# NOTEBOOK

## The economics of occupation

*By Bernard Avishai*

Ramallah, the hub of interlocking suburbs north of Jerusalem, is the current seat of the Palestinian Authority, or at least what's left of it: a deceptively bustling place where just over 290,000 Palestinians live. In the early 1970s, I would come to Ramallah to service my car. Today, it is illegal for Israeli citizens to enter, though foreign leaders and NGO officials routinely drive the fifteen minutes to get there from East Jerusalem, through the gray bunkers of the Kalandia checkpoint. The secret way around the closure—pretty much an open secret for any Israeli with an American passport—is to come in through the distant Hizma crossing to the east, blending in with Jewish settlers on their way home. I've come this way to talk business.

Benjamin Netanyahu ran for prime minister last winter rejecting a Palestinian state but promising to advance "economic peace." In his much anticipated speech at Bar Ilan University in June, he cautiously reversed himself on statehood but returned to his favorite theme: "Economic peace is not a substitute for peace, but it is a very important component in achieving it. . . . I call upon the talented entrepreneurs of the Arab world to come and invest here." For Netanyahu's boosters, the phrase often means little more than increasing jobs for Palestinians on Israeli construction projects, including settlements that ring Ramallah, and in tax-exempt industrial zones; as well as more opportunity for West Bank farmers to sell to Israeli fruit wholesalers (who, in a grotesque twist, then pad their profits by controlling the distribution of their produce in Gaza). Economic peace slyly implies that Israelis can have no "partner" for a political settlement until Palestine looks more like Delaware. Meanwhile, presumably, fuller bellies and fatter wallets will make Palestinians more tranquil.

Nevertheless, economic peace prompts a reasonable question. If a Palestinian state rises, will it *work*? Does not the prospect of sovereignty presume a class of resilient entrepreneurs and professionals, people who will build competitive businesses that will, in turn, employ a burgeoning population? The median age in Palestine is nineteen. It is likely that 2 million refugees will be returning in the event of a deal with Israel. Palestine will inevitably become an Arabic-speaking megalopolis spreading east toward Jordan from Jerusalem, yet interlocking with Israel, itself a mainly Hebrew-speaking megalopolis spreading north from Tel Aviv to Haifa. Together, Israel and Palestine will look something like greater Los Angeles. In that environment, fellahin harvesting their olive trees are going to seem beside the point. For peace to take root, in other words, a Palestinian business class will have to engender a civil society—people networked to the region and the world, developing a secular state as a counterpart to their combined enterprises. If Israel really wanted peace, wouldn't it do everything in its power to facilitate this?

The question is intriguing, not only because of what the Israeli prime minister is saying (or how he is bluffing) but because of what the Palestinian prime minister is doing. Salam Fayyad, the head of the PA's government since the summer of 2007, is a former World Bank official who's often called a "technocrat." He's really a kind of chief executive of this new class of managers and investors: people unafraid of commercial competition, even with Israeli firms, and who expect to eclipse and eventually displace the PA's Fatah leaders—the old cadres whose patronage, monopolies, and little corruptions during the 1990s all but guaranteed Hamas's success in the 2006 election.

Fatah held its first general convention in almost twenty years in Bethlehem on August 4, and a young guard more determined to cooperate with Hamas is now challenging President Abbas's sorry diplomatic record. Behind the scenes, however, it is Ramallah's business elites who are positioning themselves. Fayyad is not the only seasoned manager now taking a role in the PA: the new economics minister is Dr. Bassem Khoury, the former CEO of generic drugmaker Pharmacare; Dr. Mohammad Mustafa, another former World Bank official, now runs the Palestine Investment Fund (PIF), Palestine's $850 million sovereign wealth fund, put together with painstaking transparency from monies Yasir Arafat once controlled with virtually no oversight. Even outside the PA, the influence of senior telecom executives such as Paltel's Sabih Al-Masri and Abdul Malik al-Jaber, or private-equity mag-

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nates such as Sayed Khoury, is gossiped about, counted on. One sees the makings of a quiet revolution.

Sam Bahour, an Ohio-born management consultant who was instrumental in setting up Palestine's first telecommunications company and who, subsequently, pushed through construction of Ramallah's first shopping center and supermarket during the darkest days of the Al-Aqsa Intifada, does not approve of Fayyad's American-trained police force's peremptory jailing of Hamas cadres and their curtailment of civil liberties. But he does appreciate the law-and-order government Fayyad has established in West Bank cities, which the Israeli army tends to avoid. This is a kind of dictatorship of the bourgeoisie, Bahour admits, but the alternative is an Islamist command-state, like the one in Gaza, which offers no real hope and thrives on the uncertainties and brutalities of the occupation.

We are sitting in a café, nicely appointed in Art Deco style, which, Bahour tells me proudly, is the first of a chain, a kind of aspiring Palestinian Starbucks. But everywhere on the walls outside are pictures of young people, "martyrs." "Pictures of the Israeli army's innocent victims merge into pictures of suicide bombers and real armed fighters, looking sincere and ready for sacrifice," Bahour says. "This kind of thing works on our young people. When Israel attacked Gaza, my kids were on Facebook every night showing solidarity. We are surrounded by morbid memorials on every corner. We have got to create another reality fast."

Bahour means a Palestinian state that Palestinian entrepreneurs themselves create in the womb of, and in spite of, the occupation, much as Zionism created a state within the British Mandate occupation. He is on the board of Birzeit University. He is also part of a business delegation that's been petitioning the Israeli Defense Forces to open the crossings to Gaza, so that West Bank enterprises can get in. ("Put a real Palestinian store next to a Hamas-controlled tunnel, and the store will win every time.") One green shoot of "another reality," Bahour notes, is the surprisingly robust Palestine Securities Exchange, whose companies' market capitalization exceeds $2.3 billion.

But the first order of business is housing. You see construction cranes everywhere in Ramallah. Mustafa says the PIF, in partnership with a Saudi real-estate company, is planning to invest $400 million on the Al-Ersal shopping and business office complex in the heart of the city, a project that will generate thousands of jobs and provide contracts for dozens of medium- and small-sized enterprises, from contracting and engineering to design and supplies. The PIF will also be spending $200 million on the 1,700-unit Al-Reehan project to the north—"our first settlement," Mustafa said, winking.

Another hopeful new feature on the landscape—the one Netanyahu was himself grudgingly responding to—is the new president in Washington. Wherever you go in Ramallah you hear lively talk about Obama's leadership and confident declarations of how well positioned Palestinian business elites are to make the most of peace should he give them their chance. All of the business leaders I spoke with are eager for a peace treaty, and if Israeli leaders were seriously looking for partners they would look no further. Yet what's missing is precisely the Israeli cooperation that Netanyahu's talk of economic peace would require. The problem is not Israeli companies, many of which are as hungry to chase business opportunities with Palestinian companies as the latter are to engage with Israelis. The problem is the occupation, whose military tactics and settlement institutions have long been directed to the realization of Likud's Greater Israel, not a Palestinian state; whose logic is to repress Palestinian autonomy rather than help prepare the ground for it or just get out of its way.

If you spend time in Ramallah and talk to its emerging leaders, it becomes depressingly clear that if the Israeli government were intentionally trying to crush Palestinian entrepreneurship, it could not pursue the endeavor more perfectly. Palestinian businesses have not only been cut off from Jerusalem, their natural commercial center; they cannot count on the things any company needs to survive: access to obvious markets in Jordan and Israel, the mobility of goods, the capacity to recruit talent, basic resources for specialized manufacturing and services, and a reliable financial infrastructure.

I visit Hashim Shawa, the youthful general manager of the Bank of Palestine, two years on the job, back home after working at Citigroup and HSBC. The bank, founded by Shawa's grandfather in 1960, was closed down in 1967 because of its name, though Israel's Supreme Court finally allowed it to reopen fourteen years later. Now the largest Palestinian bank, it is listed on the securities exchange with a market capitalization of about $350 million.

Shawa is determined to expand the funds invested in Palestine's private sector. "If you want a barometer of our crisis," he tells me, "Palestinian banks have about $6 billion—and growing—of untapped liquidity, while Jordan's banks, at which Palestinians dominate, hold about $9 billion, not to mention mobilized Palestinians in Chile, Canada, and the United States. So our depositors' dollars should be leveraged ten times over, but our banks, altogether, have loaned only $1.5 billion. Why? People keep talking about increasing donor funds, and bloated NGOs are all over us here. But is anybody asking why those of us who make our living from private lending do not dare lend? Most of our private sector is in sleep mode."

Shawa's bank employs 900 and has 400,000 customers across the West Bank and Gaza, but since the "security wall" was built nobody holding a Palestinian I.D. can travel freely to Jerusalem. Of the bank's thirty-six branches and 2,000 point-of-sale terminals—the bank is Palestine's only franchise member of Visa and MasterCard—not one is in Jerusalem, Palestine's historic commercial center and notional future capital. Indeed, every Palestinian business suffers from being denied access to Jerusalem and open commerce with the Arab world. The $100 million Palestinian stone and marble industry is growing at an average rate of 8 percent a year and employs 15,000 people. Total capital investment in the industry is around $700 million—investments that should make the industry a leading international exporter, especially to Arab countries. But about 70 percent of its output goes to Israel, which treats it as a kind of captive supplier.

Perhaps the most egregious loss can be found in the tourism sector. Jerusalem gets under 2 million visitors a year. Florence gets 10 million. Sami Abu-Dayyeh, CEO of the $50 million Near East Tourist Agency, told me today's Jerusalem could comfortably absorb 6 million tourists but that the occupation precludes expansion of the industry, especially for affluent Muslim tourists. This means forgoing billions of dollars in income for Palestine and Israel combined. "I go to Lourdes in the south of France," Sami says. "It is so quiet, so spiritual. They have nothing that compares with Jerusalem. But you come here and everything is so noisy, so crazy, so pathetic." Yasir Barakat, perhaps the Old City's preeminent merchant, told me the district's approximately 400 shops are barely hanging on, while hard-line Jewish groups are buying them up. His married daughter now lives in Dubai; he fears that his sons will not stay. "Let's be honest. There is no give-and-take anymore. The Jews think this all belongs to them and that's that." ("United Jerusalem is the capital of the Jewish people in the State of Israel, and our sovereignty over the city is not subject to appeal," Netanyahu declared, defying the U.S. State Department, on July 19.)

What's more, Palestinian entrepreneurs lack mobility within the West Bank. One hears terrible stories about the more than 600 obstacles, checkpoints, and routine closures enforced by the IDF: women in labor, relatives missing weddings. To Bahour, who earned his M.B.A. at Tel Aviv University, the problem is even worse for businesses than for private individuals. The supermarket he built, called Bravo, also was designed to be a chain. There are five Bravo markets, owned by a division of the Arab Palestinian Investment Company (APIC)—a dominant part of Palestine's economy whose businesses include consumer goods, car importing, and building materials. Ali Aggad, APIC's chief operating officer, told me despairingly that there should be fifty markets by now, that the inventory-management systems Bahour originally put in place were really meant to give rise to "a business ecosystem." Bravo is a natural channel for new food-processing companies and for hardware, marketing, and branding firms.

But supermarkets require a complex web of logistics—the transportation infrastructure must be fairly reliable—and Bravo's systems are worthless unless suppliers can restock its shelves promptly. "The most terrible cost of occupation is what businesspeople call opportunity cost," Bahour says, "the wealth we *could* be generating. How do you convince investors to expand the business when you cannot assure them that produce will not rot on a truck, stranded at one of five checkpoints along the road from Ramallah to Nablus—and all to protect Jewish settlers on hills *between* Ramallah and Nablus?"

Talent can rot, too. Yahya Al-Salqan is a former Sun Microsystems executive, the founder of Web portal Jaffa.net, and one of Ramallah's biggest developers of custom software (his clients include the Palestinian court and school systems). He explained that his employees—as well as Palestine's 1,200 yearly computer-science graduates—cannot become "world class" without the chance to sell to the Gulf states or partner with Israeli companies. Nor can he simply recruit talent from abroad: astonishingly, Israel actively discourages the return of even experienced managers and professionals from the Palestinian diaspora. Bahour had to wage a fifteen-year battle against the government to stay in Ramallah after his series of tourist visas expired. (Recently, he got his Israeli-issued Palestinian I.D., which means he can finally visit his family in Youngstown, Ohio. But it also means he cannot travel freely to Jerusalem.)

Most top business managers in Ramallah have acquired foreign training, which often means they have foreign spouses or grown children who live abroad with foreign passports. Israeli immigration laws make their lives miserable. Anan Anabtawi, the head of NAPCO (APIC's aluminum-materials company), chain-smoked as he told me, "I have this businessman's card that allows me and perhaps a thousand others some travel opportunities, through the Ben-Gurion Airport or the Allenby Bridge. I still have to apply for permits to come and go, which may take ten days, so how do you plan a meeting? But, anyway, at least I can get to Jerusalem. My wife has an Israeli I.D. because she was born there. Her mother was British, and we made sure that all our kids were born in England so that they'd have British passports. This means my kids—seven, four, and two—come on a tourist visa and have to leave and return every three months. When my oldest becomes sixteen," Anabtawi continues, "he'll not be permitted in Palestine *or* Israel. My wife applied for family reunification and it was rejected twice. My son already thinks I'm an obstacle in his life, because when he wants to visit his grandfather across the line I often have no permit and have to say no. And you ask, Should Jordanians *invest* here?"

NAPCO is planning a subsidiary in Algeria that Anabtawi believes will be comparatively easy to run. His company has a 300,000-square-foot facility near Nablus that makes aluminum windows and facings, critical to the construction of large buildings. Without explanation, the IDF recently prohibited its coating chemicals; its anodizing chemicals, which can also be used to make explosives, have been prohibited since 2001. "What do they think, that we're making *Qassams*? I told them they could put cameras on our line, or that we'd pay to have IDF guards patrol the factory, or that we'd figure out ways of working with chemicals diluted to 20 percent of the recommended standard. We are still on the verge of just shutting down. And every morning, when I put on my underwear, I think: Will these look new enough if I am strip-searched in the booth outside my own factory? As if they don't know who I am by now."

This seemingly arbitrary treatment crops up in dozens of ways, disrupting, inevitably, the trust underlying routine financial transactions. The minute business seems "as usual," it isn't. Suddenly a component or a process is declared illegal. Or you cannot get to the ports. Or settler violence in the heart of Hebron, the West Bank's largest city, causes the closure of its once flourishing market. Or a customer in Ashdod doesn't pay the 200,000 shekels he owes you, claiming he was "harmed" by the Gaza violence. You are managing four currencies—shekels, euros, dollars, and Jordanian dinars—and cannot hedge them. Hashim Shawa told me that his correspondent bank in Israel, which ordinarily accepted the Bank of Palestine's excess cash shekels, suddenly cut ties, anxious about armored cars delivering piles of "Palestinian money" that Israeli victims of a suicide bombing might be tempted to sue for. The result, Shawa told me, is the loss of about $1 million a year in interest, about 5 percent of the bank's net profit. "The banks that are thriving are the informal, black-market banks funding the Hamas people who manage the tunnels from Gaza to Egypt," he said, sighing. "They offer 20 to 30 percent a month in interest."

Finally, there is Israel's refusal to share the business community's most urgently needed, if least tangible, resource: electromagnetic spectrum. Palestine's biggest industry is telecom, and its preeminent company is Paltel, the $650 million telecom conglomerate. Revolutionary in scope, Paltel supplies cell-phone services, broadband, and advertising media. It is also a kind of finishing school for managers. Ammar Aker, CEO of Jawal, Paltel's cellular company, told me that he sees the company empowering entrepreneurs of all sizes. "Mobile equals freedom," he said.

What this industry needs most of all is expansion and competition. Accordingly, the Palestine Investment Fund has partnered with companies in the Gulf to launch a cell-phone provider, Wataniya, to compete with Jawal. More than $300 million in permits and infrastructure is already in place. The company is ready to go. Israel, however, will not free up the necessary spectrum, which it agreed to do in the summer of 2008, or release the last pieces of necessary equipment from the port. "We grew to 1.5 million subscribers because of technology innovations," Aker told me, "but we were always promised more frequencies. Israel is pressuring us to share our frequencies with Wataniya, which is in turn accusing us of hegemony. But we don't mind the competition, and hate it that Wataniya might just give up. We have 4.8 megahertz, and they want 2.4. How can we share half our bandwidth and expand?"

As of this writing, the Israeli government is once again promising to release the bandwidth to facilitate Wataniya's launch. But the telecom industry is too important to Palestine's economy to develop as an afterthought to another state's security strategies and not to give its own corporations preferential treatment (Israel's cell-phone companies compete openly—unlicensed by the PA—in Israeli-controlled Palestinian territories). "Spectrum is just as occupied as the land and water. International law should apply," Bahour insists.

"We cannot live apart from each other. We are here, they are there," Ali Aggad says. Already 80 percent of Palestinian exports go to Israel, and 90 percent of imports come from it. I asked Aggad whether this augurs well for a common market. "Yes," he said, "if there is equal partnership." There could even be a common currency, with Jordan brought into the mix: "We have business partners in Israel. We are on excellent terms. It is the politicians who won't leave us alone." What Aggad means, of course, is that it is mainly Israeli politicians who won't leave them alone. But you also get the feeling that his Israeli business partners are coming to mean the most to him—that there is something decent and intimate in the reciprocal relations imposed by market discipline.

The idea that businesspeople produce tolerance as a by-product of their self-interested innovations is, granted, a quaint Victorian conceit: even Marx and Engels wrote in the *Communist Manifesto* that the bourgeoisie's "universal interdependence" made "national one-sidedness and narrow-mindedness become more and more impossible." Yet it is hard to think about the intense grievances Palestinians and Israelis have held against each other, and especially Palestinian rage against occupation, and not feel a measure of relief to hear business managers speak of individual, abstract, and instrumental relations: the practical exchanges required to create wealth. The point is, you have to start somewhere, and when people have reasons to dislike each other they can at least like each other's money. ■