Middle East Bridges – Private Sector Initiative

The Erez and Gaza Industrial Estates: Catalysts for Development

EastWest Institute
Bridging Divides

Middle East Bridges Program Mission

The Middle East Bridges Program aims to promote peace and security, sustainable growth, rule of law and good governance as vital components of the region's development. The Program is a long-term confidence-building initiative to facilitate dialogue and constructive relations within the region and between the West and the Middle East. Middle East Bridges draws upon experiences, instruments and concepts that have been successfully tested in the East-West context, using these where applicable in the unique political and economic conditions of the Middle East region.

Middle East Bridges – Private Sector Initiative

The Middle East Bridges – Private Sector Initiative (MEB – PSI) aims to promote economic development in the Palestinian Territories in the wake of an Israeli withdrawal from Gaza and the northern West Bank. There are three main and complementary components of the project: 1) Disengagement facilitation; 2) Economic reconstruction; and, 3) Investment promotion.

MEB – PSI's disengagement facilitation track initially aims to forge working level contacts between the two parties in order to discuss the assets to be transferred and other modalities relevant to the disengagement. The project's economic reconstruction component focuses on supporting a receptive environment for the Palestinian private sector, specifically in relation to the rehabilitation of industrial estates in Gaza. Finally, the investment promotion track will focus on mobilizing international donor and private sector resources in the aim of creating an important and early basis for sustainable economic growth in the Palestinian Territories.

Middle East Bridges Dialogues Project

The Dialogues Project is aimed at bringing together people who do not normally speak to each other to "think outside of the box" in addressing key issues, and to do this in a discreet off-the-record, peaceful and secure setting. Meetings have been organized along three tracks, including the "Thinker's," "Russian" and "Political" tracks, and, taken together, they have covered a large part of the Israeli center- and far- right as well as Palestinians representing constituencies inside the Palestinian Territories and the larger diaspora. The value and impact of each meeting has been 1) de-demonization on a personal level since many participants had never engaged with the other side; 2) better understanding of the other's and one's own fears, perceptions and positions; and/or 3) new and better-developed ways of addressing final status issues.

EASTWEST INSTITUTE

Bridging Divides

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April 2005

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1. Letter from the Chairmen

Dear Friends,

The EastWest Institute (EWI), as an independent international 'think and do tank', has been addressing dangerous fault lines for twenty-five years. The Middle East Bridges (MEB) program represents an important step by our Institute to respond to critical issues in the Middle East today. This program seeks to support peace and stability as well as to promote good governance, the rule of law and sustainable development in the region, through focused projects.

Our MEB's "Private Sector Initiative" is devoted to facilitate planning for economic rehabilitation in the Palestinian Territories after an Israeli disengagement. Our particular emphasis is to find concrete and practical means by which to encourage investment and job creation in the region, while contributing to more secure and well functioning border management for Palestinians and Israelis alike.

Economic development in the Palestinian areas is a key to progress and eventual success in the peace process. Without the creation of jobs and the renewal of hope resulting from economic progress, peace will remain unattainable. The establishment of the right conditions for economic development is the real challenge for the Government of Israel, in order to prove that it is serious in its commitment to withdraw. Only access to the outside world can give the Palestinians a real opportunity to take responsibility for their own future. It is thus vital for both Israelis and Palestinians that disengagement succeeds in this respect, allowing for economic improvement in Gaza and the West Bank. Failure could have catastrophic consequences and lock the region into violence for years to come.

The Government of Israel has indeed made it known that Palestinian economic development is a matter of Israeli national security. This gives rise to the hope that Israel will accept a system of access and movement of goods that could make economic development possible.

Our Private Sector Initiative has as its initial focus the industrial parks, which, particularly in Gaza, are important elements of the Palestinian economy. To preserve present jobs and to create new ones there is a key task. Positive developments in the Erez Industrial Estate, for instance, could demonstrate ways for economic cooperation and practical support for the peace process.

This paper discusses the industrial parks as catalysts for economic development. It is our hope that the paper will assist in making the case for an economic environment that is conducive to business, based upon access and good governance. We further trust that private investors and the international community will work with the parties to assure that practical projects like these become a reality in a short time frame.

George F. Russell
Co-Chairman of the
Board of Directors
EastWest Institute

Martti Ahtisaari
Co-Chairman of the
Board of Directors
EastWest Institute

2. Foreword

The idea that the EastWest Institute (EWI) should focus on economic development in Gaza after an Israeli withdrawal had its origins in a discussion held more than a year ago within the framework of the Institute's Middle East Bridges Dialogues Project. This project brings together Israelis and Palestinians from political camps that do not normally meet and encourages them to "think outside the box" in addressing problems including final status issues.

The origins of EWI's Middle East Bridges program's "Private Sector Initiative", also known as the Gaza Project, can be traced back to a meeting convened well over a year ago in the mountains of the Alps. Everyone who runs brainstorming sessions knows that 90% of good ideas put forth are fleeting and dissipate in the wind. The idea for a private sector initiative, however, took root immediately. The initial concept, which would eventually lead to the establishment of MEB's "Private Sector Initiative", was further developed in subsequent discussions with the so-called "Chicago Ten," a group of businesspeople representing all three Abrahamic faiths, bonded by their desire for peace in the Middle East.

The Israeli Government's disengagement plan presented an opportunity to make this Private Sector Initiative a reality. Numerous questions arose: How would jobs be created if there were not a free flow of people and goods? Could a new concept of border management be put into place? What obstacles had to be removed in order to create opportunities for investment in Gaza?

To investigate the many problems associated with economic development under occupation, EWI convened a seminar in New York in April 2004, which included participation of individuals representing the business community, international organizations and the parties in the region. The seminar addressed and exposed the difficulties of economic development in the absence of a comprehensive political solution. After the seminar, contacts with the parties and other international actors, including the World Bank, were continued and further developed. Letters were sent to the Prime Ministers of Israel and the Palestinian Authority. Regularized contacts were initiated with ministers and other government officials as well as with business leaders from both sides, and the Dialogue process continued from Sofia and Prague to Vaduz and New York.

Last fall the leadership of the National Security Council of Israel asked EWI to assist in bringing the parties together to discuss the modalities of disengagement. Since then the Institute has been engaged in efforts to promote direct talks between the parties to coordinate the technical aspects of disengagement. We are delighted to see that the parties are now increasingly involved in direct talks on these and other matters.

To mobilize the necessary economic expertise, EWI brought aboard Mr. Michael Barth, the former President of the Netherlands Development Bank (FMO), as project leader. This study has been written by a team under Mr. Barth's direction, with Mr. Aiman Mackie, Program Manager of MEB, together with the participation of Mr. Nissim Ezekiel, and the assistance of Ms. Jocelyn Brooks. Dr. Hussein Agha, Dr. Ahmed Khalidi and Mr. Sam Bahour have provided valuable advice on a regular basis.

It is our intention to follow up the present paper with a more in-depth study on the feasibility of a restructuring and development of, first, the Erez Industrial Estate in Gaza, and, later, the Gaza/Karni and other estates in the Gaza Strip and the West Bank. Such a feasibility study would be undertaken in partnership with other bodies, and it could serve as a basis for planning for the estates, as well as for investments therein. Such a study would present an opportunity to address questions that fall within the nexus of security, humanitarian and economic issues. As such, the presentation of practical answers to questions of this nature may also serve to further influence the disengagement process, since there are strong indications that Erez Industrial area will serve as a pilot for future Israeli-Palestinian coordination, particularly in terms of crossing points and other border areas.

In this project EWI is cooperating with the Palestinian National Authority and the Government of Israel, as well as with other involved actors, including the World Bank, the European Union, the Peres Center for Peace, the Economic Cooperation Foundation, Al-Mustaqbal Foundation, the Chicago Council on Foreign Relations and the Chicago Ten, the Aspen Institute and a number of other institutions and individuals, many of whom are listed in an attached appendix. We are deeply grateful for the time they have spent with us over the past months in helping us to produce this paper.

This work would not have been possible without the generous financial support for our MEB program by the Swedish Ministry for Foreign Affairs, The Russell Family Foundation, the Government of Liechtenstein, the Julie Ann Wrigley Foundation, the Flora Family Foundation, the Shelby Cullom Davis Foundation, the Minow Family Foundation, the Van & Deborah Chandler Foundation, the Marshall Bennett Estate Trust, and the Arie and Ida Crown Memorial, as well as by A. Robert & Joan A. Abboud, Imad Almanaseer & Seanna Aldabagh, James M. Denny, and Talat M. Othman. We greatly appreciate their commitment and support to the Institute and our Middle East Bridges work.

We hope that this study will contribute to the process of reopening the industrial estates and creating jobs. We will continue to push for a clearer focus on the issues necessary to create a business-friendly environment. We look forward to any thoughts you may be able to share with us as our project proceeds.

John Edwin Mroz
CEO and President
EastWest Institute

Mathias Mossberg
Ambassador
and Vice President
EastWest Institute

April 25, 2005

3. Executive Summary

The political and economic landscape in the Middle East is changing in ways that would have been hard to imagine months ago. With changes in governments, the near cessation of violence, the more active reengagement of the United States in the peace process, and various positive signals from both sides, including direct meetings between Israeli Prime Minister Ariel Sharon and Palestinian President Mahmoud Abbas, the longstanding conflict between Israelis and Palestinians is entering a period of relative optimism. Recent indications are that the Palestinian Authority is ready to work jointly with five parallel working groups being set up by the Government of Israel to address different aspects of the planned disengagement from Gaza, and the Quartet Principals[1] have appointed outgoing World Bank President James D. Wolfensohn as Special Envoy for Gaza Disengagement. The Special Envoy is charged with leading, overseeing and coordinating the international community's efforts in support of the disengagement initiative.

While the situation remains complex, sensitive and also fragile, there is a near general consensus that a window of opportunity has been created, that should be used to the fullest extent possible. Direct bilateral discussions between the parties may well result in expanding common ground, which in turn may make major steps towards the resolution of the conflict possible. Meanwhile, however, there is a clear and urgent need for practical discussions that are directly related to the immediate challenges presented by the process of unilateral disengagement from Gaza and the northern part of the West Bank, announced by the Government of Israel (GOI) as early as December 2003.

In the context of such practical, "bottom up" discussions on modalities for disengagement, particularly concentrated on economic issues, senior representatives from both sides, as well as outside experienced observers, have suggested the larger industrial estates in Gaza as a natural, initial focal point because the most pressing economic need presents itself in Gaza. The revitalization of the estates, which represent scarce and readily useable industrial land and supporting infrastructure, could make a substantive contribution to the alleviation of current massive unemployment in Gaza. They are the focus of local and foreign investor interest, which can in turn be translated into support for the longer-term development of the area. The discussion on the estates, moreover, is relatively less complex and sensitive than the discussion on the transfer and redeployment of other public and private assets. Also known as industrial zones, Gaza-based industrial estates offer a way to begin a dialogue that could lead to discussions on broader and more politically charged issues related to sovereignty, ownership, access, and, ultimately a "final status" understanding between the parties.

The current economic situation in the Palestinian Territories in general and Gaza in particular, as described by different sources including the World Bank, is very bleak. In the wake of an extended period of violence, incursions and closures, the economy of the West Bank and Gaza has come to a virtual standstill. Conversely, there is a general consensus that, given a peaceful and enabling environment that is predictable and receptive to investment, the potential for economic growth in and development of the Territories is substantial. The GOI's recent affirmation that it regards economic development of the Territories to be a matter of fundamental Israeli national security interest constitutes another important positive catalyst in this process.

Given the existing potential for improvement of the situation, the basic question arises as regards the kind of economic development model that would be envisaged. In simple terms, there is a choice between a basic model, which would leave Gaza effectively dependent on subcontracting arrangements with the Israeli economy and long-term donor funding support; and a more robust model which would gradually make the Gaza economy less vulnerable and dependent on relations with its Israeli neighbor, and much more sustainable in the longer term. For the latter model to be effectively implemented however, access to external markets will need to be more diversified and secure, and the supporting infrastructure and legal, regulatory and governance environment made much stronger in order to substantially attract trade and investment. While reflections on the immediate “art of the doable” might well suggest a middle road, consideration of the loss of opportunity for long-term sustainability proves the folly of focusing on less than optimal, short-term, “enabling” conditions.

This concept paper focuses on Gaza-based border industrial estates, Erez Industrial Estate (EIE) Gaza Industrial Estate (GIE), which were initially designed as joint ventures between the GOI and the Palestinian Authority in the 1970s and mid-to-late 1990s, respectively. As opposed to the smaller municipal industrial zones that serve the domestic market, the EIE and GIE stand out in their size and capacity to produce goods that represent the main industries of the Palestinian economy. Because of this capacity, the EIE and GIE, together, are potentially able to generate at least 15,000 direct jobs in Gaza with thousands more in indirect jobs, within a matter of months, all of which can contribute significantly to Palestinian GDP. The issue of time is critical in the short-term, with the overriding need-as articulated by leaders on both sides-to rapidly demonstrate to the local population the potential positive impact of the new political environment on their day to day lives.

The redeployment and development of the industrial estates also fit naturally with the current Palestinian Medium Term Development Plan (MTDP), which outlines economic rehabilitation, with job creation/growth as one of its main priorities. The MTDP indicates that key Palestinian industries, including the GIE and EIE, are instruments in realizing the overall vision of a rehabilitated, independent and sustainable Palestinian economy.

With the industrial estates as focal point, a short to medium development agenda presents itself. This agenda involves a number of issues related to the disengagement process, which include: the transfer, valuation and redeployment of assets; cooperation and access; environmental issues; legal issues; and, issues related to estate capacity. A major underlying issue of economic importance, but of equal political sensitivity, is the nature and substance of the connection between Gaza and the West Bank. The agenda discussed in the paper presents issues related to effective implementation, which in turn raises questions related to structures and processes, as well as broader points related to the applicable legal, regulatory and governance environment.

While the initial focus on the large industrial estates in Gaza is warranted for many reasons, success in this effort is only likely with a parallel focus on the longer-term perspectives that will be needed to underpin any realistic effort to create a viable economy in the West Bank and Gaza. Hence this paper also provides a practical agenda with guiding principles and sequenced initiatives. It is essentially based on internationally accepted steps that ought to be taken to prepare for growth and private-sector-led, sustainable development. After outlining these guiding principles and sequenced “what” and “how” initiatives, the paper addresses issues related to investment promotion and finance.

From facilitating disengagement discussions to private-sector-led development initiatives to investment promotion, technical assistance and funding access, the EastWest Institute stands ready to lend its support. The Institute’s long-term aim is to work closely with local and international partners to make a substantial contribution to the sustainable development of the Palestinian Territories and to peace in the region.

4. The Gaza Project: Introductions and Background

Box 1: The EastWest Institute & The Middle East Bridges Program

The EastWest Institute (EWI) is an independent, not-for-profit, European-American institution, working to address dangerous fault lines of the 21st Century, and to help build fair, prosperous and peaceful civil societies. Since 1981, the Institute has operated a variety of long-term projects that create trust, understanding and development, and seek to reduce tensions from Eurasia to the trans-Atlantic region to the Middle East. The Institute's vast network allows it to provide fresh thinking, objective information and unbiased policy advice on economic, security and political issues. The Institute can provide and/or access high-level expertise and undertake its activities in a prompt, careful, reliable, flexible, well-coordinated and multidisciplinary fashion. Information on the Institute's extensive programs and activities can be found on its website: www.ewi.info

Initiated in the fall of 2003, the EastWest Institute's Middle East Bridges Program has focused on building a network of partnerships in the Middle East and in the West. From the outset, the Institute has set out to be a recognized "neutral broker," which has been complemented by taking a gradual approach and maintaining a discrete profile Ongoing activities are aligned with one of three tracks: a civil society dialogue on security issues across the Mediterranean, a series of dialogue projects between Israelis and Palestinians, and an initiative aimed at promoting economic development in the Palestinian Territories, starting with the Gaza Strip, after Israeli disengagement.

Israel's intention to unilaterally withdraw from the Gaza Strip and parts of the Northern West Bank represents a major development and turning point in the Israeli-Palestinian conflict and thereby in the Middle East situation as a whole. This withdrawal can open the way for a comprehensive settlement, also encompassing the West Bank, and it can lead to a better life for the Palestinian population. Prosperity in Gaza, resulting from implementation of a long term plan for sustained economic development of the local economy, will most likely benefit surrounding areas, and is clearly in the interest of Israel as well as its Arab neighbors.

It is therefore of vital importance for the international community to use all means possible to promote and encourage the implementation of the Israeli Government's (GOI) decision to withdraw from Gaza and parts of the West Bank. The international community should welcome and support this process, and at the same time encourage that the stipulations of the plan permit freedom of movement for people and goods. This would not only facilitate travel to and from Gaza for Palestinians and international visitors, but would also be critical for ensuring efficient commerce within Gaza and the West Bank, and accelerating free trade with the international community.

From the experiences of the post-Oslo process in the 1990s, it is clear that promoting sustainable economic development in the absence of a comprehensive political solution would be extremely difficult if not impossible. Links to a wider political framework are thus not only desirable, but also necessary. While recent developments point to the beginning of a very constructive dialogue between the Government of Israel and the Palestinian Authority (PA), it is, however, important to discuss various interim and other steps, including those related to the consequences of a unilateral withdrawal. The promotion of such a discussion has a value in itself, given the difficult political, military and humanitarian situation in the area.

The Gaza Project of EWI's Middle East Bridges Program (see also Box 1) seeks to promote support for an Israeli withdrawal from Gaza and planning for economic development in the disengagement period. A specific goal of the project is to promote the creation of a free trade zone in Gaza where representatives from the local and international business communities can focus resources and create an important and early basis for sustainable economic growth.

There are three main and complementary components of the Gaza Project: 1) Disengagement facilitation; 2) The Private Sector Initiative; and, 3) Investment promotion. This three-pronged approach partly derives from EWI's experience from working with other divided regions, which has shown that effective means are available to combine open borders with adequate security requirements. Additionally, the design of such systems must be done in a way to ensure that disengagement can be comprehensive and, at the same time, serve both parties' longer-term security and development needs. Creating the infrastructure and stimulating the processes that would support trade and result in jobs are critical for the residents of Gaza. Both steps would enable Palestinians to take positive steps towards raising their standard of living, a clear priority of the PA's Medium Term Development Plan (MTDP).[2]

Entry-points for free trade may be found in the rehabilitation and development of industrial estates (also known as industrial zones (IZs)) in the Gaza Strip, including both the Erez (EIE) and Gaza (GIE) Industrial Estates. These two estates are unique in that, currently, they are jointly owned and/or managed by Israelis and Palestinians and are located on the border between Gaza and Israel. EWI's disengagement facilitation approach initially aims at forging better working level contacts between the two parties in order to discuss the assets to be transferred and other modalities relevant to the disengagement such as border arrangements. Depending on the interest of the parties, this process could be designed in such a way so that it may be sustained in the form of a taskforce that explores and works through various dimensions of disengagement, primarily its economic and policy aspects rather than its political dimensions per se.

The Gaza Project's Private Sector Initiative (PSI) focuses on supporting a receptive environment for the Palestinian private sector, specifically in relation to the rehabilitation of industrial estates in Gaza. The PSI will be developed with a focus on identifying a basic vision and approach, which would dovetail with the above-mentioned MTDP. In consultation with the Project's stakeholders, who include representatives of the Palestinian Authority, the GOI, international governments and the business and donor communities, the vision and approach will be translated into practical steps to be undertaken. An initial step could include building on the Institute's capacities and resources by commissioning a comprehensive, operationally oriented feasibility study that would focus on Gaza-based industrial estates and assist various stakeholders in accelerating the process of transfer, rehabilitation and development plans for either or both of these estates.

The existence of open borders is essential for sustainable economic development. At the same time, it is well recognized that security requirements in this particular situation are extremely high. The experiences that EWI has had in this field could play a useful role in advising on and promoting the reform of the current border management regime. Security coordination could be envisioned to cover areas such as coordinated inspections of exports, while economic cooperation would include the joint development of mechanisms for logistic zones at cargo terminals. These components will complement and strengthen objectives within disengagement facilitation and the Private Sector Initiative of the Gaza Project.

One focus will be on mobilizing international donor and private sector resources as part of the Project's investment promotion objective. Special promotion activities would include the organization of visits by Palestinian investors and officials to the United States and Europe (including to industrial zones) as well as visits of outside business leaders and technical experts to Gaza. All elements of this proposed work-agenda would take place in close consultation with the World Bank whose ongoing work provides a basic foundation for analysis of economic needs, with others such as the Aspen Institute that already have an active program of facilitation underway (see also Box 2).

Box 2: The Gaza Project – EWI Design and Implementation Scheme

A Core Working Group (CWG) within EWI leads the design and implementation of the Gaza Project. The CWG consists of dedicated EWI professionals and a roster of international experts who will each manage or contribute to different parts of the project. The CWG will create partnerships with leading local and international institutions to complement the work program described in this paper, as well as with individuals who work with the CWG, such as EWI Board Members, local partners, and prominent business leaders. While working with the Palestinian Authority and the Government of Israel will remain at the core of the planned work program, accessing the know-how and capacity of the local and international private sector will enable effective and innovative approaches to be found to address the broad-ranging challenges that lie ahead.

5. The Significance of the Industrial Estates in a Changing Political landscape

With recent major changes in both the GOI and the Palestinian Authority, a near-cessation of violence, the more active reengagement of the United States in the peace process, and a number of other positive developments, the political landscape in the sub-region is changing in ways that would have been hard to imagine only months ago. Even as this paper is being prepared, new realities, which are part of a generally perceived window of opportunity in making headway in the longstanding and profound conflict between the parties, are being created. Recent indications are that the Palestinian Authority is ready to work jointly with five parallel working groups being set up by the Government of Israel to address different aspects of the planned disengagement from Gaza, and the Quartet Principals have appointed outgoing World Bank President James D. Wolfensohn as Special Envoy for Gaza Disengagement.

At the same time, there are a number of uncertainties, risks and suspicions that remain that should not be underestimated. These derive from years of violent conflict and reflect substantive issues that must be addressed, as they involve complex and sensitive matters of principle, security and legitimacy, all of which are facets of a long-term peace plan. These broader issues constitute the background to efforts aimed at addressing the practical disengagement processes. Such efforts must now be undertaken in a compressed timeframe, forcing decisions on practical steps that have a substantial bearing on longer-term realities with far-reaching political consequences. It is not surprising that such decisions take time, particularly under changing political circumstances.

At least until now, the Israeli position is guided by principles and priorities that are very different from the Palestinian one. The GOI emphasizes that security is paramount, and representatives of the GOI have made it clear that Palestinian economic development is important to Israeli security. Consequently, the GOI has remained strongly committed to prompt and unilateral disengagement and has also expressed a clear interest in measures promoting Palestinian development, particularly in areas to be evacuated. Also, the GOI has noted repeatedly that any steps taken towards rapprochement will be reversed immediately in case of further "terrorist attacks" and has shown some impatience with a perceived lack of urgency on the Palestinian side to address the issues that this entails. Especially in this context, the Palestinian side has emphasized the principles of "reengagement" and integration. Thus, while very important developments in the bilateral dialogue are currently underway, the situation remains sensitive and fragile, and major moves with political implications are dependent on the stabilization of the situation and the emergence of a basis for fundamental rapprochement.

Despite these substantive differences in approach and outstanding issues, it is generally recognized that the current window of opportunity should be utilized to the fullest extent. In the current, improved climate, there is more room for bilateral and other discussions between the parties. These discussions may well result in the emergence of common ground, which in turn may result in new understandings and initiatives. Regardless of how this dialogue develops, however, there is a clear and urgent need for "bottom up" discussions that are directly related to the practical challenges presented by the disengagement process. In the eyes of many experienced observers, a direct focus on the IZs presents itself naturally at this juncture for several reasons:

1. The IZ's have the potential to make a real and speedy contribution toward alleviating mass unemployment and to play a role in developing the economy of the Gaza Strip. Moreover, the estates, with their existing infrastructure, are likely to attract foreign investment.

2. The discussion on the IZ's is relatively less complex and sensitive than the discussions on other public and private assets, and can therefore constitute a practical chance to open discussions up on broader politically charged economic issues.

This brief paper focuses on the estates in an attempt to help facilitate the process of defining a vision for economic development, which will, over time, involve representatives of public and private sectors, as well as other parties.

6. The Economic Environment

Box 3: The Palestinian Economy in Crisis – The World Bank

The current economic situation of the West Bank and Gaza is bleak. In its recent report, "Stagnation or Revival? – Israeli Disengagement and Palestinian Economic Prospects," the World Bank provides a brief but telling overview of the Palestinian economy after four years of the Intifada.[3]

After a steep decline in 2001 and 2002, the Palestinian economy stabilized in 2003. In those two years, Palestinian real GDP per capita shrunk by almost 40 percent. This trend was halted in 2003, and mild positive growth returned. Real GDP per capita increased by one percentage point, but real GDI -which includes remittances from abroad and foreign assistance – increased by over 11 percent per capita. This rebound resulted from a lull in violence and less intense curfews/closures than in 2002 (the year of Operation Defensive Shield), an increase in labor flows to Israel and a resumption by GOI of revenue transfers (plus the return of US$178 million in withheld revenues). Almost 100,000 jobs were created, albeit many of them of poor quality, and investment grew by 14 percent (though at US$840 million amounting to less than a half of 1999 levels, and most in residential housing). Unemployment and poverty and rates declined by 5 and 4 percentage points respectively.

This fragile recovery stalled in 2004, mainly as a result of events in Gaza. The Israeli Defense Forces (IDF) mounted several extended operations in Gaza in 2004. The operations were accompanied by segmentation of the Gaza Strip and stiff restrictions on movements of goods and people across the borders with Israel and Egypt. This led to a sharp reduction in the volume of Gaza's exports, as well as a temporary curtailment of humanitarian assistance. The fighting resulted in significant damage to public infrastructure, private buildings. Worker access to the Erez Industrial Estate and to Israel declined to a daily average of less than 1,000 in the second and third quarters (compared with 6,000 the previous year). Compared with 2003, 8,000 jobs have been lost within Gaza. In the West Bank, domestic job growth in 2004 has been positive but anemic (2.4 % during the first three quarters). Unemployment rates stand at 27 % overall, and 35 % in Gaza, and poverty is comparable to 2003 – 48 % overall, 65 % in Gaza.

a. Current Economic Realities-Limitations and Hurdles

The World Bank provides an analysis of the current economic situation in the West Bank and Gaza (see Box 3), which can realistically only be termed a crisis. While the list of hurdles and constraints is a long one, the system of "closures" is among the most important. This multifaceted "closure" system designed to protect Israelis in the settlements and in Israel itself, has severely restricted the movement of goods and people and made even a modest economic recovery effectively impossible. In the more modest economic development scenarios developed in the Report, a range of other substantive constraints must also be addressed.

These other immediate challenges, which are also treated as priorities within the PA's MTDP[4], include:

1. rehabilitation of infrastructure by rebuilding demolished housing, roads, water and other public and private assets;
2. clear establishment of law and order and a legal, regulatory and governance environment that is conducive to (or at least receptive to) investment and growth;
3. creation of a credible and effective judiciary system;
4. reclamation and rehabilitation of damaged agricultural facilities;
5. reintegration of the evacuated settlements and installations with the Gaza economy.

Importantly, an economic recovery plan would also have to include the revitalization of the private sector, which would cover on-going issues such as: the re-opening and effective operation of the industrial estates; the modernization of local industry; the resumption of foreign trade; the development of the financial sector; and various institution-building efforts.

These are some of the main elements of a basic development scenario, one that still assumes a large degree of reliance on the Israeli market and facilitation by the GOI to enable exports of Palestinian goods to outside markets. Other, more promising and comprehensive strategies can also be contemplated, but would depend vitally on expanded and efficient market access (including linkages to the Arab world via Jordan and the West Bank), and an enabling environment that strongly encourages economic growth and development, which can be achieved through support for local entrepreneurship.

b. Linking Security and Development

Before other broader development strategies are contemplated, however, it is useful to relate this strategy to the Israeli political and economic "compass" with regard to Gaza and the West Bank. Palestinian planners have always reaffirmed that economic development in Gaza should be linked to that in the West Bank, and that any such plan should be linked to a wider political process, which returns to key lessons learned during the 1990s. In this regard, it is noteworthy that the Israeli National Security Council has recently confirmed a simple, but important, principle: the economic development of the Palestinian Territories is a matter of (Israeli) national interest. Hence, rather than placing preference on securing a political situation before an economic one, or vice versa, there is a consensus that all parties must address both simultaneously. The affirmation of this principle, which is based on the assumption that the alleviation of poverty and the creation of wealth increase the stake of the general population in the economic environment and, concomitantly, diminishes their propensity to engage in or tolerate violence, raises another, crucial question: What kind of development does this entail?

In simple terms, the answer to the preceding question seems to entail a choice between two options: 1. a development track that would leave Gaza effectively dependent on external factors, and which would be sustained in the long term through a combination of donor-funding and sub-contracting arrangements with the Israeli economy; or, 2. a broad-based development track that would allow the Gaza economy to become more sustainable, less vulnerable to fluctuations in Israeli-Palestinian relations, and less reliant on Israel. Clearly, the latter development model is more robust and preferable in principle. The implication, however, is that access to external markets must be diversified and made more secure, which will require a stronger infrastructure as well as an improved legal and regulatory environment that will attract trade and investment.

c. Future Prospects- the Promise of Growth[5]

Gaza represents a small economy with limited natural resources and a sizable and largely unemployed population. When considering its economic potential, various important considerations apply that go well beyond local development and the supply of low-cost workers and products to Israel. Gaza has important linkages with the West Bank, which can be exploited and developed. This would involve redefining its economic development strategy according to its comparative advantages, which can provide higher value products and services. Gaza's potential should be seen in new and qualitatively different ways:

- geographical location;
- a relatively well educated labor force, with high literacy and higher education enrollment rates;
- inexpensive offshore energy reserves;
- a young population in Gaza (approximately 50% are under the age of 15)[6]; and
- security and administrative services that are already in place and actively being redeployed, and towards which the European Union and the U.S. Government are channeling more resources.

As regards location, Gaza lies at a crossroads between the main international markets in Europe and the Middle East, and in Asia and Africa. It also has important potential for regional, and eventually international, tourism. The possibilities in these areas are also outlined in a report produced by a group from the Palestinian private sector.[7] This report is premised on a strongly increased role for the private sector in general and foreign direct investment (from the region as well as the EU, USA, and Asia) in particular, as it envisages encouraging international companies to bring their knowledge-based industries, assembly lines and financial and business services to the sub-region.

Such a development approach, which would require major improvements in the enabling environment as well as in the area's physical and social infrastructure, is interesting and promising; however, it certainly needs to be thoroughly market-tested. In any case, economic development will require massive investments ranging from the rebuilding of the port and the airport to major improvements in the soft systems that are needed to support a knowledge-based economy.

Overall, it has become generally accepted that capital goes where it is welcome. The World Bank's 2005 World Development Report focuses on the local investment climate in developing countries and clearly shows how a sound investment environment, with a large measure of predictability, draws both international and local investment.[8] As the potential for substantial economic growth is certain present, once significant progress can be made in the amelioration of the enabling environment, the opportunities for this economic growth will be identified and developed. When it comes to identifying the proper catalysts for such a process in Gaza, the industrial estates are a natural choice, as will be outlined below.

Box 4: The Portland Trust on Economic Impact of Peace

Another recent report also emphasizes the large potential for economic development in the sub-region.[9] The Portland Trust report reemphasizes the recommendations relating to the Palestinian economy produced by a number of other international institutions (such as the World Bank and the Aix Group), which are centered on the free movement of labor and goods, effective regulatory frameworks and transparency as well as the creation of broad economic opportunities. The special focus of the report, however, is the pivotal role the Palestinian private sector should and can play as it notes that, "the real anchor for durable job creation and incomes in the new Palestine must therefore be the domestic private sector. This is overwhelmingly composed of small and family-operated businesses. Palestinian entrepreneurs have proved remarkably resilient throughout the crisis years." It estimates that some 1.2 million new jobs could potentially be added within five years of peace.

The report goes on to acknowledge the contributions that can be made through foreign private investment, but points out the traditional lags in these flows in post-conflict situations. Recently, substantial interest in principle has already been expressed by Palestinian capital to invest in Gaza on the assumption that the political and economic environment improves. Thus it is possible that concern about the lag of foreign direct investment in the report is somewhat exaggerated. Conversely, based on international experience, the strong focus on domestic capital formation and the potential of local small and medium enterprise in the report is sound.

7. The Industrial Estates in Perspective

a. Introduction and History

The largest industrial estates in Gaza are the border industrial estates, which include the Erez Industrial Estate (EIE) at the Erez crossing and the Gaza Industrial Estate (GIE) at the Karni/Al-Montar crossing. Gaza-based industrial estates were planned and developed simultaneously with other zones in the West Bank at the same time that there were plans to build 'face-to-face' IZs on the Israeli and Palestinian borders. The model used for (border) industrial estates was an integrative one, so as to build complementary capacities in both economies. The GOI and the PA jointly planned several estates, such as the EIE, while others were set up to be independently managed by the PA (or a sub-contractor) but to comprise significant Israeli investment, as is the case with the GIE.[10] The management/administrative styles for both estates differed markedly from one another, though they had in common the Israeli market as the main destination for finished goods.

In 1999 a Palestinian Industrial Estates Program (IEP) was launched, as discussed in greater detail in Section (b) below. However, plans to develop about six industrial estates, worth approximately $250 million in investment, in Gaza and the West Bank were halted at the start of the second Intifada. Plans for a joint industrial zone near Rafah were also among those that ceased to be fully implemented, though the GOI's disengagement plan still provides for the possibility of developing a trilateral industrial zone that includes Egyptian participation. The larger model for the zones is based on the concept of export processing zones (EPZs). This model was being replicated in a variety of other situations worldwide, which are characterized by surplus-labor economies with an urgent need for employment creation. Smaller municipal industrial zones have also been set up for local markets, though they are currently underutilized

In their current context, the industrial estates can play a role in an export-based transition though the World Bank's initial review of the current status and plans forecasts modest prospects over the coming few years. In its review, the World Bank makes three fundamental assumptions:

1. "Palestinian economic recovery will depend on creating an export-based economy with unimpeded access to global markets."[11]
2. "In an improved operating environment, Palestinian entrepreneurs and foreign investors will look for well-serviced industrial land and supporting infrastructure."[12]
3. "The Gaza Industrial Estate and the Erez Industrial Estate illustrate how border estates can be effective in facilitating Palestinian trade with Israel and third country markets."[13]

Against this promising "in principle" background, a number of substantive questions arise as regards the ability of the estates to provide sufficient jobs in the foreseeable future (the World Bank estimates this will be only 8500 by 2008) to make a serious dent in current massive unemployment in the Gaza Strip. It is expected that unemployment in the territories would surge by an additional 30,000 jobs if the GOI's policy to stop issuing work permits to Palestinians goes into effect by the end of 2008.[14] These questions generally reflect the need to identify and establish product demand – a supply-driven development program is clearly doomed to failure – and a reliable operating environment for access procedures, without which investor interest is likely to be absent or, at best, stifled. Other notable issues include the need to address environmental cleanup of the existing estates.

Box 5: The World Bank: five key prerequisites for the success of the border industrial estates[15]

- *The provision of efficient and uninterrupted access of goods to and from the industrial estates, and to and from ports. The package of measures that the Government of Israel is proposing crucially includes the adoption of specific service standards; these can play a vital part in providing investors with an up-front assurance that their imported/exported goods will be processed within a reasonable, predictable time-frame.*

- *The maintenance, at least in the near-term, of linkages with Israeli businesses and markets. The main initial boost will come from the continued involvement of Israeli entrepreneurs, and access to Israeli markets.*

- *The use of the IEs as a springboard to the development of exports to third countries. Developers, operators and tenants of the industrial estates need to diversify their market outlets and investment sources away from dependence on the Israeli private sector. Here it will be necessary and critical for the Palestinian Authority to create a strong domestic enabling culture.*

- *Support to Palestinian Industrial Estate and Free Zone Authority (PIEFZA), Palestinian Industrial Estate Development Company (PIEDCO) and other Palestinian private development groups to market, regulate, develop and operate the industrial estates.*

- *A protocol should if possible be agreed between Israel and the Palestinians that would enable investors to take advantage of the free zone provisions under the Palestinian Industrial Estate and Free Zone Law.*

While the analysis by the World Bank (see Box 5) provides a clear overview of outstanding issues related to the future role of the estates, on the whole, these issues can just as easily be considered to apply to the more general economic expansion and future prospects of Gaza and the West Bank. Hence, within an export-oriented model of development, the issues that have been outlined must be addressed, with or without the estates. This, then, returns to the premise that addressing the future of the estates can represent one natural step in a structured discussion on the development of the Gaza Strip. “Natural” not because of the industrial estates’ obvious prominence, per definition, in a long-term development program, but rather because the estates are there and can be used; they are an important part of the local economy. Industrial estates: represent well-serviced industrial land and supporting infrastructure; are the focus of current discussions and of investor interest; provide a ready opportunity to make a major, visible, contribution to alleviate unemployment; and are able to provide a convenient “micro” topic, which is bound to lead to the addressing of various essential “macro” issues.

Before moving on to a more detailed discussion of the Erez and Gaza Industrial Estates, it is worth summarizing the relative economic scenario that currently faces Gaza.[16] In doing so, it should be noted that the World Bank points out that absence of up-to-date information on Palestinian macroeconomic aggregates has always hampered rigorous monitoring of economic activity in the West Bank and Gaza . As a result, the Bank as well as other agencies has been forced to infer trends from a variety of sources including Palestinian Central Bureau of Statistics (PCBS) labor force surveys, household consumption and industry surveys.

But the broad picture is very clear.[17] The Gaza Strip contains 6% of the land area of the West Bank and Gaza as a whole but, at the end of 2004, was home to 38% of the population, i.e. 1.4 million out of 3.6 million. At the same time, it contributed 36% of GDP, but it’s GDP per capita (USD 722) was 67% of that in the West Bank, while its poverty rate (at 65%) was 70% higher than the rate of 38% estimated for the West Bank. During the first half of 2004, the Palestinian economy lost more than 22,000 jobs but Gaza experienced the lion’s share of this, i.e. 20, 000.[18] While the absence of readily usable information makes it impractical to estimate the actual contribution of the industrial estates to Gaza’s GDP, their overall place in the local economy and their potential for contributing to economic revival is suggested in the discussion below. A more detailed feasibility study, that includes a market assessment of the estates and of their potential for contributing to the local economy, would be a crucial step in moving forward more substantively.

b. The Erez and Gaza Estates in Focus

The Erez Industrial Estate is built on 470 dunam (approximately 470,000 square meters or 5,059,038 square feet). The types of industries and the number of factories representing them include: textiles (54); metals (52); carpentry workshops (39); garages (26); miscellaneous (25); and foods (5).[19] These numbers serve as a rough indicator of the main industries in the Palestinian economy, which the PA has also highlighted as critical instruments in enabling private sector development. As late as April 2004, 4770 Palestinians (distributed among 201 factories, 101 of which are owned by Palestinians, and 98 owned by Israelis, while two are jointly owned) were employed in the EIE. Under current plans, established businesses have permits that allow them to employ up to 9,980 workers. The average daily pay for a worker in the EIE is about NIS 90, compared to an average of NIS 50 in the Gaza Strip.[20] By August 31, 2004, however, in the wake of several mortar attacks, the Erez estate and crossing were closed to and remained closed to all but Palestinian owners and Israeli owners and workers (although recently a contingent of Palestinian workers has also been re-admitted) as of the date of the publication of this paper. Minimal activity in the EIE is allowed to continue in the absence of violent activity.[21]

In 1999 the Palestinian Industrial Estates Program (IEP) was launched to promote Palestinian private sector employment and export diversification, of which the GIE was a central part. Though the GIE has remained open, its operations have been severely affected by IDF closures. Sixteen of the original 31 plants are open and employ fewer than 700 (originally around 2,000) workers. At the time of its construction, it was projected that approximately 8,000 directs jobs would be created by the GIE and another 12,000 indirect jobs, reflecting the unutilized capacity and opportunity that exists.[22] Israelis who own some of the businesses are unable to enter the GIE due to Israeli Government restrictions.

While the Erez Industrial Estate is "subject to full Israeli responsibility," it is not fully subject to Israeli law.[23] This ambiguous status allows the EIE to function outside of official oversight. The administration of the region, which includes waste management, is handled by Industrial Buildings Ltd., which is funded and supervised by the EIE investors who are organized as part of the Erez Steering Committee. In addition to administrative and operational oversight, the GOI provides for the security of the zone, which is part of the Erez border crossing operations. An important feature of Erez is that it is situated within the Israeli security parameter.[24] This will change after disengagement, a fact that makes the restructuring of Erez of particular importance.

Unlike the EIE, the GIE is managed by a private subcontractor of the Palestinian Authority, the Palestinian Industrial Estates Development Corporation (PIEDCO) and is a subsidiary of the Palestine Development and Investment Company (PADICO), one of the largest and most successful Palestinian companies.[25] Given its semi-public nature, the GIE is protected by the Palestinian Security Force, though a private Israeli security firm, with links to the Israeli Defense Forces, carried out initial designs of the security infrastructure.

In the context of their pre-withdrawal planning, the Israeli Government had outlined a plan to expand the EIE by 200 dunam, which would offer the potential for an increase in the workforce by about 3,000-5,000. Similarly, with regards to GIE, there is an ambitious expansion plan. The first phase of building of the GIE has been completed; the second phase is underway and would include plans to facilitate the involvement of Israeli entrepreneurs without their having to enter into Palestinian territory (as the current disengagement plans forbid physical entry into Gaza).[26] While there is some preliminary discussion of changes in these announced restrictions, the nature of such modifications – if any – is not yet clear.

Palestinian planners as well as representatives of the private sector have expressed strong interest in converting the estates to serve the overall objective of an independent, prosperous and sustainable Palestinian economy. The GOI shares in this perspective, as it has identified Palestinian economic development as part of Israel's national security interest. Hence, in the transition period, which in Gaza will be characterized by free movement of goods and people, the GOI's willingness to facilitate access to both the Israeli and global markets will be critical in rehabilitating the structures as well as getting workers back into the factories. However, in the long- or medium-term context, an intensive planning effort must be undertaken to make the estates' livelihood less dependent on the GOI's access facilitation, as this dependence runs the risk of being interpreted as effective 'control' of Palestinian international trade.

Issues also arise over the place of the industrial estates in the overall picture of Palestinian economic development planning, which would be linked to a wider governance reform agenda. While EPZs tend to produce many jobs overall, their record in generating positive economic 'spillovers' has, until now, remained questionable. This is particularly true in environments characterized by inadequate national governance practices.[27] At the same time, the EIE and the GIE have demonstrated the capacity to produce jobs, and given their size, they represent significant portions of Gaza's GDP. Hence, in moving forward, it is important to underline the need for future investment in Gaza itself rather than investment in the industrial estates alone. In sum, industrial estates need to be strategically integrated into the Palestinian economy, and hence some of the broader policy and administrative steps that need to be taken to facilitate their growth will, in all likelihood, have an important impact on the broader economic development of Gaza and the West Bank as a whole.

While acknowledging the importance of the industrial estates in Gaza, the Palestinian Authority has outlined three broad groups of concerns regarding future steps. First, for the short- to medium-term period when Palestinian goods from the industrial estates will need to enter into Israel, the PA views movement facilitation of goods and people as one of its top priorities. This facilitation of movement requires efficient and systematic security checks and approval systems that rely on state-of-the art technology. Second, the PA has also expressed its preference for instituting a legal framework that, on the one hand, provides incentives and privileges for estate investors, but while, on the other hand, is the cornerstone of a 'stable environment,' of which neutral dispute settlement mechanisms are a part. Third, the PA will only recognize industrial estates that are built east of the separation wall and within 1967 Palestinian borders. Current indications are that both the EIE and the GIE meet these criteria.[28]

Circumstances arising out of the occupation and the Intifada make the Palestinian Territories unique. During the planning and development of the GIE in 1998, the Israel/Palestine Center for Research and Information commissioned a survey to identify the primary concerns of potential and primarily Israeli investors. It is interesting to note that the following issues were rated as the most important:[29]

1. Political insurance
2. Legal and Regulatory framework;
3. Infrastructure;
4. Manpower;
5. Administration;
6. Export possibilities;
7. Incentives; and
8. Financing.

These issues are as relevant today as they were in 1998, but it is important to consider them in the context of the changed circumstances of a particular post-conflict situation. Another difference in the context is the medium-term plan's prospect of involving a bigger and more international pool of investors.

Box 6: Hurdles for Producers/Exporters to Overcome

From the perspective of the producer/exporter, there are also many hurdles to overcome. Based on the experience of EPZs elsewhere some of the key issues that prospective exporters would encounter in entering the export market include:

1. *lack of sufficient knowledge of export markets;*
2. *difficulty in meeting quality standards of potential markets;*
3. *difficulty in raising financing for capital investments and for pre-shipment and working capital needs;*
4. *barriers to acquisition of land and capital equipment (which especially affects small and medium enterprises; and,*
5. *technical, procedural, or physical constraints in customs and ports.*

Political insurance is seen as critical in a unique situation in which the Palestinian economic situation is closely linked to the overall Israeli-Palestinian political situation. Ensuring adequate availability of joint venture political risk insurance policies, from development agencies such as the Multilateral Investment Guarantee Agency (MIGA, part of the World Bank Group) and from bilateral agencies such as the Overseas Private Investment Corporation (OPIC, United States), may prove to be one of the most critical areas for donor involvement. Meanwhile, the legal and regulatory framework that would pertain to such areas-and cover aspects such as the dispute settlement mechanisms as well as licensing and patent protection-will also need to be developed and clarified. This covers aspects such as taxation as goods from the EIE and the GIE that are destined for overseas markets and are shipped via Israel and which would, under the current regime, be taxed twice.

During the planning of industrial estates in Gaza and the West Bank, Israeli planners and business representatives envisioned that the estates would act as their gateway to Arab markets, as well as to the EU-zone and the U.S., where Palestinian goods are covered by preferential trade agreements. This may prove an asset to the Palestinian economy in terms of attracting regional and international investment. It is also useful to note that another advantage lies in the Palestinian labor force, which has proven to be a "positive experience" for investors since the laborers have been "well trained and have a high level of productivity".[30]

8. A Short- and Medium-Term Agenda: Perspectives, Issues and Priorities

a. Issues Related to the Disengagement Process

This paper aims to provide, to the extent possible, a practical perspective on disengagement issues. However, taking practical steps also requires keeping an eye on important longer-term issues. Among the most important and relevant issues to this discussion are borders and territorial contiguity, as these relate to access and economic critical mass, and, more generally, to the economic development potential for the Palestinian Territories as a whole. There are also broader concerns that must be addressed within a medium to long-term timeframe. Even those issues that are directly related to the disengagement and transfer process have implications for the subsequent economic development of Gaza. The World Bank characterizes the process as Transfer, Management and Disposal (TMD).[31] It consists of several steps, practical in nature, starting with the determination of an inventory of existing assets.

Transfer and Valuation of Assets: What is the precise inventory of fixed and other assets? What will the Israelis take with them? What will stay? Who will administer the assets when the Israelis leave? What intermediary should take control of the assets to ensure an optimal takeover? What is the precise timetable to ensure a process that is disciplined and serves the subsequent objectives of both sides? It is noteworthy in this context that, when it comes to addressing issues of compensation for assets on previously occupied territories, there are important principles of international law that are applicable.

Cooperation and Access: Expediting the transfer of the industrial estates from Israeli to Palestinian control, while at the same time facilitating independent Palestinian administration, is among the priorities of cooperation between Israel and the Palestinians. If the goal of economic development is genuine sustainability, the Palestinian economy needs to achieve, over time, increasing levels of independence from the Israeli market and Israeli administration. Regardless of the success of this goal, access to and transit through Israel will remain essential in the foreseeable future. Palestinian planners have emphasized the importance of ensuring that a future border regime be based on principles that systematize border checks. This systemization can be achieved by using appropriate technology and, more importantly, by ensuring that the process follows an official and published list of procedures. Decisions about security exceptions will need to be: a) necessary; b) reasonable/ proportional; c) regulated; d) individualized (precise and specific, not general); e) documented; and f) able to enter into dispute settlement, which would create a safeguard from abuse.

Within this context, the question arises as regards the arrangements that guide the flow of goods and labor into and out of the IZ. There is a plan for cargo trains to run from Ashdod port to a proposed goods processing terminal at Erez.[32] Indeed, Palestinian planners must decide whether these trains are an optimal interim solution for mass transport of manufactured goods while a deep-water port is constructed for a long-term solution. A related issue regards the extent to which the reconstruction and refurbishing of the Gaza Airport are necessary.

Environmental Issues: The World Bank emphasizes that a major environmental cleanup must take place immediately, after years of neglect in this area, and the Palestinian Authority has re-emphasized this in very recent statements. Problems cited include: uncontrolled wastewater discharges, storm water collection and discharges, polluted air emissions, occupational health risks arising from asbestos materials, and chemical and industrial hazards.[33] It is imperative that any discussion of cooperation on industrial estates includes an analysis of the environmental problems and ways in which the Israeli and Palestinian authorities can cooperate on alleviating them. The World Bank has also noted in its report that the GOI has not (yet) committed to a thorough environmental cleanup.[34]

Legal Issues: The Israeli Government has announced its intention to compensate only Israeli business owners after Israel's planned withdrawal. The rationale of the GOI's decision is based on the assumption that the assets will remain behind in Gaza and the West Bank and can be utilized in their current condition. However, since these assets have been built on land that was originally confiscated and the earning potential of the assets will be fundamentally changed after Israel's withdrawal, Palestinian entrepreneurs may contest in court the GOI's policy of non-compensation.[35]

Initial Capacity/Basis for Future Planning: The World Bank's report suggests that it may not be economically necessary for the Palestinian economy to keep both the GIE and EIE open due to their underutilized status and close proximity. As it is unlikely that any Israeli investment will remain, and, consequently, challenging to attract enough investment, the Bank suggests increased attention to and expansion of the GIE, given its more up-to-date infrastructure.[36] Given the potential of the Gaza economy that was discussed above in detail, and assuming that an acceptable enabling environment develops, it is equally realistic to expect that both the GIE and EIE can be used. However, initial arrangements on utilization of existing assets and the willingness of investors to consider deploying new resources in response to the newer arrangements that are put into place, will be critical to determining the potential for subsequent use.

The difficulty in attempting to reach preliminary conclusions at this stage stems from uncertainty over the extent and the speed of future economic developments. Past experience in other parts of the world has demonstrated that recovery in post-conflict situations can be very slow and painful, but that a true indication of change can unleash investor interest and local entrepreneurial capacity, which becomes self-fulfilling and ensures that rapid progress is made and that cautious initial expectations are quickly exceeded. It is to improve the probability of sustainable and rapid outcomes that we focus this paper on both short-term and long-term actions by the two governments. While this may represent an upside scenario given the current situation, planning for full utilization of both the major industrial zones would appear to be appropriate at the moment.

b. Ensuring Effective Implementation

Good and effective governance arrangements are essential to many different types of situations and processes. The Organization for Economic Co-operation and Development and other institutions have published a range of guidelines and good practices with broad applicability. They generally involve clearly stated objectives and priorities, effective communication, transparency, fairness, and clearly established lines of authority and accountability. However, it is important to go beyond generalities and look at the process of transferring assets with the objective of fairness and effective subsequent utilization. The following discussion is specific to the transfer of the industrial estates, which is outside of the transfer, management and disposal (TMD) process, discussed previously.[37] The principles underlying the discussion below closely parallel the TMD proposed guidelines.

Technical answers to valuation questions may be found in the International Valuation Standards Committee's (IVSC) economic and operational guidelines for the valuation of assets. While it is fully recognized that the actual valuation will be substantially influenced by non-economic considerations, the standards nevertheless provide a useful frame of reference. In its most recent exposure draft on the "valuation of plant and equipment," the IVSC states:

Plant and equipment combine to constitute a wide variety of situations requiring skillful assessment of the utility of the property valued and careful consideration of such property's physical, functional and economic characteristics … Available valuation methods include: [1.] sales comparison approach *[2.]* cost approach *(depreciated replacement cost or in some jurisdictions optimised depreciated replacement cost), and [3.]* income capitalisation approach… *Valuers applying the IVSC Standards and this Guidance are responsible for selecting proper valuation methods (in keeping with the agreed scope of the assignment or instruction), enhancing the understanding of valuation users, avoiding circumstances that might mislead the public, and reporting objectively supported valuations.*[38]

While this brief excerpt provides basic guidance on possible valuation methods, it also provides a clear and important message that the essence of proper valuation lies less in the method selected than in the legitimacy, credibility and transparency of the process utilized. This is most relevant to the valuation process that is being contemplated in the wake of unilateral Israeli disengagement.

There is no situation that is fully comparable to the one in Gaza, but there are situations in which interesting operational lessons can be learned. For example, Asset Management Companies (AMCs) were set up in different countries to restructure and redeploy assets, typically set up in the wake of a financial crisis or in the context of large scale privatization efforts.[39] These AMC's usually face conflicting objectives and a limited functional life cycle that creates unique governance issues. However, there are some other important features of these companies and their operation that are relevant to Gaza-based industrial estates.

AMCs are mandated to minimize losses or economic impact, expedite resolution efforts and support rehabilitation. Their effectiveness, moreover, is strongly influenced by: the degree of complexity of the underlying arrangements; the quality of information they can rely on; the availability of funding; their operational capacity in terms of capable and experienced personnel; the nature of the political environment; and the legal framework. Their success, which is not guaranteed, depends dramatically on these factors

From a practical political perspective, it is useful to consider what is commonly regarded as an established "best practice." Successful AMCs have typically had a strong mandate with clear objectives and operational procedures, with a focus on asset sales rather than restructuring. They have enjoyed strong political backing and at the same time a good measure of independence, with little or no political interference after they were set up. AMCs have been able to rely on explicit financial support, through budget allocations or guarantees, and have worked from within a reasonably effective legal regime, i.e. one that includes bankruptcy and foreclosure laws as well as special legal powers granted to the AMC. In general, the tenure of a successful AMC is limited in order to prevent it from retaining assets for long periods of time (for fear of realizing losses). Effective AMC's have a sound internal control system and effective external oversight, and are transparent about their results.

When it comes to effective implementation of the asset transfer process, it is also important to consider ownership, management and other phases. Based on what is considered good practice in situations that are, to some extent, comparable, the following observations are germane:

1. It is natural for the original negotiating authority that sets up or implements basic rules to be largely or wholly government owned. Even from an early stage, however, it is important that, its mandate is clear and independent, having representation across ministries and, at an early stage, being independent thereof, and that the private sector is represented in a visible, serious way. As soon as is practical, the Asset Management Company or Agency should be largely privatized or at least "corporatized" in order to ensure a transparent, credible process, and to increase the chances of an efficient redeployment of assets through auction, targeted sales or leases, with a clear set of rules and priorities. The AMC should have a highly regarded and representative Board of Directors, which could include foreign parties, and excellent operational and financial top management, which would be wholly above reproach.[40] These guidelines clearly emphasize a combination of legitimacy and effectiveness.

2. Over time, the Agency could have a dual mandate. The first part of this mandate could be "for profit" and would be wholly focused on the asset transfer, rehabilitation and redeployment process. The second part could have an important, possibly not-for-profit, de-

Box 7: IFC – Features of successful Special Economic Zones

Important recent work of the International Finance Corporation (IFC-the private sector arm of the World Bank Group) on SEZ's[41] suggests that the more successful ones have the following features in common:

- *Clear zone designation and development criteria;*
- *Public-private partnership approaches for zone development;*
- *Integrated government support;*
- *Streamlined legal and regulatory framework;*
- *Focus on facilitation rather than incentives;*
- *Zone authority is autonomous;*
- *Flexible and focused on regulation;*
- *Private sector leadership, etc.*

Conversely, Zones that have been unsuccessful have typically been hampered by public sector dominance (with, at the same time, inconsistent government support); subsidized/over designed facilities and poor maintenance; uncompetitive policies; lack of an integrated development approach; bureaucratic procedures; and inadequate institutional structure.

velopmental role that is geared toward substantive operational support. The AMC could operate or access a host of business support services, which could include: training centers, business advisory/ enterprise assistance centers, conference facilities, accounting services, one stop shopping for government registry/licensing, financial services ranging from private equity to SME/microfinance lending to grant based arrangements (the latter preferably only for a brief, initial period). These types of activities are likely to qualify for broad and deep funding support from the development community.[42]

c. Setting the stage for an Appropriate Enabling Environment

Though many types of structures and arrangements for asset transfer and redeployment are conceivable, they all require a clear and transparent legal and operating environment. In this regard, there is a rather broad consensus that there is significant room for improvement. The applicable legal and regulatory environment in Gaza merits rationalization, as do the area of jurisdiction and the area of governance in general.

In its position paper with proposals for economic reform, the Council for Private Sector Development comments in some detail on the fundamental weakness of the current legal system as it applies to commerce and trade.[43] This limitation is related to a history of weak laws and subsequent military orders by the occupation authorities. The Council observes that there are measures that were hastily made into laws (e.g. labor law, law for chambers of commerce), that were to be adopted into law but that were tabled for years, and that were submitted for presidential approval that are still pending, as well as laws that have been approved but are awaiting implementation. In a still broader context, the paper details the close and, at the time, questionable interrelationship among political, judicial, security and commercial establishments.

When one considers broader measures of governance, the picture of the Palestinian Territories is incomplete at best. Where the information is available, it is substantially influenced by timing and, most importantly, by the exceptional circumstances of occupation. While precise comparisons are therefore largely academic, the room for improvement of governance of the borders appears nevertheless to be substantial. The 2002 World Bank Institute Governance Research Indicator Country Snapshot Comparison looks at six broad indicators: Voice and Accountability; Political Stability; Government Effectiveness; Regulatory Quality; Corruption; and Rule of Law. The West Bank and Gaza collectively score below the 50th percentile in all categories, and in the lowest quadrant in most.[44]

When it comes to detailed indicators used to gauge the quality of the investment climate, the regular "Doing Business in …" reports (the latest one is "Doing Business in 2005"), sponsored by the World Bank and IFC, are most comprehensive and up to date. They provide detailed information, on a comparative basis, on what it takes to: start or close a business; hire and fire workers; register property; get credit; obtain proper disclosure for investor protection; and enforce contracts. It is understandable that the Palestinian Territories are among a dozen countries that have not been included, given the exceptional circumstances of occupation, which has seriously deteriorated the investment climate.[45]

In sum, the improvement of the legal, regulatory and governance environment is essential, first for the asset transfer and redeployment process, and subsequently for the economic development of the Palestinian Territories. Put differently, improvements in the enabling environment, which are often considered primarily in a medium to long-term context, should really be addressed as early as is feasible, so that the stage would be set for a process of sustainable development. In view of the major task at hand, this creation of an enabling environment may require interim steps, with the important caveat that these should not detract from efforts aimed at more durable solutions.

9. A Medium to Long-Term Agenda – Creating a Basis for Sustainable Development

a. Guiding Principles and Sequenced Initiatives

It is especially important to consider the economic development of Gaza in the light of its special circumstances. Gaza has a small, economically depressed economy, urgent and massive financial and capacity requirements, and a complex and sensitive political environment. Additionally, Gaza faces unresolved issues of principle and precedent and weak or nascent governance arrangements, and must deal with problems such as restricted access, inadequate soft and hard infrastructure, and many diverse parties that want to help and develop their own projects, combined with the pressure of time.

Any development blueprint implementation plan will have short- and longer-term aspects. In post-conflict situations, it is critical to demonstrate strong, early success so as to provide the impetus to solve the many difficult issues that appear on the longer-term horizon. While the industrial estates can serve as a suitable focal point and catalyst, they are clearly part of a broader development agenda. Such an agenda requires, first of all, a focus on establishing basic guiding principles (see Box 8) and then an agreement on a prioritized "what" and "how" list.

Box 8: Guiding Principles for Effecting Change

A set of basic guiding principles can be of great value in guiding policy makers and also in articulating to a wide range of internal and external stakeholders the basis on which the government intends to proceed. A useful set of such guiding principles should include:

1. *Focus on restoring confidence through major, early and visible progress and changes that clearly demonstrate to local residents and external stakeholders alike that there is a serious commitment to a new environment;*
2. *Commitment towards creating productive employment opportunities in the short-medium term, even if donors/soft resources initially fund these;*
3. *Long-term focus on taking steps to further develop an effective enabling environment for sustainable private sector development. (This is an environment that does not merely allow for the private sector to play a substantive role, but one that actively nurtures the sector, encouraging the realization of its potential);*
4. *Emphasis on transparency and good governance in all major plans and actions and so as to highlight another key element of the changed environment;*
5. *Assurance of the participation of all stakeholders, with a focus on local residents and the private sector, in the development of medium and long-term plans.*

Focus on "What" – Initiatives to be undertaken

These guiding principles can then be applied to the development of a specific development plan, which we believe requires policy makers to:

1. *Revitalize existing industrial estates* programs where appropriate and possible, thus providing a credible vehicle for establishing a focus on export-oriented development and for expanding productive employment opportunities;
2. *Launch a major program for restoring/expanding infrastructure,* which would include revitalization/repair of existing facilities and the planning of new projects as required. This provides another early opportunity to create a second set of new productive employment opportunities;
3. *Develop/re-utilize Israeli assets in Gaza,* in order to promote social programs, such as health and education, as well as to provide a third element of a "productive employment" program, which would entail agriculture, agribusiness and other projects;
4. *Facilitate a few new, high-profile private sector investments* including rehabilitation of existing investments, such as hotels, by both Palestinian and foreign direct investment, which would initially be largely limited to that from other Arab states and/or the Palestinian Diaspora. This continues the focus on expanding employment;

5. *Provide a more detailed map of the structure of the Palestinian private sector* and the status of the informal sector, with a view to understanding clearly the administrative and regulatory factors that could impede rapid development during a new environment of peace and stability; and,
6. *Create and implement the appropriate policy and institutional framework for private sector development,* using internationally accepted approaches.[46] While it is understood that in a post-conflict situation not all elements emerging from the referenced reports below would be immediately relevant or practical, they do provide a strong basis for a commonly agreed upon medium-term action plan that can be configured to the very particular needs of Gaza and the West Bank.

Focus on "How"

Implementation of such an economic and social strategy for Gaza and the West Bank will need to be based on the application of the three principles of selectivity, partnership and mobilization.

1. *Selectivity* will mean focusing on a few clear and early deliverables to test the new partnerships and to induce a basic change in mind-set and expectations. This selectivity will need to relate to timing, visibility and impact of the first set of actions. It should be emphasized that mind-set changes in this context are critical not just from the viewpoint of the Palestinian population, but also as they relate to the different Israeli stakeholders that are likely to be "in play." The current dialogue has naturally and inevitably been driven by the perceived needs of Israel's security but many other stakeholders are likely to become important with the passage of time.
2. *Partnership* refers to the understanding that there will be a number of key players that must be engaged constructively and effectively:
   a. The Palestinian Authority and the Government of Israel;
   b. External donor governments;
   c. External donor agencies (International Financial Institutions) – both multilateral and bilateral;
   d. The Palestinian/Arab Diaspora;
   e. The Palestinian/Israeli private sector;
   f. Selected international investors with a possible special commitment to the region; and
   g. NGOs, Civil Society-both national and international.
3. *Mobilization* of resources will be a key element of any strategy. These resources will need to be both actual cash contributions in the first instance as well as other innovative financial instruments (guarantees and the like), which could have a much greater and more direct mobilization capability. Given the wider implications of the Israeli-Palestinian conflict, it is assumed that a true process of change, if not reconciliation, will generate a greater and faster commitment of financial resources than might have been expected in different circumstances. Broadly speaking, and at this early stage, it is suggested that resources would be deployed as follows:
   a. A strong initial flow of donor country resources including those from Arab countries as well as IFIs;
   b. A clear indication of Israeli support from both the public and private sectors;
   c. Palestinian and Arab investment capital (Diaspora and local private sector);
   d. External private capital; and
   e. NGO/civil society/"Patient Capital"

Longer-term financing needs for the local economy would involve sustained development of a domestic financial system (the "brain of development"), including developing institutional capacity in the areas of:

i. Micro-finance
ii. Banking
iii. Housing Finance
iv. Insurance and other Contractual Savings.

b. Investment Promotion and Finance

Background

It is worth noting that the PA has laid out its own vision for export-based development, which is grounded on current realities, most of which are seen as constraints for development. These include: the structure of productive sectors, the large number of micro and small enterprises, the inadequate access to financial services, the excessive reliance on Israel for inputs, as well as other constraints. The PA would take advantage of its preferential trade agreements by aiming to build an environment that would facilitate trade and increase competitiveness. Towards these ends, Palestinian planners have reiterated their original intention to create new laws, develop "a multi-modal transport system," and improve the electronic communication system necessary for competing in international markets.

Priority Sectors and Projects

The Palestinian Business Committee for Peace and Reform (PBCPR), which represents a group of Palestinian private sector players, has identified the most important sectors that constitute the main catalysts for economic growth. These include: Agriculture (15% of the workforce and 30-35% of GDP); Industry (15% of the workforce and 15% of GDP); the IT Sector (with over 70 firms already engaged); and Infrastructure, notably in Electricity and Water. When it comes to major projects, they have selected 12 that ought to be considered on a priority basis:

1. Gaza Airport Rehabilitation
2. Gaza Port
3. Gaza Land Reclamation
4. Fund for revival of Small Business
5. Karni Crossing upgrade and Privatization
6. Elevated highway between Gaza and West Bank
7. Private Sector acquisition of Gaza agricultural lands that are currently in the settlements
8. Private Sector acquisition of Erez Industrial Zone assets
9. Expansion of Gaza Power Plant and O/H lines
10. Construction of Gaza desalination plant
11. Offshore gas development and deployment
12. Rail link Egypt-Gaza-Ashdod Port

The projects on this (incomplete) list have very different dynamics, urgency and time horizons. It is interesting to note, however, that the Palestinian private sector is already mapping what it sees as priority requirements and what it expects to play a major investment role in Gaza.

Recent months have seen a notable increase in other private sector investment interest. This interest has not been fully mapped, but its main sources appear to be: the local Palestinian business community or their counterpart in Diaspora; the Israeli business community (despite the current injunction against their direct investment in Gaza); and the broader Middle East. There is bound to be a more substantial project pipeline in the coming months, including those promoted by Multilateral and Regional Development Banks, NGO's and other organizations.

Sources of Finance and other Support

Current official aid to the Palestinian territories exceeds USD 1 billion a year. Much of this aid comes in the form of grants, and the major portion of funds received is applied to the Public Sector (mainly budget support for the PA). As the disengagement process gathers momentum and the situation in the region improves, new, productive investments are expected to be identified and additional, targeted facilities to be made available (e.g. an early USD 200 million facility is already contemplated by OPIC), though the nature and volume of such commitments is likely to evolve rapidly given the dynamic nature of the situation in the region.

In view of the sizeable amounts that must be spent on the rehabilitation and development of public facilities/infrastructure, it is to be expected that the major portion of funding will still come from public sector oriented sources. Nevertheless, the potential of private sector sources and uses should not be underestimated.

Even when it comes to infrastructure, the private sector has an important role to play. In a recent study entitled "The Private Sector's Role in the Provision of Infrastructure in Post-Conflict Countries: Patterns and Policy Options", the authors emphasize the importance of early private sector involvement in infrastructure. They note:

Although donors often support the early stages of post-conflict reconstruction with generous aid packages, post-conflict public sectors are often constrained by extremely weak absorptive capacity. At the same time, a large number of urgent policy priorities in the immediate post-conflict period means that governments rarely focus on establishing a welcoming investment climate that can spark the interest of potential private investors in infrastructure...

Private sector investment patterns in post-conflict countries show that telecoms investments, particularly mobile telephony, materialize immediately after (sometimes even before) the end of the conflict. Electricity generation and distribution projects start to emerge about three years after the conflict and increase in frequency after year five. Private investment in water tends to come much later. Within the transport sector, seaports tend to receive the majority of private investment.[47]

In order to ensure that there is a receptive environment for broader private sector participation early on, the following comment is germane:

Policy recommendations suggest that the timing of reforms is important. Stepped up arrangements may also be considered, including a planned progression from modest forms of private participation in infrastructure (e.g., service or management contracts) to deeper forms such as leases or long-term concessions. Government can also encourage … the development of small-scale private sector providers.[48]

Foreign direct investment, which is supported by various risk mitigation/insurance arrangements, can play a role in the financing of infrastructure, as well as other areas. In the right investment climate/enabling environment there is ample room for a substantive increase in flows to other sectors (including those identified by the PBCPR). Especially when it comes to manufacturing and service sectors, the industrial estates could well constitute a focal point as well as a catalyst.

Attracting investment from abroad, while certainly important, should not be the only priority. There is potential for mobilizing domestic sources of finance, especially for the benefit of the large population of small- and medium-enterprises. For this to occur, however, special attention should be given to the development of the financial sector, including specialized intermediaries like leasing companies, private equity providers and micro finance institutions. Finally, it is worth noting in this context that several senior Palestinian entrepreneurs, when asked what kind of support they needed, always mentioned finance and often emphasized aspects such as “connections abroad” and “business development support” or knowledge/access based factors.

10. Conclusions

• In recent months, substantial changes in the political environment have set the stage for the development of important new economic perspectives in Gaza and the West Bank. While significant hurdles and long-term issues remain, there is a unique ***window of opportunity*** that may allow for elements of a "virtuous circle" to emerge, where improved prospects in the political arena will benefit economic development of the Palestinian Territories and vice versa.

• In view of the fact that, for all the recent progress, the overall situation remains sensitive, complex and also fragile, it is important to ***concentrate first on practical steps*** that can and should be taken in the wake of Israel's stated objective to withdraw unilaterally from Gaza and the northern part of the West Bank. The main objective of these first steps is to rapidly create practical and visible outcomes that ***demonstrate real results on the ground*** and that lead to clear improvement in the overall economic outlook as well as a noticeable increase in productive employment and incomes for the residents of Gaza.

• It is in the context of this disengagement process, and the need to demonstrate early results, that the ***industrial estates in Gaza provide a natural and significant focal point*** for practical arrangements. Importantly, such arrangements would reflect the fact that while the situation in the area is, in many ways unique, the challenges that must be addressed in this post-conflict environment are not. The Estates discussion provides a good opportunity to ***systematically address short-term issues with major long-term development implications.***

• The primary responsibility, for taking effective and rapid action in this evolving scenario, lies with the Government of Israel and the Palestinian Authority. This paper has outlined some of the key elements that the respective governments need to address. At the same time, the critical global importance of ***demonstrating progress*** on this long-standing conflict means that there is a major interest on the part of external stakeholders to play a major role in helping to catalyze and achieve the needed results. This paper has demonstrated the steps that are already being taken and supported by the U.S., the EU, Russia and the United Nations.

• In addition, a number of other global players and stakeholders are or will soon be involved in the effort to create change. The ***World Bank*** is already playing a central role and outgoing President James Wolfensohn will soon be actively engaged in his new role as Special Envoy. NGOs such as the Aspen Institute and the Portland Trust have already commenced an active work program. Large international corporations will also soon have an important role to play in facilitating new investment and demonstrating the economic possibilities that could arise from unleashing entrepreneurship in the region. Working in parallel will be the ***Palestinian private sector*** which has already demonstrated its capacity under great adversity, with an important role for ***Israeli companies and investors*** that already have practical experience and knowledge in the local and global marketplace.

• It is in the context of this global endeavor that the EastWest Institute can assist in bridging divides, facilitating solutions, promoting investment, providing technical assistance, and actively supporting the main objective of the sustainable development of the Palestinian Territories. Rapid progress in examining practical solutions to a range of issues facing the industrial estates in Gaza, through the completion of an ***action-oriented feasibility study,*** will be the first major step in this direction. EWI looks forward to working in close partnership with the Government of Israel, the Palestinian Authority and concerned stakeholders, in the difficult but rewarding journey that lies ahead.

11. Notes

1) US Secretary of State Condoleeza Rice, Russian Foreign Minister Sergei Lavrov, EU High Representative for the Common Foreign & Security Policy Javier Solana and UN Secretary General Kofi Annan
2) “Executive Summary.” Medium Term Development Plan 2005-2007. Palestinian National Authority, Ministry of Planning. presented at the Ad-Hoc Liaison Committee Meeting. Oslo, Norway. December 8, 2004.
3) "Overview." Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects. World Bank. December 2004, 6-7.
4) “Executive Summary,” Medium Term Development Plan, 2005-2007.
5) By dealing with Gaza as an economic entity, this paper in no way sets out to take a position on the question of the viability of Gaza, neither to prejudice its link to the West Bank.
6) The percentage was quoted as 46% of the population being under the age of 15 by: Arab Human Development Report 2004: Towards Freedom in the Arab World. United Nations Development Programme, the Arab Fund for Economic and Social Development, and the Arab Gulf Programme for United Nations Development Organizations. New York: Regional Bureau for Arab States, 2005, 238.
7) “Economic Development Agenda for the Gaza Strip: A Private Sector Perspective.” prepared by the Palestinian Economic Policy Research Institute (MAS) in cooperation with the Palestinian Business Committee for Peace and Reform. June 2004.
8) “World Development Report 2005: A Better Investment Climate for Everyone.” The World Bank. New York: World Bank and Oxford University Press, 2004, 1.
9) “Beyond Conflict-The Economic Impact of Peace on Palestinians and Israelis.” Portland Trust, December 2004
10) Interview with National Security Council. December 2004.
11) “Industrial Estates.” Stagnation or Revival. 1.
12) Ibid.
13) Ibid.
14) Ibid.
15) "Industrial Estates." Stagnation or Revival.
16) “Four Years-Intifida, Closures and Palestinian Economic Crisis: An Assessment.” World Bank, Washington DC, October 2004. (See Box 2.2, Page 12)
17) Stagnation or Revival. (See Table, Page 32)
18) “West Bank And Gaza Update.” The World Bank, Washington DC, November 2004.
19) Interview with National Security Council.
20) Ibid
21) Ibid.
22) PIEFZA Document AN D20008, Dated 2000/12/11. Table 9: Projected Employment in Palestinian Industrial Parks. as found in Markus E. Bouillon. The Peace Business: Money and Power in the Palestinian-Israeli Conflict. London: I.B. Tauris, 2004, 89.
23) Interview with National Security Council.
24) Ibid.
25) Peter Lagerquist, “Privatizing the Occupation: The Political Economy of an Oslo Development Project,” Journal of Palestine Studies, 32, no.2 (Winter 2003), 11.
26) Interview with National Security Council.
27) Lagerquist, 13.
28) “Palestinian Position Paper on Economic Recovery in the Context of Israeli Evacuation” Negotiations Support Unit position paper, presented at the Ad-Hoc Liason Committee meeting, December 9, 2004.
29) “A Reevaluation of the Border Industrial Estates Concept” Israel/Palestine Center for Research and Information, December 1998, 21.
30) Ibid., 24.
31) “Settlements.” Stagnation or Revival, 1.
32) “Industrial Estates.” 4.
33) Ibid, 2.
34) Ibid, 4.
35) Ibid.
36) Ibid.
37) “Settlements.”
38) Exposure Draft of Proposed Revised International Valuation Guidance Note: GN3 Valuation of Land and Equipment.” (not available for comment) International Valuation Standards Committee, 2004, 2-3.
39) For a discussion of AMCs in East Asia since the 1990s, see Ben Fung et al. “Occasional Paper, No. 3: Public Asset Management Companies in E. Asia. A Comparative Study.” Switzerland: Financial Stability Institute, Bank for International Settlements, February 2004.
40) Ibid, 18.
41) See proceedings of IFC Workshop on Economic Zones: Learning from Global Experience, held in New Delhi, India, April 29-30, 2004. (http://www.ifc.org/ifcext/southasia.nsf/Content/SEZWorkshop)
42) Ibid.
43) “Mutatalibat al-islah al-iqtasidi; warqat mawqif muqadamat al-lijnat al-wataniyah lil eslah.” Majlis tansiq mu’asesat al-qita’ al-khas. November 2004.
44) Results and methodology can be viewed on the website for “Governance Indicators: 1996-2000,” The World Bank Group. (www.info.worldbank.org/governance/kkz2002/mc_chart.asp)
45) (www.rru.worldbank.org/doingbusiness)
46) In this regard the following documents can be noted: “World Bank Development Report 2005”; “Doing Business in 2005: Removing Obstacles to Growth”; “Unleashing Entrepreneurship: Making Business Work for the Poor”, Report to the Secretary General of the United Nations, Commission on the Private Sector and Development, New York, United Nations Development Programme, 2004; the subsequent “G8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty,” report and action plan presented at the Sea Island Summit, 2004 and “Investing in Development: A Practical Plan to Achieve the Millennium Development Goals,” U.N. Millennium Project, New York, 2005.
47) Jordan Schwartz, Shelby Hahn, and Ian Bannon, “The Private Sector’s Role in the Provision of Infrastructure in Post-Conflict Countries: Patterns and Policy Options,” Social Development Papers: Conflict Prevention and Reconstruction, Paper No. 16, The World Bank, August 2004, 2.
48) Ibid.

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Appendix 1. Project Staff Biographies

Mathias Mossberg, Vice President for Programs
Michael Barth, Director, Middle East Bridges – Private Sector Initiative
Aiman Mackie, Program Manager, Middle East Bridges Program
Jocelyn Brooks, Program Assistant, Middle East Bridges Program
Nissim Ezekiel, Consultant, Private Sector Initiative
Nancy Linthicum, Intern (Columbia University)
Zev Shechtman, Intern (New York University)

Mathias Mossberg, Vice President for Programs, EastWest Institute. Ambassador Mossberg is responsible for the Middle East Bridges Program of the EastWest Institute. He is on secondment to the Institute from the Swedish Ministry for Foreign Affairs. Prior to joining EWI, Ambassador Mossberg served i.a. as Director of the Policy Planning Group at the Swedish Ministry of Foreign Affairs. He was Sweden's Ambassador to Morocco in 1994-96 and Personal Representative of the Chairman in office, CSCE, to Nagorno-Karabach in 1992-94. He also served as Assistant Under-Secretary for Africa and the Middle East at the Swedish Ministry of Foreign Affairs and in diplomatic posts in London, Amman, New York, Moscow and Geneva. He received his Bachelor of Law from Uppsala University and also studied at College d'Europe, Bruges, and Institut des Hautes Etudes Internationales, Geneva. In addition to his native Swedish, he speaks English, French, Russian, and German.

R. Michael Barth is the Director of the Middle East Bridges - Private Sector Initiative at the EastWest Institute. He was previously, from July 1999 until December 2004, the Chief Executive Officer of the Netherlands Development Finance Company (FMO), which supports private sector development in countries and emerging markets in Asia, Africa, Latin America and Central and Eastern Europe. FMO is one of the largest Bilateral Development Banks. From 1997-99, Mr. Barth was Director of the World Bank's Capital Markets Development Department, which is a division that he also established. Prior to this post, beginning in 1992, he was Financial Controller of the International Finance Corporation, where he also previously held different positions beginning in 1982. From 1975-82, he held various management positions at Citibank/Citicorp in New York, Dublin, Rotterdam and Amsterdam, and prior to that he worked as an Economist at the Hudson Institute in Paris. Mr. Barth has been a member of the Board of Directors of the Emerging Markets Growth Fund, the largest global fund invested in the publicly listed equities of developing countries. He has also been a member of the Advisory Board of the World Bank/IMF/Brookings Institution: Financial Markets and Development Forum since 1999. Additionally, he has been a member of the Supervisory Board of IMI, a network of microfinance institutions that is active globally, as well as Vice-Chairman of the Supervisory Board of the American School of The Hague. In 2003 and 2004, Mr. Barth was President and Chairman of the Association of European Development Finance Institutions (EDFI). He was recently appointed Director of the Board of the Emerging Markets Private Equity Association. Mr. Barth received a Masters Degree in International Economics and International Affairs from John's Hopkins U. School of Advanced International Studies and received a Bachelor's in Economics from Brandeis University. He is a resident of Washington D.C.

Aiman Mackie is the Program Manager for the Middle East Bridges Program. He is a specialist in international security and development, with a regional focus in the Middle East. Prior to joining EWI's Middle East Bridges program, Mr. Mackie worked at the Ford Foundation, with responsibility for New York-based International Cooperation portfolios. He has also worked for the RAND Corporation in Santa Monica, focusing on counter-terrorism issues as well as questions related to Oil and political Islam, and previously at the Lebanese Center for Policy Studies in Beirut. Mr. Mackie holds a Master's in Public Policy and an A.B. in Political Science and French Studies, both from the University of Michigan. He is fluent in English, Arabic and French.

Jocelyn Brooks is the Program Assistant for the Middle East Bridges (MEB) program at the EastWest Institute's New York Centre. She has been with the Institute since July 2004, when she began working as an intern in the MEB program, focusing on its Gaza Project. She graduated from Brown University with a BA in Anthropology, with a particular interest in the Middle East and Africa. She studied abroad one year at the University of Bologna in Italy, taking courses in anthropology and Italian history and language. After graduating, she worked at the Italy-America Chamber of Commerce as the Membership Coordinator. Jocy is fluent in English and Italian.

Nissim Ezekiel has over thirty years of experience in economic development with a focus on the private sector, and in international public affairs. He spent 25 years at the International Finance Corporation (IFC-World Bank Group) from 1975-2000, and was its Director of Corporate Planning from 1992 onwards. During this latter period, he also managed IFC's Trust Funds program and its country relationship with Israel. Most recently, he served as Executive Director of the UN Commission on the Private Sector & Development. Its Report, Unleashing Entrepreneurship: Making Business Work for the Poor, was submitted to Secretary General Kofi Annan in March 2004.

Nancy Linthicum is an intern with the Middle East Bridges Program, and a senior at Barnard College in New York. She is graduating with an A.B. in Middle Eastern Studies, with a thesis on the Lebanese civil war. She is conversational in Arabic.

Zev Shechtman is an intern with the Middle East Bridges Program. He is currently completing his first year of his graduate studies at New York University's Hagop Kevorkian Center for Near Eastern Studies. He obtained his BA from the University of California, and is fluent in Hebrew.

Appendix 2. Individuals Consulted

The following individuals were consulted during the writing of this paper. This paper does not necessarily reflect the views of the individuals or the organizations they represent. Information is accurate as of date of publication.

A. Robert Abboud	President, A. Robert Abboud and Company
Abdullah Abdullah	Deputy Minister, Ministry of Foreign Affairs, Palestinian National Authority
Ismail Abu el Ola	Acting Director General, PIEFZA
Ziad Abu-Amr	Member, City of Gaza, Palestinian Legislative Council
Samih Abid	Deputy Minister, Ministry of Planning, Palestinian National Authority
Hussein Agha	Senior Associate Member, St. Antony's College, Oxford University
Abdul-Malik Al-Jabr	Managing Director, PIEDCO
Jamil Al Tarifi	Former Minister, Ministry of Civil Affairs, Palestinian National Authority
Iman Al Wazir	Programme Management Officer, UNDP Gaza Office
Jihad Alwazir	Deputy Minister, Ministry of Finance, Palestinian National Authority
Maen R. Areikat	Director General, Negotiations Affairs Department, Palestinian National Authority, Palestine Liberation Organization
Claus Astrup	Country Officer, West Bank and Gaza, The World Bank Group
Sam Bahour	Managing Partner, Applied Information Management
Saeb Bamya	Assistant Under Secretary, Ministry of National Economy, Palestinian National Authority
M. Cherif Bassiouni	President, International Human Rights Law Institute, DePaul University
Limor Ben-Har	Senior Coordinator for Defense Policy, Israel National Security Council, Government of Israel
Marshall Bennett	Partner, Marshall Bennett Enterprises LLC
Goran Berg	Consul General, Consulate General of Sweden in Jerusalem
Christian Berger	Political Advisor, Near East; External Relations Directorate-General, European Commission
J. D. Bindenagel	Ambassador; Vice President for Program, Chicago Council on Foreign Relations
Gabriella Blum	Strategic Advisor, Israel National Security Council, Government of Israel
Michael Cherney	President, The Michael Cherney Foundation
Michael Cirulnik	Head of Economic Branch, Coordination and Liaison Administration, Coordination of Government Activities, Government of Israel
Ilan Cohen	Director General, Office of the Prime Minister, Government of Israel
Lester Crown	Chairman, Henry Crown and Company; Chairman, Material Service Corporation
Muhammed Dahlan	Minister of Civil Affairs, Palestinian National Authority
Giora Eiland	Head, Israel National Security Council, Government of Israel
Wadie El Masri	General Manager, PIEDCO
Eran Etzion	Chief of Staff, Israel National Security Council, Government of Israel
Emmanuel Giaufret	Head, Trade and Political Section, Delegation of the European Commission to Israel

Isaac Gurvich	Head of Economic Branch, Coordination of Government Activities, Government of Israel
Isaac Herzog	Minister of Housing and Construction, Government of Israel
Nadia Hijab	Former Executive Director, Palestine Center
Peter Hill	Head of Policy Team, Directorate for Strategy and Information, Foreign and Commonwealth Office
Yair Hirschfeld	Director General, Economic Cooperation Foundation
Samir Hulileh	Cabinet Secretary, Palestinian National Authority
Hiba I. Husseini	Chairperson, Al Mustaqbal Foundation and Managing Partner, Husseini & Husseini
Marwan F. Kanafani	Member, City of Gaza, Palestinian Legislative Council
Ahmad Khalidi	Senior Associate Member, St. Antony's College, Oxford University
Jawdat N. Khoudary	Chairman, Saqqa & Khoudary Co. Ltd.
Rami Khouri	Editor-at-large, The Daily Star; Member, Board of Directors, EastWest Institute
Zahi W. Khouri	Chairman, Palestine Cellular Communications, Ltd. / "JAWWAL"
Samer S. Khoury	Executive Vice President of Operations, Consolidated Contractors International Company S.A.L.
John Kjaer	Representative, European Commission Office for West Bank and Gaza
Michael A. Köhler	Deputy European Correspondent, External Relations Directorate-General, European Commission
Markus Kostner	Country Program Coordinator, West Bank and Gaza, The World Bank Group
Mahmoud Labadi	Director General, Palestinian Legislative Council
Geoffrey H. Lewis	Counsel, Prince, Lobel, Glovsky & Tye LLP
Amnon Lipkin-Shahak	Former Chief of Staff of the Israel Defense Forces; Former Minister of Tourism; Former Minister of Transportation
Daniel Lubetzky	Founder & CEO, PeaceWorks Foundation and One Voice
Maher Masri	Former Minister of Economy, Ministry of National Economy, Palestinian National Authority
Lamia Matta	Legal Advisor, Negotiations Support Unit, Negotiations Affairs Department, Palestine Liberation Organization
Ann Mawe	Vice Consul, Political Affairs, Consulate General of Sweden in Jerusalem
Frank Neuman	Member, Board of Directors, EastWest Institute
Talat Othman	Chairman and CEO, Grove Financial, Inc.
Sarah Ozacky-Lazar	Co-Director, Jewish-Arab Center for Peace, Givat Haviva
Shimon Peres	Vice Premier, Government of Israel
Ron Pundak	General Director, The Peres Center for Peace
Mazen E. Qupty	Attorney-at-Law & Notary
Nigel Roberts	Country Director, West Bank and Gaza, The World Bank Group
Sara Roy	Senior Research Scholar, Center for Middle Eastern Studies, Harvard University
Gideon Sa'ar	Member of Knesset; Chairman of the Likud Faction and Coalition, Government of Israel
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EWI is deeply grateful to the supporters of its Middle East Bridges Program. These individuals, foundations and governments have made the MEB – Private Sector Initiative and this publication possible through their generous funding.

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