The logistic zones aim to provide the private sector with services and facilities that assist the cross-border flow of merchandise and alleviate the impact of security constraints. Palestinian traders will be their target clients, as well as their counterparts among the Israeli logistic providers developing the zones. In addition to handling cargo, the logistic zones will provide facilities that enable Palestinian traders to outsource elements of their production and marketing.

Both Maman and YDT established contact with potential counterparts in the Gazan business community to ensure their interest in the logistic zones. Palestinian industrialists, who used to work with Israeli investors in Erez Industrial Estates until it was closed, are interested in the YDT initiative at Erez terminal if it would help

them re-establish business relations with Israeli investors, but their main concerns relate to the border crossing and the GoI policy on the improved movement of goods. Though the logistic zones will alleviate the lack of predictability by allowing Palestinian producers to stockpile merchandise on Israeli territory, they will not overcome the problems caused by closures or the long waiting-time at border crossings.

Israeli and international traders seeking to import raw materials from the PA or buy Palestinian goods require concrete assurances before investing that the goods can be accessed in a timely fashion. In times of crisis or closure, logistic zones will serve as a buffer zone where goods can be stockpiled and made available to potential buyers at all times. They will also relieve international traders of the burden of dealing with border-crossing complexities by outsourcing logistical tasks, from cargo handling and packaging to the assembly of manufactured goods.

### The initiatives

Each of the various Israeli stakeholders in the logistic zones proposes more or less the same facilities, with slight variations.

The Maman project in Karni and the YDT project in Erez have the advantage of being located on private land where there is no need for Ministry of Interior authorisations or public tender. There is clear competition between both, which are located close to one another. Maman proposes a wide variety of outsourcing services, including assembly, finishing and repair. YDT intends to develop a marketing zone, called Pal-Expo, in which sales agents will market Palestinian products to Israeli clients, and help in publicity and packaging. YDT will also facilitate the creation of long-range business relationships between Palestinian exporters and Israeli buyers. This showroom component exists in most logistic zones.

In the Gilboa Regional Council project, the transfer of Jalame passage and its security to civilian control and a private security contractor have been integrated as elements that will facilitate the coordination of activities at the border crossing. The council has submitted an application to operate security in the terminals, which could promote greater coordination between management of the terminal and the logistic facilities adjacent to it.

The project by the Lev HaSharon Regional Council is particularly ambitious because it is part of a broader, joint Israeli-Palestinian industrial area that will be secured from all sides so as to create a 'no man's land' in which Israelis and Palestinians will be able to work together. The parameters of the area are to be determined together with the Palestinian counterpart, meaning the neighbouring

Palestinian municipality, and approved by relevant Palestinian authorities. Because it depends on both sides developing a close collaboration, combined with strong political support, this project has had difficulty in advancing. As a consequence, the council has not made the development of its logistic zone conditional on a Palestinian partnership.

Of the four projects, the YDT and Maman projects have the greater chance of success in the short term. First, because they are located on private land they will not depend on bureaucratic decisions. Second, Gazan traders will need logistical solutions to increase their access to Israel and world markets after disengagement. In interviews, Gazan traders expressed interest in the two zones and said they were discussing partnerships with potential Israeli investors. Since the closure of the Erez Industrial Estate,<sup>13</sup> this type of relationship is one of the few ways of continuing business transactions between Israeli investors and Palestinian manufacturers.

In summary, with some differences, each of the projects includes:

- Refrigerated storage and warehouse
- Marketing services
- Transportation services
- Import/export facilities
- Commercial meeting spaces
- Packing facilities
- VIP rooms, meetings rooms, show rooms
- Banking services
- Branch offices for related government authorities, including customs, Ministry of the Interior, etc.
- Quality control facilities.

### Role of the international community

The problem of access is one of the international community's main priorities in promoting development of the PA. International pressure contributed to the GoI's decision to modernise and demilitarise the cargo terminals. The World Bank and USAID, the international organisations that mostly deal with this issue, consider the partnership between Palestinian traders and Israeli logistic providers as positive, although at the same time a temporary solution that should not prevent Israel from abolishing the back-to-back system.<sup>14</sup>

Since donor assistance is dedicated to Palestinian development, the current focus is to encourage the PA to design its side of the border crossings where there is a lack of organisation and management. The development of a well-managed, Palestinian border



crossing would benefit Israeli traders and the GoI, mainly on political and security grounds (shared responsibilities, reduction of tensions and neutralisation of threats).

### Peacebuilding aspects

The logistic zones have two principal peacebuilding elements: generating Israeli-Palestinian business activities and providing a partial solution to the access problem. Palestinian goods remain very attractive to Israeli investors due to their lower price and the well-qualified workforce. These elements, added to proximity, make the PA territories a particularly attractive investment market. By giving access to Palestinian goods and traders (showrooms, marketing services and meeting rooms), logistic zones will enable and encourage business transactions between Israelis and Palestinians.

At the same time, the logistic zones facilitate Palestinian partnerships with Israeli logistic services, providing access to a range of destinations in Europe, the US and Asia via Israel's airport and seaport.

### Limitations

However, as asserted by international donors, the solutions provided by logistic zones are temporary remedies. They address the symptoms of the conflict, but do not deal with the factors that cause the problem of access in the first place. In this regard, the initiators of the logistic zones are seeking to benefit economically from the conflict's status quo. This raises concerns that, in reducing the symptoms of the problem, the building of logistic zones may also reduce the motivation of the GoI to make the corrections to its access policy that will improve the movement of Palestinian goods and persons more significantly and for the longer term.

However, considering that a logistic zone does not only provide storage and transportation services, but also aims to develop a trade zone at border crossings and meeting spaces, it is very likely that the initiators of the zones will adapt themselves to any reform of the access regime and provide services that would respond to the needs created by a new status quo.

Once the political and security situation improves to the point where the GoI will no longer be able to justify the strict character of its security measures, the international community and the PA are likely to exert more intensive pressure on the government to shift its policy. The existence of the logistic zones will not affect this process to any significant degree, but their initiators will no doubt adapt to the changed reality.

## Goldstone Infotech: software outsourcing in Palestine

Raising the Palestinian flag next to an Israeli flag in the heart of Tel Aviv was previously unthinkable to Israelis and Palestinians alike, but a remarkable success for the peace-makers who work on building bridges between the two peoples. It happened in September 2000 when the Palestinian Information Technology Association participated in an IT conference and exhibition, called Comdex. Ten companies from the Palestinian IT sector exhibited in the international show. The flag-raising was a sign that Palestinians and Israelis could live side by side as two separate nations, and that Palestinians had the right to showcase their talents, just like any other people.

The IT sector has been identified as a promising area for Palestinian-Israeli cooperation and many Israeli investors believe that doing business with Palestinian companies in this field is economically feasible. In discussions of what might be suitable and possible in the PA, the focus is usually on:

- Establishment and operation of call centres
- Software outsourcing, software development, software localisation houses
- Manufacture and assembly of hardware and communications equipment
- Development of embedded software
- Establishment of medical transcription centres
- Establishment of software and hardware testing centres for quality control and audit.

### The IT sector in Palestine

Palestinian IT companies struggled to stay afloat during the *intifada*. With local business in decline and the near-bankruptcy of the PA, the main client for most of them, IT companies looked for new markets in the Gulf region and diverted their activities to Dubai, Saudi Arabia and Qatar.

The Palestinian Information Technology Association (PITA) was founded in 1999 in Ramallah as a membership-based organisation for locally registered companies in the sector.<sup>15</sup> The association represents some 75 companies from a variety of sub-sectors, including hardware distributors, software development firms, office automation vendors, internet service providers, telecoms, consulting, training and other related businesses. PITA's mission is to promote and defend the IT private sector by:

- Advocating business-enabling policies, mechanisms and environment through public-private partnerships

- Promoting the IT sector locally and internationally by facilitating access to markets for the benefit of its members
- Engaging technical and non-technical IT human resources and related institutions in order to expand the qualified pool and uphold professional standards.

Currently, the sector employs around 4,500 Palestinians and 300-500 new graduates enter every year. The average firm employs 8-12 people in various capacities.

PITA represents its members at IT exhibitions and forums around the region and membership grew by 25 percent between 2003-04 alone. As its official representative, PITA addresses issues of concern to the sector, including:

- Capacity building for IT companies
- Participation in international and local IT exhibitions
- Legal framework for communications and IT in Palestine and the establishment of a new telecommunications law
- Market liberalisation and ending the telecommunications monopoly
- Establishment of an independent Telecom Regulatory Authority
- Lobbying on issues such as anti-trust law, public tendering law, e-government and e-education, etc.

Not all PITA's initiatives have been successful, although it managed to open the eyes of the public to issues that could attract foreign direct investment and help transform the Palestinian economy into an 'e-Palestine'.

Israel's withdrawal from Gaza Strip has created a window of opportunity for Palestinians, Israelis and international companies alike. Pre-*intifada* plans for cooperation have resurfaced. When scouting for opportunities in Palestine, Israeli software companies can hope to find the following:

- Quality software
- Cheaper labour costs
- Penetrating new potential markets via Palestinian territories
- Better communication with engineers and programmers
- Higher earnings.

### Joint venture efforts

One of the exhibitors at the 2000 fair was Goldstone Infotech, a joint venture between Palestine's Via Maris group and Goldstone Softech, based in Hyderabad, India.<sup>16</sup> Founded in 2000, Goldstone Infotech was both the first

Indian-Palestinian joint venture and the first IT company to establish a presence in the Gaza Industrial Estate (GIE). The Indian partner hoped the venture would generate business opportunities and bring software outsourcing to India, while Via Maris believed it would acquire outsourcing skills from Goldstone Softech, and build the capacity of Palestinian programmers to work on large-scale projects. Goldstone Softech also believed it was contributing to building peace bridges between Palestinians and Israelis through the promotion of dialogue and business exchanges.

For the venture to succeed, an Israeli partner was required to complete a triangle of cooperation. Goldstone Infotech approached the general manager of Alfanus, who was quick to join the project. A leading company in the field of Arabic internet applications, Alfanus is committed to the belief that the hi-tech field will help bridge the gap between Israel, with its Jewish and Arab inhabitants, the Arab world in general and Palestine in particular. Comdex 2000 was an opportunity to showcase the new partnership.

### Impact of the *intifada*

The GIE was built on the Palestinian side of the green line separating Gaza Strip from Israel, but it had an entry gate that allowed Israelis to enter and meet with Palestinians at the production facilities. Though intended as a neutral zone, the GIE was among the first to be affected by the *intifada* since employees and Israeli businessmen were prevented from reaching the premises. Israelis were barred from entering the Gaza Strip and Israeli tanks cut off the PA roads leading to the GIE in a massive military incursion.

The partners in Goldstone Infotech feared that their efforts had been wasted. In the hope that things would return to normal, communications continued but, as time passed, the firms interested in outsourcing lost interest in doing business. The Indian partner finally pulled out, leaving behind a company loaded with debt.

### Future potential

There is a strong possibility that projects initiated before the *intifada*, like Goldstone Infotech, could be reactivated following the disengagement with benefits flowing to both sides. Palestinian programmers are not as low-cost as Indian or Romanian ones, but the IT sector in the PA still offers Israeli and international companies distinct advantages, such as:

- High professional skills
- Better communication skills

- Produce high-quality software products
- Convenient location for Israel-based firms
- PA labour laws are not as strict as Israeli or other labour laws.

### Tourism without borders: a Palestinian perspective

Israeli interests have dominated tourism in the Holy Land for the past three decades. After the Taba Accord (Oslo II) in September 1995, however, Palestinians began to have an increasing influence on the sector. The peace process generated a dramatic growth in tourism investment, particularly in Bethlehem, Ramallah, Gaza and Jericho, and the projected peace accord in 2000 offered scope for further development. Unfortunately, the troubles that ensued after 28 September 2000 had a catastrophic impact on tourism in both PA and Israeli areas.

From 1994 to mid-2000, renewed optimism in the political situation created strong interest in the tourist facilities and services offered by the PA. The number of hotels increased by 59 percent from 54 units with 2,464 rooms, to 91 units with 4,275 rooms. In 2000 alone, a further 30 hotels were under construction, boosting accommodation stock by a further 2,346 rooms (55 percent). Over the same period, the number of registered tour guides rose from 18 to 223.<sup>17</sup>

Estimated direct employment in tourism amounted to 5,715 jobs in 2000. Receipts totalled \$226.3 million, but souvenir shops and handicrafts generated \$105.5 million (47 percent) of the total and only \$33.2 million accrued from tourist accommodation. This reflected the reality that most visitors to the PA were day-trippers, whose transport, accommodation and subsistence were mostly provided by Israeli operators. The number of visitors to PA areas in 2000 was 1.055 million, but only 330,000 visitors stayed overnight, generating just 980,000 bed-nights.<sup>18</sup>

### Impact of the *intifada*

A total of 3 million tourists were expected to visit the Holy Land in the millennium year, of whom 2.7 million had materialised by September 2000. Thereafter, the number plummeted, with disastrous results for service providers, many of whom were forced to change profession or convert their businesses to survive. At the same time, the construction of new hotels ground to a halt. Tourism enterprises throughout the PA still face severe hardship.

The inevitable result of the *intifada* was a significant decline in employment, with many establishments closing and others operating with skeleton staffs. In 2001, the

number of hotel guests fell by 81 percent, and the decline continued into 2002. Revenues from souvenirs and handicrafts suffered more, falling by 97 percent in 2001. Total losses from tourism from September 2000 to December 2003 have been estimated at \$910 million.<sup>19</sup> With few alternatives, the revival of tourism presents a key opportunity for rapid economic development.

### Constraints to development

Tourism emerged as an important economic sector after the 1995 Paris Protocol, which established a new set of values aimed at liberalising the PA economy through market reforms, expanded exports, a more relaxed regulatory environment, modernisation of trade and tax policies, and increased labour and capital mobility in order to attract development funds from international donors to the tourism sector.

Article 10 of Annex 5 of the Protocol defined the relationship between the Palestinian and Israeli tourism stakeholders.<sup>20</sup> The main provisions highlighted the need to develop a reciprocal business relationship between stakeholders and to encourage cross-border cooperation in order to create a 'border-free' industry.

The principle of reciprocity was never implemented, however. Palestinian guides in Bethlehem were not permitted to lead groups into Israel, while Israeli guides had open access to tourism sites in Bethlehem and Jericho. Palestinian tourism vehicles were not allowed into Israel, but Israeli companies freely visited PA sites until the outbreak of the second *intifada*. Because Palestinian operators did not have access to international entry points, they could not provide ground services for tourists on arrival or departure.

The key to developing tourism's potential is access. At present, travel by Palestinians out of their place of residence is severely restricted and this has had a further negative impact on the development of domestic tourism. In addition, travellers have to pass through frequent checkpoints where access may be denied. The security wall presents additional restrictions on mobility.

Since international access to PA areas necessitates an Israeli visa, potential visitors from most Arab states are prohibited from visiting the Al-Aqsa Mosque, the third holiest shrine in Islam. The problem is exacerbated by Israel denying visas to certain tourist groups who want to visit the PA, only for the same group to be given a visa to enter Israel and undertake the same tour, but serviced by an Israeli tour operator.

Certain constraints are specifically associated with tourism in East Jerusalem, which operates under Israeli jurisdiction. Under Israeli regulatory control, Palestinian hotels and businesses bear particular burdens that are not experienced in Gaza and the West

Bank. The construction of the wall and the isolation of East Jerusalem will affect future growth of the industry since it fragments the core of the Palestinian tourism product from its components in Bethlehem, Jericho and Nablus. These factors combine to create a competitive disadvantage for the Palestinian tourism industry.

### The value-added of Palestinian-Israeli cooperation

The relationship between the Israeli and Palestinian private sectors was at its peak prior to the second *intifada*. Israeli tour operators booked business in hotels in Bethlehem on a back-to-back basis. Israeli operators received value for money, and Palestinian hotel owners and managers were satisfied with the improved turnover and income. Souvenir shops also benefited from the relationship, which stimulated suppliers in the governorate of Bethlehem.

Since the outbreak of the *intifada*, it has been increasingly difficult for stakeholders to do business because the checkpoints have separated suppliers from service providers. Many countries have issued travel advisories that discourage their nationals from travelling to the region. The main sites in the PA were isolated as the Israeli military took control of access. Tour groups were turned away from Bethlehem and Jericho, and access was restricted to local residents. This uncertainty destroyed whatever confidence existed between Israeli and Palestinian partners, and the relationship deteriorated further during the first three years of the *intifada*.

When international tour groups began to trickle back in modest numbers in mid-2004, Israeli operators were obliged to re-establish links with their Palestinian counterparts because groups wanted to visit Bethlehem and Jericho. This resulted in small steps toward re-establishing cooperation. For example, Israeli tour buses began to drop their passengers at the checkpoint at the entry to Bethlehem where Palestinian buses take them to the city's most celebrated site, the Church of the Nativity. Gradually, the shopping and lunch business has developed, though in modest numbers.

The three main stakeholder groups – Israeli, Palestinian and international – have common interests despite the political factors that inhibit their business relationships. The rich inventory of religious, historical and archaeological sites is a common denominator for them all. They have adjusted and redefined their relationships to accommodate the realities imposed by the prevailing crisis. The Palestinian private sector has experienced the business benefits of peace, including profitable investment opportunities, reduced operational costs and improved budget allocation, especially for the rehabilitation of tourism infrastructure. The Bethlehem 2000 Authority, for example, raised \$200 million in international funding in preparation for the millennium celebrations.<sup>21</sup>

## Conclusions

The Palestinian-Israeli conflict will continue to affect the lives of both communities for the foreseeable future, undermining social progress and economic development. This has implications for the private sector in both countries. Businesses pay heavy costs to conduct their operations under conditions where their employees, assets and routes to markets are at risk. The private sector has as much to lose as other sectors of society when economic and social development are jeopardised.

From this analysis of four different interactions, it can be seen that all involved partners were seeking synergies and value-added components with their counterparts. Many of the ventures hinged on the issue of access facilitation. Though assistance on access is necessary in the short run, it is problematic over the long term since in some senses finding coping mechanisms adapting to border issues in some senses reinforces the conflict status quo.

None of the participants in the four cases directly benefit from the conflict. Research indicates that the private sector's profit from the conflict is marginal – mostly confined to the criminal smuggling of weapons – while its losses are inestimable. However, while Israeli businesses may not directly benefit from the conflict and exert no active pressure to maintain the existing situation, the problem of access is nevertheless a source of profit for them. The Agrexco initiative and the logistic zones both provide service needs that are born out of the conflict and they also benefit from the economic asymmetry that exists between Israel and the PA. Their Israeli backers do not see the current political situation as a prerequisite for the prosperity of their activities and they claim that a shift on the ground will not necessarily mean their operations will cease to be relevant. Similar partnerships exist in non-conflict zones where, for example, traders are motivated to reduce the cost of their logistical requirements by outsourcing them to specialist providers.<sup>22</sup>

According to interviewees, the longer a business relationship endures, the stronger the people-to-people relationships that accompany it. Moreover, the more prestigious the cooperating parties, the greater their influence will be on the multiple layers of the peace process. In the Agrexco case, there is evidence of the private sector's ability and willingness to influence politicians or the military to reduce tension, though such interventions tend to be localised and incident-related. Motivation is clearly mixed – with people-to-people loyalties and a desire to protect the incomes of Palestinian growers and the PA, entwined with fear of lost profits or reputational damage.

Prior to the violence of the second *intifada*, the Israeli and Palestinian private sectors demonstrated a willingness and capacity to work profitably together in ways that might have had a positive influence on the conflict by replicating models of cross-



border cooperation. The fact that in the context of the disengagement, Israelis and Palestinians investors and entrepreneurs are looking for practical solutions to maintain an active economic and business cooperation proves their determination and shared interests. Resolving the access process will only foster this cooperation and encourage Israelis to return to investing in the Gaza Strip by using various logistic outsourcings and Palestinian intermediaries that will enable them to manage their business from outside. By speeding up the movement of goods, making transactions predictable and therefore reducing costs, progress on access will help reduce the economic asymmetry between Israelis and Palestinians, making Israeli-Palestinian business relations more balanced. Meanwhile, reviving joint ventures in the tourism and IT sectors that were stifled by the second *intifada* is a promising starting point for re-establishing severed relations.

The cases illustrate that business on both sides can have a positive influence on the conflict, an influence that should be encouraged. A more active effort from business towards addressing the conflict would not only enhance economic development on both sides, but also contribute to greater levels of trust among Israelis and Palestinians.

**Table 2: Summary of case studies**

Case title	Constructive aspects	Non-constructive aspects
<b>Agrexco</b>	<ul style="list-style-type: none"> <li>■ Supports what is potentially the largest source of hard currency to Gaza Strip</li> <li>■ Supports broad-based employment in Gaza</li> <li>■ Provides economic development in a sustainable sector, while reducing poverty and extremism</li> <li>■ Scaleable relationship with high potential for growth</li> <li>■ Promotes people-to-people relationships and commitment on a business and personal level</li> </ul>	<ul style="list-style-type: none"> <li>■ Sub-segment of the Agrexco value proposition is access facilitation – in effect profiting from the conflict</li> <li>■ Might delay emergence of a independent Palestinian distribution channel</li> <li>■ Agrexco might have conflict of interest in promoting the 'Carmel' over the 'Coral' brand once the latter attains EurepGap standards</li> </ul>
<b>Logistic zones</b>	<ul style="list-style-type: none"> <li>■ Facilitates the movement of goods by providing logistic facilities at border crossings</li> <li>■ Encourages business transactions between Israeli and Palestinian traders by enabling Israeli traders to access Palestinian manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>■ Logistic zones provide solutions that contribute to maintaining the current system and prevent a real improvement in border crossing management and Israel's policy on access</li> </ul>
<b>Software development outsourcing</b>	<ul style="list-style-type: none"> <li>■ Improve access to the external and Israeli outsourcing markets</li> <li>■ Build the professional capacity of IT labour force</li> <li>■ Foster the development of IT sector</li> <li>■ Enhance exchange of the professional and technical capabilities</li> <li>■ Resource sharing where possible</li> <li>■ Cost-effective and competitive presentation of IT products</li> <li>■ Creates opportunities for business joint ventures and establishment of new start-ups</li> <li>■ Promote the Palestinian-Israeli peace process and the normalisation of relations through cooperation at the 'people-to-people' level</li> </ul>	<ul style="list-style-type: none"> <li>■ Israeli domination of telecoms infrastructure poses impediment to advancement in this field</li> <li>■ As Palestinian capabilities in the field advance, there is potential for head-to-head competition on projects</li> </ul>

Case Title	Constructive aspects	Non-constructive aspects
<b>Joint ventures in tourism</b>	<ul style="list-style-type: none"> <li>■ Generate employment opportunities</li> <li>■ Increase the multiplier effect especially with supporting industries and services providers</li> <li>■ Improve overall government earnings of foreign currency from incoming tourists</li> <li>■ Revive the business relationship between the Israeli and Palestinian tourism professionals</li> <li>■ Continue to exchange technical and professional know-how</li> <li>■ Build momentum to restore domestic tourism in both directions</li> <li>■ Improve the donor community's image and perception of the destination and product</li> <li>■ Increase cooperation between both sectors to achieve increased overnight stay and longer visits</li> <li>■ Develop the tourism industry's main sectors</li> </ul>	<ul style="list-style-type: none"> <li>■ Israeli domination of telecoms infrastructure poses impediment to advancement</li> <li>■ Unbridled competition as a result of Israel's control of international borders and crossing points</li> <li>■ Vulnerability of the tourism sector and its relationship to the prevailing politics and overall stability</li> <li>■ Security and access restrictions</li> <li>■ Non-compliance in the execution of international agreements</li> </ul>

## Acronyms

ATG	Alternative Tourism Group
GDP	Gross Domestic Product
GIE	Gaza Industrial Estate
Gol	Government of Israel
NIS	New Israeli Shekel
PA	Palestine Authority
PAPA	Palestinian Agri-business Partnership Activity
PITA	Palestinian Information Technology Association
USAID	US Agency for International Development

## Endnotes

- 1 The exact figure is 711,000. See UN Conciliation Commission (1950) *General Progress Report and Supplementary Report of the UN Conciliation Commission for Palestine, Covering the Period from 11 December 1949 to 23 October 1950* (UN General Assembly Official Records, 5th Session, Supplement No. 18, Document A/1367/Rev. 1).
- 2 Control over the Peninsula was returned to Egypt following the 1978 Camp David Peace Accords between Egypt and Israel.
- 3 World Bank (2004) 'Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects' *Sector Report* (Washington DC, US: World Bank).
- 4 See [www.worldbank.org/we](http://www.worldbank.org/we)
- 5 Bank of Israel (BOI) (2002) *Policy Recommendations, 2003-08* (Jerusalem, Israel: BOI).
- 6 Palestinian Ministry of National Economy.
- 7 Qualitative interviews were carried out for each of the case studies with individuals involved, both from the private sector, public sector officials, international organisations and NGOs. Additional interviews were carried out with experts and resource persons.
- 8 1 *dunam* = 0.247 acre.
- 9 Palestinian Central Bureau of Statistics, *Agricultural Statistics, 2001/2002*; *Land Use Statistics, 2002*.
- 10 Note from the editors: since writing this case study, Karni border crossing has been almost consistently closed since January 2006 due to Israeli security concerns. Analysts describe the situation this has created in Gaza as an economic and humanitarian collapse. The closure has severely damaged private sectors on both sides according to reports, with losses of tens of millions of shekels on the Israeli side and serious harm to small and medium enterprises; and millions of dollars lost on the Palestinian side and the closure of dozens of factories and greenhouses there. See for instance Peres Center for Peace (2006) 'Palestinian and Israeli Private Sectors Severely Hurt by Prolonged Closure of Karni Border Crossing' *Position Paper* 8 May 2006 (Tel Aviv, Israel: Peres Center for Peace).
- 11 Palestinians currently use up 3,000 *dunam* of land while the potential for agricultural use in Gaza is 25,000 *dunam*, in addition to the 10,000 *dunam* vacated by Israeli settlers following the disengagement. A simple linear relationship implies that roughly 100,000 jobs might be added in the Gaza Strip through agriculture.
- 12 The Israeli Defence Forces will hand over security management of the Israeli side of the border passages to civil security companies appointed by government.
- 13 Erez Industrial Estate was closed as part of the Disengagement Plan. After a surge in Palestinian attacks in 2004, then-Minister of Trade, Industry and Labour Ehud Olmert decided to close Erez on the grounds that the Gol was unwilling to assume responsibility for injuries caused to Israeli investors during Palestinian attacks.

- 14 The Services Group (TSG)/Louis Berger (2002) *Gaza Integrated Transport Planning Study* (Washington DC, US: USAID).
- 15 See [www.pita.ps](http://www.pita.ps)
- 16 See [www.viamaris.ps](http://www.viamaris.ps) and [www.goldstone.com](http://www.goldstone.com)
- 17 Palestinian Central Bureau of Statistics; Palestinian Ministry of Tourism.
- 18 Ibid.
- 19 Ibid.
- 20 Available at [www.un.org/unsco/UNSCO/Paris%20Protocol.htm](http://www.un.org/unsco/UNSCO/Paris%20Protocol.htm)
- 21 Palestinian Ministry of Tourism.
- 22 This point is also emphasised in TSG/Louis Berger op. cit.

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## Encouraging business cooperation in Israel and Palestine: the Peres Center for Peace and the Center for Jewish-Arab Economic Development

Various non-profit organisations have sprung up during the past decades in the Middle East that are based on the idea that enhancing economic links and co-operation between businesspeople across national and international divides is an important, if not essential, element in promoting cross-cultural understanding and overall peace within the region. These groups believe that this is particularly true in environments such as the Middle East where political peace processes have a history of stalling.

Two such examples are the Peres Center for Peace (PCP) and the Center for Jewish-Arab Economic Development (CJAED). The PCP is an independent, non-profit NGO, founded in 1996 by Nobel Peace Laureate and former prime minister Shimon Peres with the aim of furthering his vision in which people of the Middle East region work together to build peace through socio-economic cooperation and people-to-people interaction. The peacebuilding activities of the Center focus on common Arab and Israeli economic and social interests, with particular emphasis on Palestinian-Israeli relations. Peacebuilding projects are developed to address these interests through partnerships with regional and international partners.

The PCP advances cooperative initiatives based on the belief that economic stability and prosperity are key factors in developing sustainable peace in the Middle East. Enhancing economic cooperation within the region has become a focal point of the institute's activities, and it works with businesspeople from Jordan, Palestine and Israel to develop integrated, mutually beneficial initiatives. The Center seeks to create strong partnerships and ties between the main economic players in each society who are in a position to make genuine business changes and improve the region's overall macro-economic situation.

The Center for Jewish-Arab Economic Development (CJAED) was founded by a group of Israeli Jewish and Arab businesspeople in 1988 to promote Jewish-Arab economic cooperation and strengthen the Arab business sector. Like the PCP, the CJAED believes that encouraging economic links and partnerships between Jewish and Arab populations is a vital element for the consolidation of economic stability, prosperity and ultimately peace in the Middle East. While the CJAED's main focus is national, engaging in promoting the integration of the Israeli Arab population into the economy and closing the socio-economic gap, it also promotes business cooperation and links with Palestinian society through various projects. In addition to the activities described below, CJAED engages in research projects, advocacy and

policy formulation with the aim of providing equal opportunities and resources to Arab communities in Israel and to narrowing the socio-economic gap between the Arab and Jewish communities.

Both organisations have developed a range of activities in order to promote economic cooperation:

### Training

The PCP engages in capacity-building programmes and vocational training seminars designed to provide additional skills and know-how to specific business sectors, in particular to the Palestinian private sector. The aim is to decrease the negative economic effects of the recent violence, which has significantly distanced the two private sectors, and to bridge the gap between the economies of the region. Examples include:

- **Chain of Supply Seminars.** Presently, there are no Palestinian ports, with the vast majority of Palestinian imports and exports shipped through Israeli ports. The PCP has run several two-day ‘Chain of Supply’ seminars to inform Palestinian businesspeople from various industries about international trade procedures and the logistical processes of Israeli ports, allowing them to conduct more efficient trade. The seminars included lectures on customs clearance procedures, standards checks, freight forwarders, insurance and more, as well as a full-day tour of an Israeli port. Participants were given the opportunity to view the ports’ facilities and processes, and to meet with the ports’ and customs’ management and personnel.
- **Business Training Courses for SMEs.** As a result of the conflict, Palestinian businesspeople have limited opportunities to develop business skills. The PCP runs seminars to enhance the business capacities of Palestinian SMEs, which make up one of the largest components of the Palestinian economy. A four-day training programme was held in Tel Aviv for businesspeople from the Bethlehem area that included lectures and workshop sessions on topics such as writing a business plan, micro-financing, and human resource development. The course served the further purpose of bringing together Palestinian and Israeli businesspeople to forge professional and personal relations.

The CJAED aims to strengthen the entrepreneurial and management skills of young Arab and Jewish professionals in order to promote equal access to management positions. Under the Management Training and Integration focus area, CJAED carries out the following programmes:

- **Building Business Bridges MBA Programme.** Among the various activities in this field, the Building Business Bridges MBA Programme stands out as one of the

most interesting. First launched in 1998, the initiative was originally conceived as a training programme for Israeli and Palestinian business executives in cross-cultural management, but since 2003 it has evolved into a fully accredited Masters degree in business administration (MBA). Taught by the Graduate School of Business at the University of Haifa, the course brings Jewish, Israeli Arab and Palestinian professionals together with the aim of educating a young business leadership in the Middle East committed to furthering the objectives of cross-border partnerships and cooperation. One of the main goals of the MBA programme is to create and foster a network of Israeli and Palestinian business leaders with personal bonds and an understanding of one another's cultures and business environments. The programme also aims to provide laureates with the inclination, knowledge and tools to engage in joint partnerships and ventures. In parallel to the academic programme, students are involved in extra-curricular activities that raise awareness on sensitive issues related to the Israeli-Palestinian conflict. To date, approximately 90 students have graduated from the various BBB programmes.

- **Women's Empowerment Programmes.** The CJAED further provides Israeli Arab women with support and skills training with the goal of strengthening women entrepreneurs and allowing them not only to generate income for themselves, their families and communities, but also to employ others. CJAED offers a basket of activities for potential women entrepreneurs. The process begins with training both for individual and group enterprises, after which graduates present their business plans. The next step is a mentoring service provided by CJAED to start-up businesses that emerged as a result of the various courses. Another aspect of CJAED's ongoing support has been the creation of seven businesswomen networks. Each is comprised of both senior and starter businesswomen who conduct regular meetings, workshops and exposure visits to an array of businesses. Following on from these networks' success, CJAED is now working to establish a National Businesswomen's Network that will unify the various regional networks and create a strong body to represent businesswomen at the national level. Another important aspect of the Center's assistance to women entrepreneurs is the Women's Loan Fund, which has so far resulted in the addition of over 90 women to the workforce.

### Business networking and cooperation

CJAED also aims at promoting investment by facilitating networking opportunities and joint ventures between the Arab and Jewish communities in Israel, as well as between Israel and its Arab neighbours.

- **Palestinian-Israeli Business Alliance.** As the restrictions on the movement of goods and people since the beginning of the second *intifada* have drastically decreased trade between small and medium-sized Palestinian and Israeli



companies, CJAED is seeking to develop by 2006-2007 the Palestinian-Israeli Business Alliance (PIBA), an initiative that aims at opening channels of communication between Israeli and Palestinian businesspeople. In conjunction with the Palestinian Media and Development Institute, a Palestinian NGO dedicated to the development and advancement of the Palestinian small and medium-size business sector, two PIBA offices will be established in Tel Aviv and Ramallah. The aim is to create an independent and viable organisation that will facilitate communication and business ties between Palestinian and Israeli businesspeople. In addition, the PIBA strategy envisages engagement in lobbying, advocacy and media campaigns to raise awareness on the costs of conflict and the benefits of peace for economic prosperity with key policy makers (government ministers and advisors, members of parliament, leaders of think tanks, leading academics etc.), business associations (e.g., the Israeli Manufacturers' Association, the Palestinian Industrialists' Union, etc.) and the broader public (e.g., through press conferences, presentations at conferences and seminars).

The Peres Center organises initiatives, forums and events to encourage Palestinian and Israeli businesspeople and companies to meet despite the movement restrictions and communication difficulties. These gatherings are aimed at establishing commercial ties and strengthening business partnerships amongst Arab and Israeli businesses. In 2005 alone some 450 Palestinian and Israeli businesspeople and economists participated in joint meetings and activities, and over 800 people participated in the two public conferences held during the year.

- **Business to Business Events (B2B).** In order to re-establish economic links between Palestinian and Israeli businesses after five years of limited ties and communication, the Center runs B2B events for specific sectors. The events bring together Palestinian and Israeli businesspeople to meet and listen to key players in selected industries, showcase their products, and participate in face-to-face meetings in order to identify avenues for future cooperation. The PCP has held B2B events for the textiles and fashion industry, and the handicrafts sector and has plans to include additional sectors in the near future.
- **Business Fora.** The PCP brings together Palestinian, Jordanian, Egyptian and Israeli professionals from related fields with a view to identifying and promoting solutions to specific problems and advancing cooperative initiatives. One example is a 'Tourism Forum' to enable communication between Palestinian and Israeli professionals in this field. Forum members have identified impediments to joint advancement and are working towards removing such obstacles via advocacy initiatives. In addition, the participants have instigated joint activities that bring the Palestinian and Israeli tourism sectors closer together.

## Other activities

Among the other activities that the PCP organises to encourage business links and cooperation are:

- **Events and conferences.** The Center organises public conferences with the aim of shedding light on topics of current and future economic interest. Such conferences include presentations by leading political and economic figures with the objective of providing the public and other parties involved with reliable information regarding the potential for economic growth in the various business sectors, and information on the means to achieve it. For example, a series of conferences has been held to examine the economic relations between Israel and its Arab neighbours. The first explored Jordanian-Israeli economic relations, the second focused on Palestinian-Israeli business ties and the third examined Egyptian-Israeli economic links. Other conferences have focused on specific sectors, including a conference on tourism in the Middle East that featured distinguished Palestinian, Israeli, Jordanian and Egyptian speakers.
- **Institutionalisation and establishment of Arab-Israeli working relations.** The PCP seeks to institutionalise working relations between Israeli and Arab business associations, export institutions and other organisations in order to further encourage and assist local business communities to trade with one other. For example, it helped to establish the Palestinian Shippers' Council which will represent and protect the interests of Palestinian importers and exporters that utilise maritime shipping, air freight or land transport.
- **Palestinian-Israeli Economic Research.** The PCP facilitates the Aix Group, an economic research group comprising Palestinian, Israeli and International economists, officials, academics and other experts, which presents multi-perspective position papers. The papers serve to inform regional and international decision makers about significant economic issues and optimal models for economic relations in the hope that decision makers will use these findings to set policy for the region.

For those disadvantaged in obtaining credit, the CJAED provides a source of loans through two schemes:

- **CJAED-KIEDF loan fund.** Launched in 2004 in cooperation with the Koret Israel Economic Development Fund (KIEDF) and the Mercantile Discount Bank, this loan fund provides a much needed source of funds for Israeli Arabs, who are often penalised in their capacity to access credit. The CJAED-KIEDF loan fund provides Mercantile Discount Bank with a 35 percent guarantee (the rest of the risk is undertaken by the bank) and in so doing allows business owners to receive

loans with better interest rates for long-term periods. Thus far the loan fund has assisted over 30 businesses with none of the loans defaulting. Loan sizes vary from \$10-30,000, with the average loan amounting to \$15,000.

- **The loan fund for Arab women entrepreneurs.** This loan fund is directed at empowering Arab women within the Israeli economy. CJAED provides up to \$10,000 in loans for entrepreneurial activities of Arab Israeli women who can otherwise find it extremely hard to raise the necessary money to establish their businesses. Over 30 businesses owned by women have benefited from the CJAED Women's Loan Fund, which has aided in either establishing new businesses or expanding existing ones.

*For more information, see [www.peres-center.org/](http://www.peres-center.org/) and [www.cjaed.org.il/](http://www.cjaed.org.il/)*

## Alternative Tourism Group: justice tourism in Palestine

Since the signature of the Oslo Accords in 1993, tourism has been considered one of the most promising sectors for developing the Palestinian economy, enhancing its stability and promoting peace in the region. However, it has been difficult for Palestinians to reap the benefits of tourism, partly because it has been monopolised by Israeli operators and partly because of the predominant form of ‘mass tourism’. While tourism has the potential to create jobs, develop infrastructure and help conserve the local cultural heritage, contact with the local environment is often minimal in mass tourism and the economic benefit is frequently negligible for local communities. Foreign tour operators receive revenues from tourists in the originating country, pay hotels in host countries minimal and all-inclusive group prices (including food and transport), and tourists spend less in the host country.

The Alternative Tourism Group (ATG), with offices in Bethlehem in the West Bank, was founded in 1995 with the aim of addressing these issues while giving visitors a deeper insight into the human consequences of the Israeli-Palestinian conflict. ATG’s executive director has built the organisation around the concept of ‘justice tourism’, as opposed to mass tourism. ATG focuses on offering an alternative to ordinary tours where visitors return from the Holy Land without having learned very much about the region’s people. By establishing direct links between foreign visitors and their Palestinian hosts, ATG efforts are aimed at contributing directly to the local economy.

By using Palestinian tour guides, buses and hotels, ATG is able to circumvent the hold that Israel enjoys on tourism activities in Palestine and simultaneously provide a means for ordinary Palestinians to benefit from foreign visitors. The agency offers clients home stays and accommodation with Palestinian families, who turn their homes into ‘bed and breakfasts’ so that they can earn an income. More than 100 families benefit from the initiative in this way.

By using ATG as their travel agency, tourists are given the chance to travel to areas that are generally not covered by Israeli tour operators. These include Hebron, Ramallah, the Christian village of Taiba, Nablus, Jericho, Gaza, Bethlehem, the Israeli settlements and Palestinian refugee camps, in addition to the more conventional destinations of Tel Aviv, Tiberias, Galilee and Jerusalem. This kind of itinerary gives tourists an opportunity to learn more about the Israeli-Palestinian conflict through interactions with local communities or voluntary work with one of many Palestinian NGOs. ATG also organises courses and study programmes, in

conjunction with the Alternative Information Centre, where visitors can meet with Palestinian and Israeli representatives to learn in depth about the political situation.

All of ATG's initiatives are intended to offer foreign visitors insights into the complex historical, cultural, social, political and religious aspects of the Holy Land. Its goal is to raise awareness on the hardships of living in the Palestinian territories, and simultaneously to contribute directly to the economic and social development of the Palestinian people without first having to pass through foreign or Israeli tourist agencies. "As individuals become increasingly engaged with the issues they see on the ground," argues one member of staff, "they are very likely to actively advocate for peace and justice in the region once they have returned to their home countries."

The organisation's overall vision is to use tourism as a way of promoting justice, peace and economic development by sustaining the Palestinian economy and raising awareness of the conflict among foreign visitors. As tourists engage with the grassroots reality by volunteering with local NGOs, sleeping in Palestinian homes or visiting Israeli settlements and Palestinian refugee camps, it is hoped that they will come closer to understanding the political issues and daily difficulties faced by the people living in this part of the world.

*For more information, see [www.patg.org/](http://www.patg.org/)*