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gunmen in EU office 2008 (Photo by AFP)

The First Word: It's not about the economy

deborah housen-
couriel
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Efforts to influence Palestinian policy using economic levers are missing the point.

Israel is determined to spearhead its political policy on Hamas by focusing overwhelmingly on economics. Other interested parties have followed suit. Since the election of Hamas at the end of January we have witnessed maneuvering by Israel, as well as by Iran and the Arab League, to influence Palestinian affairs using economic levers. Israel weighed in first with its decision to place in escrow the monthly transfer of approximately \$50 million in Palestinian taxes, until such time as Hamas meets the now well-rehearsed trio of political demands endorsed by the Quartet: recognition of Israel, re-affirmation of existing agreements and an end to terror. Next, Iran and Arab League states entered the fray with pledges of aid to bolster the Hamas-led PA without its having to capitulate politically - pledges which have yet to be fully honored. Finally, the United States and the European Union announced in early April (and the European Commission formally reiterated on April 18) that they would halt payments to the PA, but that aid would flow to the Palestinians through UNRWA, other UN organizations and various NGOs. The US has also emphasized that any ties with Hamas are prohibited by its Foreign Assistance Act, raising questions regarding the legality of the provision of banking or other financial services to the PA. Two additional indications of the role of economics in the Hamas debacle are the April 15 departure of Russia from the Quartet line forbidding direct financial support to the Hamas-led PA, and the April 18 announcement by Japan that it will discontinue direct aid in the wake of the suicide bombing at the Tel Aviv Central Bus Station. All the Western countries for which economic support of the PA has been an element of regional foreign policy have been scrupulous about appending each policy statement with the clarification that humanitarian aid to the Palestinian people will continue to flow, and that a humanitarian crisis will be avoided at all costs. Israel has backed these positions consistently. WHAT CAN the politicians possibly be thinking? There is a wide gap between the "economic" policies being carefully constructed in Washington, Jerusalem, Brussels and Moscow and the reality on the ground. Four areas of current dissonance are making these policies, and especially Israel's, inevitably ineffective in the long term. • First, Israel and donor countries have made careful distinctions among moneys transferred to the PA budget, disallowing "ongoing expenses" and "project funds" designated for

the development of infrastructure but allowing humanitarian aid; in fact, the lines between types of funding are inherently blurred. For instance, a significant amount of the prohibited budgetary funds is designated for payment of PA worker salaries, without which thousands of families will be without income - close to 70% of the population of Gaza, according to one estimate. Funds for infrastructure projects such as the construction of roads and clinics have clear humanitarian value, yet may potentially be diverted; and a portion of the PA budget is in any event designated for salaries of medical and other humanitarian workers. Moreover, even aid that is clearly defined and distributed through NGOs provides significant budgetary relief for the PA. ¶ Secondly, it is extremely difficult to supervise the money flow. Economic assistance to the PA has historically been transferred by individual states - the EU, UN agencies and others - for a wide variety of goals. Efforts by donor countries to constrain the PA to act in accordance with accepted standards of financial management and transparency have so far been unsuccessful. ¶ Thirdly, the linking of ostensible economic pressure to clearly enunciated political demands by Israel and the Quartet has not taken into account the objective legal difficulties. In legal terms, the PA is not entirely a " Hamas entity": Mahmoud Abbas, as PA chairman, continues to control many significant centers of power. In addition, the PLO, as controlled by Fatah and not Hamas, remains formally responsible for foreign relations, in accordance with both the Palestinian constitutional system and the Oslo Accords. Thus the PA itself has no status regarding political issues such as recognition of Israel or the reaffirmation of agreements. Hamas has taken advantage of these distinctions in order to avoid the Quartet's political demands. ¶ Finally, the economic hard line being pushed by the US, and so far supported by Israel, is creating a vacuum regarding future political developments. This trend is highlighted by three factors: Russia's clear departure from the Quartet position; the European Community's leadership in the field of humanitarian aid and its recent declaration regarding the admissibility of "technical" contacts with Hamas; and Israeli and US statements regarding an enhanced role for UNRWA as their proxy distributor of economic support to the Palestinians, including non-refugees. THE ULTIMATE irrelevance of the present Israeli and Western donor country positions, based on fuzzy economic wishful thinking, is written on the wall. There is no question that Hamas will not be cowed into political contrition by Israel's blocking of tax payments, nor by the end of donor payments for infrastructure projects. As long as the political consensus is that a humanitarian crisis will be prevented at all costs, Hamas can laugh all the way to the bank. No meaningful political progress can be made under these circumstances. The crucial question is, rather, what options do exist for the newly formed Israeli government as it forges policy. Israel's position must differ from the economically based policy models of the donor countries: As the avian flu mini-crisis has shown, Israel cannot afford to completely ignore its Palestinian counterpart. Issues of public health, sanitation and water quality are only some examples of the need for basic cooperation. Moreover, an Israeli "beggar thy neighbor" approach is neither morally permissible nor sustainable in the long run. That leaves three options: ¶ redirection of the present focus from the issue of an inflow of cash to the Hamas-led government to that of the movement of goods and workers between Israel and the PA. These are the real points of leverage for Israel; here exists relative independence from international pressure; ¶ treating Abu Mazen as Israel's "address" in his capacities as PA and PLO chairman. According to this option, Israel would no longer consider the PA a " Hamas-controlled entity." It would continue to boycott Hamas members in the PA, but would conduct administrative contacts with Abu Mazen and Fatah members in the PA; ¶ treating the PA's Hamas-led government and Legislative Council as Israel's "address." In this context, Israel would waive the three demands, declare that the PA (not the PLO) is the appropriate political contact point and begin negotiating with it. This option would entail a declaration that Israel is willing to negotiate a long-term cease-fire agreement in order to confront

Hamas with the inherent tension between its civic responsibility for the Palestinian population and its ideological principles. At risk for Hamas is the loss of any international legitimacy it may still have. MY ADVICE is for the Olmert government to begin by examining this third, most politically difficult option. It should reconsider the economic emphasis of its current political policy regarding Hamas, which cannot serve beyond the short term in influencing Palestinian behavior. Wise policy requires hard political choices. Ultimately, policies that promote the long-term economic well-being of the Palestinian Authority can benefit Israel as well. *The writer is an Israeli attorney and an analyst at the Reut Institute in Tel Aviv.*



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