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THE ECONOMICS OF DISENGAGEMENT

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Abstract

This proposal would enable Israel to disengage from the Palestinians without creating a Palestinian state that is the economic equivalent of Haiti. The essential idea is to augment Gaza by approximately 4,000 square kilometers by adding part of the Negev desert that is essentially uninhabited and to transfer 500 million cubic meters of desalinated water and water from the Mountain Aquifer to the Palestinians. This would make it possible to develop an industrial and service economy in Palestine that could support four million people and allow Palestinian refugees to return to an economically viable Palestinian State.

Extending Gaza so that it is economically viable and able to support a Palestinian population would permit a two-stage implementation of the Road Map to Peace. The first stage would turn the governance of this territory over to the Palestinian Authority and give it the opportunity to create the necessary institutions while the Gordian knot of Israeli settlements in the West Bank was being disentangled. In the second stage, at the conclusion of the peace negotiations, the Palestinian Authority would take control of those portions of the West Bank that will become part of the Palestinian State but are not already under its control.

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The Economics of Disengagement

Prime Minister Ariel Sharon recently proposed withdrawal from Gaza and parts of the West Bank. If this is handled correctly, this proposal has the potential of being a first step toward peace in Palestine. If it is mishandled, the proposal has the potential of creating a situation in Palestine that could set back resolution of the conflict. This could happen if the result of disengagement is a Palestinian state that is not economically viable and the current disparity of income and power remain. Under these current circumstances, a Palestinian state would be a nation of over three million people with per capita income of around \$1,300. In Gaza alone, there are approximately 1.2 million people in an area of 360 square kilometers. By contrast, Israel has six million people with a per capita income of nearly \$20,000. It has sophisticated industry and agriculture and well-defined institutions.

Israel may well be able to reduce the danger from terrorist attacks by unilateral disengagement and strict control of Palestinians remaining within Israel. However, if the result is a Palestinian state - with an economy comparable to Haiti - that exists as a police state within Israel, the political cost in Europe and perhaps even in the United States would be high. Conversely, if Israel can disengage from the Palestinians in a manner that creates the possibility of an economically viable Palestinian state, then the responsibility for the failure of a Palestinian state would shift to the Palestinians and, to a lesser extent, the Europeans and Americans should they fail to give the Palestinians the necessary aid to prevent it. The cost to Israel of creating this option is small.

There are four elements necessary for an economically viable Palestinian state to occur. The first is water, which should not be a difficult issue. One of the most important reasons for the scarcity of water in Palestine is the amount of water used in agriculture. In Israel, 63 percent of the water consumed is used in agriculture to produce four percent of the GNP. In Palestine, 62 percent of the water consumed is used in agriculture to produce nine percent of the GNP. On the one hand, there is not enough water in Palestine for agriculture to be an important sector of the economy and on the other hand, without agriculture, water is not scarce. It may not be politically feasible to reduce the amount of water already allocated to agriculture but it may be possible to

prohibit the further expansion of agriculture in the region. An additional 500 million cubic meters of water a year would give the Israelis and Palestinians an equal amount of water per capita if we disregard the water allocated to agriculture.

The cost to Israel of supplying the Palestinians with 350 million cubic meters of water from existing sources would be less than \$100 million a year. The cost for an additional 150 million cubic meters of desalinated water would also be less than \$100 million. Thus, the cost of supplying Palestine with 500 million cubic meters of additional water would be less than \$200 million per year, or about \$50 per person. Even if no water were allocated to the Palestinians from existing sources, the cost of 500 million cubic meters of water from desalination alone would be about \$325 million, or \$80 per person per year. Water should not be a “deal breaker” in the peace negotiations.

The second element is an option to expand the Gaza in a land swap. Isolating 1.2 million people in an area of 360 square kilometers is a recipe for disaster. If Gaza is to be economically viable at a reasonable cost, its land area must be augmented. This can best be done by adding part of the sparsely inhabited Negev desert to Gaza. The amount of land transferred in the initial process of disengagement is not critical. It will require time and capital to develop any substantial amount of land that is transferred.

However, in negotiations that would follow disengagement, Israel and the Palestinians could negotiate a swap of land in the Negev for land along the Green Line. A transfer of about 4,000 square kilometers of land would make the population densities of Israel and Palestine comparable. The amount of land at issue along the Green line is less than 400 square kilometers, though published reports suggest that the amount is on the order of 200 square kilometers. Thus, a transfer of 4,000 square kilometers of land could be seen as a generous gesture on the part of Israel.

An argument could be made that Israel is giving up desert for valuable land. However, the Negev would be supplied with sufficient water for a viable non-agricultural economy. The idea that the Negev has the potential of being developed is not new. David Ben-Gurion had a vision

of the Negev as Israel's southern California. The difference now is that part of the Negev would go to the Palestinians.

The third element is to invest in the capital and infrastructure necessary to make a Palestinian state productive. This would be the responsibility of the European Union and, to a lesser extent, the United States. Although there are many unknowns in predicting the cost, a rough estimate is possible. The rule of thumb is that it takes about \$30,000 of investment per job created. That means it would take about \$12 billion per million of population to provide jobs if 40 percent of the population is in the labor force. Investment in infrastructure would cost about \$6 billion per million of population. The total cost would be around \$18 billion per million of population to develop the Negev.

Investment in capital and infrastructure will also be needed in the West Bank. Ultimately, the amount of aid to Palestine is a political question that will be decided in the negotiation process. If there are stable political institutions to protect property rights, a substantial part of this investment could come from private sources.

The fourth element required is to create the necessary institutions. Augmenting Gaza would produce an opportunity to implement a political solution in two stages. One of the important tasks is to create an effective Palestinian security force and civil service. Since the population in the augmented territory of Gaza would be Palestinian and the borders could be secured, this would create an opportunity to turn over the governance of this territory to the Palestinians. That, in turn, would make it possible to create the necessary institutions while the Gordian knot of Israeli settlements in the West Bank was being disentangled. Foreign advisors could help train the security forces, the civil service, and the judiciary.

There are more than 200,000 settlers in the West Bank. Many of the settlements are isolated and located in areas where the population is predominately Palestinian. The settlers are an important political force in Israel. Relocating settlers and creating a contiguous Palestinian area in the West Bank will be a difficult and lengthy process. Defining the boundary between Israel and the

West Bank will require final-status negotiations. It may not be possible to resolve all these issues within three years.

On the other hand, there are fewer than 8,000 settlers in Gaza, and Gaza and the Negev have no historical ties with the Israeli people. There are no religious implications in withdrawing the settlers from Gaza. Prime Minister Sharon's proposal to withdraw from Gaza creates the possibility to start the process of developing the necessary institutions for a Palestinian state. However, this is not enough in and of itself. It would be very difficult, if not impossible, for 1.2 million people to develop a viable economy in a territory that has only 360 square kilometers.

This would make it possible to develop an industrial and service economy in Gaza that would allow Palestinian refugees to return to a Palestinian State. The responsibility for the development of the necessary institutions would then be placed on the Palestinians, although this task will require the institutional and economic support of the European Union and the United States. While the economic cost to Israel of transferring the land and water to the Palestinians is small, the potential political returns are high.

There is a danger that this proposal might be viewed as an Israeli gambit to resettle the Palestinian population in the Negev. The United States could play an important role by making it clear, as President Bush stated in his June speech, that it is committed to the vision of a two state solution with Israel and a Palestinian State consisting of the West Bank and Gaza. This would entail investment in Palestinian infrastructure in the West Bank before political issues in the West Bank can be resolved. This would clearly signal an American commitment to a Palestinian State that includes the West Bank. There is an opportunity to solve a problem that has eluded American diplomatic efforts since 1948.

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