Gaza-Jericho accord is caught on an economic snag

by Muriel Weissbach-Mirak

In early January, the Palestine Liberation Organization (PLO) and Jordan signed an agreement on coordinating economic and monetary policy in the Occupied Territories to come under Palestinian self-rule. The deal means that Jordanian banks, which were shut down after the 1967 war, will be reopened in the West Bank and Gaza, under the supervision of the Central Bank of Jordan, which will report in turn to the Bank of Israel.

The Jordanian dinar, which already circulates there, is to be used as the main currency, though "international and Arab currencies" (the Egyptian currency, to be circulated in Gaza, and the dollar), will be used, not as legal tender, but as a "means of settling accounts between the Palestinian National Authority and the projects financed by the World Bank," according to the PLO Economic and Planning Commission. The PLO will have considerable say in policy decisions, as Jordanian banks will be opened only "after PLO consultation" and a "Joint Technical Committee will take care of all financial, fiscal, and monetary issues in the Occupied Territories."

A Board of Governors meeting of the Palestinian economic council which took place days later in Tunis approved the priorities discussed between the PLO and World Bank, and appointed the engineering consultants and project designs. The projects, which include municipal roads, schools, housing in the camps, and solid waste treatment for water, could begin immediately. Progress could be visible within two months.

The PLO-Jordanian agreement came after months of study and discussion, not without controversy. A 26-page document finshed by the PLO economics unit in October argued for using the Jordanian dinar and giving the Central Bank of Jordan a major role during the interim period, in coordination with the Palestinian authorities. Meanwhile, the study proposed that steps be taken toward rendering the CBJ a federated central bank, governed by the Palestinian and Jordanian states together. This has not happened, however, and more probably a Palestinian central bank will remain on the agenda. PLO leaders have stressed the importance of an independent central banking authority, to permit control over monetary and economic *policy,* a prerequisite to real sovereignty.

Jordan's apprehensions

What created tensions between the PLO and Jordan prior to the agreement was Amman's apprehension that Arafat may have made arrangements with Israel, during the November Paris talks on economic cooperation, which would be deterimental to the Jordanian economy. Jordanian economist Fahed Fanek reported there had been leaks that the PLO and Israel had agreed to free trade between the two, but would have established a "customs union" against Jordan. His Majesty King Hussein issued a clear message to Arafat, in an address to the officers corps at year's end, that the PLO must finalize cooperation with Jordan, otherwise Jordan would make preferential agreements with Israel. Jordan had, in fact, received permission from Israel, which has controlled banking in the Occupied Territories since 1967, to reopen its branches, without PLO approval. Shortly thereafter, the deal on banking was cut with the PLO.

The Italian daily *Corriere della Sera* offered an explanation for the triangular rivalry that seemed to have emerged among the trade partners in the region; it said the fight between Israel and Jordan over which one would sign an economic cooperation agreement with the PLO, had arisen because both wanted to have access to the World Bank funds, estimated at $2 billion. This would explain the Israelis' efforts to control banking in the territories, and Jordan's eagerness to get back in.

In addition, as the customs union issue demonstrates, there is a race between Jordan and Israel for control over the Palestinian market and produce. The Israelis say they fear cheap Jordanian products, Fanek explained. Jordan can sell electricity at 65% of the Israeli price, and can offer cement at about two-thirds the Israeli price. "So Israel wants to keep the West Bank as a captive market," said Fanek, sending its produce in, but keeping Jordan's out through tariffs.

The free-market trap

What lies beneath such silly reasoning is the economically wrong idea that "markets" determine wealth. In reality, the only parameter for real wealth in an economy is the productive power of the labor force. To produce wealth in the Middle East means therefore increasing the standard of living and skill levels of the Palestinian population particularly, through massive infrastructure and the introduction of advanced technologies. By replicating the process in several countries, through cooperative efforts for regional infrastructure, the economy of the entire region is fundamentally transformed. Real demand develops for industrial and consumer products which any technologically advancing society needs.

Instead of focusing on these tasks, the debate has narrowed to the free-marketeer's visions of quick profits from selling goods produced through existing technologieis, even if antiquated. The debate has reached points of dowright absurdity. For example, Uri Menasce, a board member of the Chamber of Industry in Tel Aviv, told the German economics daily *Handelsblatt* at the end of December, "Israel and Jordan produce 35% more cement than they use. So it is irresponsible to waste $400 million to build a cement factory in the autonomous area." The remark was made to discourage Palestinian plans to develop an independent construction sector.

In light of the absence of any adequate housing for the Gaza residents, currently sandwiched into refugee camps, a vigorous construction industry is an obvious must. Furthermore, even if Israel and Jordan did have the cement required for hundreds of thousands of new housing units, the sound economic argument would be in favor of developing Palestinian cement factories, and related construction activities, as a way of training unskilled labor. (For the same reason, instead of importing nuclear energy, for example, it is important for a developing economy to master the technology for itself, as part of the process of educating a modern labor force.) Another absurd argument thrown into the debate is that since Israel and Jordan have ports, at Haifa, Ashdod, and Aqaba, there is "no need" for the port which the PLO plans to build at Gaza. Implicitly, this view assumes that no real growth will occur, which would necessitate expansion of transportation for trade.

Water and the Syria-Israel conflict

The same faulty methodology is evident in the fight over water. While the January meeting between U.S. President Clinton and Syrian President Hafez al-Assad seemed to focus on political and military matters, the economic reality of Syrian-Israeli differences cannot be ignored. Several scenarios have been circulated, allegedly representing the content of the face-to-face talks between Clinton and Assad. Among them, an American offer to take Syria off the terrorist list in exchange for peace with Israel; an arrangement for the Golan Heights, giving Syria de jure sovereignty, but still allowing Israel de facto access; an American offer to provide "peacekeeping troops" to patrol the formally demilitarized Golan Heights, etc.

What is really behind the scenarios? The French daily *Libération* interviewed Gen. Ariel Shaliv from the Jaffee Strategic Studies Center of Tel Aviv, in its Jan. 19 issue. Regarding the Golan Heights, Shaliv said "Israel should withdraw from most of Golan, and evacuate most of its settlements, which would not remain under Syrian sovereignty." To *Libération*'s request for further clarification, General Shaliv explained: "In my view, a strip of two to three kilometers should stay in our hands, to control our border area as well as to keep control over the water from Lake Tiberias [Sea of Galilee]. The border would have to be modified, even if that's difficult for Assad to accept."

The small strip of land in General Shaliv's plan corresponds to an option for Israeli withdrawal developed in the Jaffee center, and first leaked to the press in October 1993. At that time, the Israeli daily *Haaretz* wrote that both the Shamir government and that of Rabin had blocked publication of the study, the former because the study discussed territorial compromise, and the latter, because public knowledge of the study might hurt ongoing negotiations with the PLO. The study elaborated precise plans, with maps, for military withdrawal from the Golan and the West Bank, along special guidelines. According to *Haaretz,* the study "emphasized an important principle: Israel must do everything in order to protect the water assets now in its hands." The study contemplated Israeli withdrawal from the Golan, with continued Israeli supervisory rights over water, which includes the source of the Jordan. The maps *Haaretz* published showed the Golan back in Syrian hands, except for "a buffer averaging more than 10 kilometers wide around the Sea of Galilee" according to a *Jordan Times* report Oct. 10, 1993. Such a buffer would quarantee monopoly over the water.

It is well known that Israel's military seizure of the Golan Heights corresponded to its plan to take the water. There will be no solution to the "territorial" question of sovereignty until the water issue is totally redefined. Instead of fighting over scarce water supplies, which, in any case will be insufficient within less than a decade, the focus should be on developing advanced technological means, like nuclear plants, to desalinate sea water. The difference in the two solutions is a fundamental difference of economic thinking, one wrong and the other right.

Which economic method prevails will determine the success or failure of the talks, whether with Jordan or Syria and Lebanon. If the free-market philosophy prevails, there will be trouble ahead. In this context, news of the program for the Jan. 27-Feb. 1 Davos world economic forum in Switzerland is disquieting. According to *Le Figaro* on Jan. 19, the symposium will unveil plans for a Middle East Free Trade Agreement (MEFTA), a NAFTA for the Mideast region. Among those expected to attend Davos to work this out, the paper reports, are protagonists of the peace negotiations: PLO chief Yasser Arafat, Jordan's Crown Prince Hassan bin-Talal, Lebanese Prime Minister Rafic Hariri, Israeli Foreign Minister Shimon Peres, members of the Egyptian and likely Syrian governments, as well as various economic experts from the region.

According to *Le Figaro,* "preparatory discussions have been held for several weeks in secret" on this MEFTA, and further discussions are to be pursued "at the highest level" in various capitals before the meeting.