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**Economic Aspects of the Security Barrier**

Construction of the security barrier on the West Bank has won the support of the majority of the Israeli public because the barrier is perceived as the most efficient response to the terrorist attacks plaguing the population. Another argument recently voiced in its defence is that the barrier represents more than a necessary security measure: Included are economic benefits because its erection effectively severs the two economies from one another, an act that, according to this approach, is requisite for the renewal of Israel's economic growth. The present authors argue that, to the contrary, this argument lacks substance. In their view, the economic benefits of the fence are dubious. Furthermore, along the barrier's current route, the damage it causes outweighs any of its advantages.

**Is a significant decline in the level of terror a sufficient condition for renewal of growth?**

Israel's economy is still caught in the longest and deepest economic recession in its history. Three discrete factors engendered the crisis: the worldwide economic turndown, local macroeconomic policy and the *intifada* (especially the terror campaign waged within its borders). Economists differ as to the relative contribution of each factor to the crisis but, despite these differences of opinion, few disagree as to the crucial input of the geopolitical context. Proponents of a bleaker assessment of its influence (including the present authors) are convinced that a significant decreased in terror attacks within the heart of Israel will be insufficient to restore a sense of security and the confidence of the international business community, ingredients mandatory for the economy's return to growth (that is, long-term continuous and stable growth in GDP per capita). This approach states that local consumers as well as local and foreign producers and investors must be convinced that, first, the Israeli-Palestinian conflict has returned to the path leading to a peaceful political solution; and second, this time, contrary to the experience of the last decade, the process is indeed irreversible. In the absence of a political process, construction of the security barrier, irrespective of its military effectiveness, is inadequate to guarantee this condition.

Those discounting the importance of the *intifada* are convinced that we can differentiate between the overall effect of the lack of a political agreement accompanied by one or another level of terror, with or without a political process (similar to the previous decade), and the influence of suicide attacks within Israel. The absence of a political process verily prevents full exploitation of the economy's growth potential but, in order to revive growth at a "reasonable" rate, it is sufficient to eliminate attacks (the

barrier's objective). A visible reduction in the rate and severity of suicide attacks is expected to return security and economic stability as well as to rehabilitate the Israeli market's status in the international arena, a vital key to its economic future.

### **Is security separation synonymous with economic separation?**

Economic separation means the prevention of free movement of goods and labour between markets and the channelling of these "goods" through border crossings that are fully controlled by the respective authorities. Although the security barrier (and certainly those sections currently under construction) will obviously be an "efficient" instrument of economic separation in this sense, its operation diverges significantly from what is required to achieve economic goals. Such a policy does not require a physical barricade, let alone a continuous fence. Even if the fence were to be raised for these purposes, its physical characteristics need not be as inflexible or severe as those of a defensive barrier. Economic separation requires neither high concrete walls nor a network of obstacles tens of meters wide. The approach most appropriate to achieving this goal is an economic boundary between national markets. This boundary need not be synonymous with a defensive perimeter and certainly not follow the route of the current fence.

### **Is reduction of terrorist attacks a sufficient condition for the renewal of growth?**

Even if we assume that construction of a security barrier will eliminate the possibility of suicide attacks within Israel once and for all, it is quite doubtful that personal and economic security in Israel, but especially the stability perceived by the international business sector, will return to the level enjoyed prior to the outbreak of the *intifada*. The second half of the 1990s witnessed terrorist as well as suicide attacks; yet, despite the violence, the Israeli economy surged forward while establishing its position in the world market. However, we should remember that during that same period, the peace process was at its peak. Terrorism was largely perceived at the time to be a passing event (despite its seriousness), fluctuating with essentially positive developments on the road to a political solution that would alter the face of the Middle East. It is doubtful that a reduction in the scope of violence to the level previously observed, without equivalent movement in peace process, will be perceived as a permanent improvement in the level of risk or as adequate to restore faith in the market. Moreover, even if a serious political process should materialize, we estimate that much time will be required for the international business community to become convinced that the process is truly irreversible this time, given its previous experience.

### **Will the barrier guarantee political stability?**

Although this question is only superficially divorced from economic analysis, it lies at the core of the "moderate" stance. Therefore, it is incumbent upon us to dispute its validity. Furthermore, the fence currently under construction entails significant costs for the Israeli economy (about NIS10 billion,

depending on the route), a clearly heavy financial burden. Hence, we should examine its benefits against its costs, even in the absence of a firm methodology for quantifying that assessment.

- There is little doubt that the fence will interfere with the entry of terrorists into Israeli territory. Yet, military leaders are unable to guarantee that the fence will be hermetic. Restoration of security (with respect to its economic effect) is not simply a matter of the number of attacks or their death toll; it involves, first and foremost, the image perceived by the various economic sectors operating in Israel and, most importantly, in the world. We predict that as long as terrorism continues, even at a lower incidence, it is doubtful that a sense of permanent security will return to the economy.
- Reduction of terrorist attacks is, in itself, an inadequate solution. Isolated events sometimes induce systemic repercussions, similar to those initiated by the horrible attack at Tel Aviv's Dizengoff Centre in March 1996. The perpetrator of that attack left the Gaza Strip, which was then as it is now, separated from Israel by a fence, riding in an automobile that had been inspected at an IDF barrier.
- There is little assurance that suicide attacks will in fact decline. Attacks, as the defence system repeatedly declares, are dependent on two factors: capability and will. The security barrier is definitely likely to interfere with capability, but is it also likely to enflame the will to undertake such actions, especially when considering the difficult impositions placed by the fence's current route on the daily life of the Palestinians.
- Construction of the security barrier is liable to force terrorist organizations to develop alternative and innovative means to circumvent the barrier. These include steep-trajectory weapons such as improved Kassam missiles capable of reaching the West Bank, terrorists imported from other countries, missile launchings by the Hizbullah, and so forth.
- It is reasonable to assume that irrespective of the barrier's construction, terrorist organizations are currently and will continue to be assiduous in their attempts to launch a mega-attack of the type that a fence cannot prevent. Israeli and international experience shows that intelligence forces are incapable of predicting dramatic events and developments of this sort.

### **The Political Repercussions of the Security Barrier and Their Economic Implications**

As stated, the condition required to take full advantage of Israel's growth potential, even if accepting the moderate position, is meaningful progress toward a political solution of the conflict. Erection of the separation fence, especially along its planned route, will strain attempts to revive the peace process. Delay means, in effect, many more years of growth below the market's potential and delay of its exploitation. It therefore remains unclear as to whether the present value of the increase in national income emanating from this step is at all positive in comparison to the strategic alternatives.

Construction of the security barrier along its current route seriously undermines Israel on the political front, and undermined its stance prior to the opening of discussions on the issue in the International Court of Justice in The Hague. This is a sufficient impediment to transition to “reasonable” growth even if the fence does significantly reduce the level of terror. It is therefore quite likely that “less” fence (for instance, a shift to a less problematic route, such as along the Green Line) and “greater” political efforts will ultimately facilitate more rapid transition to accelerated and permanent growth. It can be argued, of course, that with revival of the political process, the fence be “realigned”; however, it is obvious to all that such shifts are complex, slow and expensive to execute.

### **Will construction of the security barrier reduce terror at minimal cost?**

Construction of the fence has been estimated at a cost of NIS 10 million per kilometre. The total budget depends, of course, on its length or, stated differently, its route. The sum is considerable, especially during a recession with its accompanying severe budgetary constraints. Building the security barrier along the Green Line can save millions. An appropriate assessment of the economic implications of the barrier’s location thus requires comparison of its benefits against the costs of alternative sites, that is, the current as opposed to substitute routes.

Assuming that an alternative route will reduce terror’s level and toll still further, we can estimate the subsequent contribution to Israel’s economy and weigh that contribution against the larger sums allocated to complete the fence along its present route. It is highly doubtful if such a comparison will indicate a meaningful return to the current route, and certainly not one that would justify such substantial differences in cost. Furthermore, we argue that the economic contribution of an alternative route, such as that along the Green Line, would be significant and positive:

- A route running along the Green Line, for example, would diminish (in comparison to current route) the terrorist threat because the damage to the Palestinian population will be less severe; therefore, such a route might prevent escalated in the motivation to harm Israelis.
- Such a revision might prevent further decline in Israel’s political situation and thus ease rehabilitation of the market’s position internationally. This event will improve the probability of realizing the “reasonable” rate of growth intoned by the moderate position.
- Departure from the present route will smooth the way to renewal of the political process and thereby hasten the transition to growth. In terms of present value, such a move appears to be highly preferable.
- The authors argue that the barrier’s currently planned route does not support a political solution to the Israeli-Palestinian conflict. Hence, if and when the peace process should continue, modifications of the barrier’s route will be agreed to by both sides (it will certainly follow the demarcation of a

political border between the two entities). Therefore, current cost estimates are inadequate; a revised estimate would include the additional funds required to dismantle and reconstruct the fence along the agreed upon route.