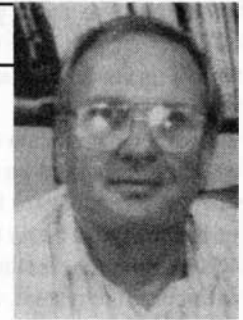


Interview: Oded Eran



New regional bank needed for Mideast development

Mr. Eran is deputy director general for economic affairs in the Israeli Ministry of Foreign Affairs. He was interviewed by William Jones on Oct. 9 at the Foreign Ministry in Jerusalem.

EIR: The peace agreements signed one year ago by the PLO and Israel occurred in the context of long-range economic agreements which were at least outlined at that time and would provide the basis for a major infrastructural program in the Middle East, in particular, on the West Bank and in Gaza. A certain amount of money was pledged as backup for those projects. Has the program really come off the ground? Or is it still in limbo? I'm talking in particular about the water projects, energy projects, transportation systems, etc.

Eran: You touched upon several issues. The first is the Palestinian context, which is very important, but obviously not the single economic aspect in the emerging new Middle East. As far as the Palestinians are concerned, there is an ongoing effort being conducted by the donors' group, that is, a number of states, members of the industrial world, the United States, the European Union, the Scandinavian countries, Japan, Saudi Arabia, a long list of countries, to raise financial resources for Palestinian development. About \$2.2 billion has for the time being been pledged. Right now we are dealing with three immediate issues in this context. One concerns the financial aspects of establishing a functioning police in the territories where the Palestinians assumed control. Secondly, the initial empowerment of the Palestinians in the five areas of the West Bank where they have also assumed responsibility, for education, tourism, health, welfare, as well as for direct taxation. And the third issue is the budget of the Palestinians in Gaza and Jericho for the next 12 months.

These are issues which have to be answered very quickly and are the immediate issues which the donors are dealing with. The next issue concerns the development projects. In the beginning things were on the slow side, but I think it is now gaining momentum. The Palestinians understand that they have to come up with a mechanism which will be able to absorb the various financial resources and would comply with the requests by the donors for transparency and accountability. I think that this is now on the verge of being solved and I hope that it will expedite the process by which financial

resources are channeled for the economic development of the territories.

Then we have the whole question of the economic development of the region, that is, infrastructure. For almost two and a half years there has been an ongoing process through the multilateral working group in Redwig, the Regional Economic Development Working Group, one of the five working groups established at the Madrid conference in the multilateral talks.

During the deliberations of this group, we, that is all the original members and the outside participants, have identified areas of great economic importance, such as tourism, infrastructure, agriculture. In these domains, a lot of work, mostly paper-work, has been prepared. The time has now come to translate some of these ideas into action. We will need two preconditions: One is the political circumstances which will allow such cooperation between various states of the region to be implemented. For example, if we are talking about integrating the electricity grids of the regional states, then we have to have the political agreement to go ahead and do it. There are obviously technical aspects to this question, but first we have to have political agreement between all those involved.

Secondly, we have to have financial resources. Here I want to refer to an idea which we have started to discuss among the regional members, that is, the Palestinians, the Israelis, Jordanians, and Egyptians. It has also been broached to the administration in Washington. That is the idea of a regional development bank. We think that such a bank is an excellent idea for at least two major reasons. One, the creation of such a bank will be a political signal of great importance to the region itself that there is a new era of cooperation. Secondly, this sort of bank could serve as a forum in which macroeconomic issues of the region are discussed, whether these be development issues, trade issues, or monetary issues. Thirdly, some of the existing international or multilateral mechanisms, such as the World Bank, cannot provide all of the answers to the development needs. For example, the Palestinians do not qualify for World Bank assistance because they are not a bank. Israel is not qualified or eligible for World Bank investment because we are already above the per capita annual income, which is the yardstick the World

Bank uses for its lending. There is very little the World Bank has done over the years in regional projects. They can provide help to the regional states, but when it comes to regional cross-border projects, it's almost an area with which the World Bank doesn't deal. Obviously, it cannot provide the forum for the discussions to which I referred just a minute ago.

So we believe that this is a very good idea. Tomorrow morning, there will be a meeting in Cairo where this issue will be dealt with by the regional members, that is, the Palestinians, the Jordanians, the Egyptians, and the Israelis. I hope very much that we all four reach a consensus that will support the idea. Then we will create a unified position which we will submit to the United States and to other non-regional potential members in such a bank. Basically the idea is to have 60% of the paid-in capital from the non-regional states and 40% equally divided among the regional members of such a bank.

EIR: This will then be open to other states in the region?

Eran: It will be open to all regional states to participate, if they so wish, in the paid-in capital of such a bank. The more, the better. Because if the bank is to provide a forum for discussion of macroeconomic regional problems, then obviously the more participants, the greater cooperation, and the greater integration we can achieve through such a mechanism. This idea should not be seen as coming at the expense of any existing mechanism, because I think the World Bank can continue to play a major role in the economic development of the region.

So these are two preconditions: the political circumstances and the availability of the necessary financial resources. We are making progress toward this end. There will be, as you know, a very important conference at the end of this month in Casablanca, the North African and Middle East economic summit, in which both the political leadership and the economic leadership of the world will participate. The idea is to have a sort of match-making between these companies, mostly the multinational companies, and the projects which will be represented and submitted on the Middle East in Casablanca, and to attract as much interest as possible in these projects.

You are right in placing emphasis on the water problem. This issue is going to be in the center of the Middle East for the next 25 years. We have two sets of problems. The one is the immediate one and the other is more strategic and long-term, to find long-term solutions to the shortage of water. By the long-term problem, I mean the one between us and the Kingdom of Jordan. There are two major issues on the agenda right now. One is the question of borders and the other is water. We have to find immediate answers to some of the water requirements of the Jordanians, considering the growth of the population of the Middle East. We have, as you may know, one of the highest birth rates in the world, if not the

highest, generally speaking. And the acceleration of economic activity creates the need for urgent solutions to the shortage of water. For the immediate problem, we can find partial solutions within the existing sources of water, such as better utilization of the current sources, water conservation, water management, recycling.

But in the long run we have to find solutions which go beyond these methods which I have indicated. That will mean either importing water, for example, from Turkey, or desalination. Both of them demand significant financial resources and there is a need for all of us, both inside the region and outside, to look at the best way, or the most economical way, of creating new water. This is one of the major issues, if not the major issue, which, if not solved, could be detrimental to the development of peace and stability in the region.

EIR: What do you think then of the revival of the idea of the Mediterranean-Dead Sea Canal as a means of resolving the issue long-term?

Eran: There are three canals which are being discussed. One is what is called the northern route, running between the area of Haifa on the Mediterranean Sea to the Jordan River just below the Sea of Galilee. This would be the shortest version and would be dug or created for the purpose of desalination. The second one is a canal running between an area around the Gaza Strip to the Dead Sea. And the third one is called the Red-Dead Canal, running between the Red Sea and the Dead Sea. Each of these has its own merits, and we feel that in order to decide if a canal is needed, and which one is the best solution for some of the issues like desalination, tourism, and other purposes, there is a need for a feasibility study which will analyze the economic aspects and the financial aspects of all three options and come up with an answer as to: a) whether such a canal is needed, and b) if it is needed, then which one should be chosen.

There are supporters for each one of the ideas, but there is a need for an economic analysis. We suggested that the World Bank or a combination of the World Bank and other financial institutions take it upon themselves to find out which one is better, and which one would be the best answer to all the needs to which I have referred.

EIR: There has been much talk about some of the obvious areas of infrastructure, energy, electricity production, tourism, but in the long term, there perhaps must be a broader vision as to what purpose the population in the area will be dedicated, of shifting the potential labor cadre which exists in the area into some form of high-technology-oriented manufacturing and agricultural projects. For instance, the educational level of the Palestinians, as I understand, is, on average, very high compared to many Arab countries. It would seem that it ought to be possible to utilize that Palestinian potential, combined with the scientific and technical know-how of Israel, to develop a tremendous technological capability

ity in the area as a whole. How do you see the future, say ten years down the road, in this respect?

Eran: We have to be realistic and look at the potential of each one of the components of the region. Right now it would be very useful to try and exploit tourism for creating an immediate source of additional income. . . . This, of course, entails creating a certain amount of the necessary infrastructure, but that is relatively easy to do.

In the long run, I think you are right. There are areas where we can create a greater industrial infrastructure. I would start with a concentration on small and medium-size businesses and expand from there. Another area is agriculture, where a lot can be done to raise the level of agricultural production in the region. Right now the region as a whole imports about 90% of its food needs, and this can be changed very dramatically with the improvement of the methods and with the improvement of the water economy, that is, the use of current resources and then the creation of new sources of new water. These are three areas on which I would concentrate, and obviously, on infrastructure development. The Middle East is a desert in more than one sense, I would say. It is a desert, literally speaking, and it is a desert in infrastructure. There are no roads, railroads, airlines, between the various places, or not enough to force a greater economic activity. Therefore, the concentration on infrastructure in itself will create an added economic activity.

EIR: Two days ago, the Syrian foreign minister was on Israeli TV for the first time and had some very conciliatory things to say. There has been a divided reaction in Israel, but the relation with the Syrians is obviously the last link in the chain of agreements that have to be made in order to really secure a Mideast peace. How do you see the Syrian-Israeli relations developing?

Eran: I am very optimistic because I think that it is now accepted by both sides, Israel and Syria, that the only way of solving the conflict is by peaceful means. Once this premise is shared by the two sides, it creates a very distinct hope for finding a solution. Now I don't want to mislead anyone. There is quite a gap in the current position of the two sides, but I think that the U.S. is providing the services of an honest broker and together we can find a solution. There are certain things, which, to our mind, the Syrians can do. There are precedents. If there is an agreement between Syria and Israel, it won't be the first. It won't even be the second agreement between Israel and one of its neighbors. There is the Israeli-Egyptian agreement of course. There is an agreement between Israel and the Palestinians. I hope by the time we reach an agreement with Syria, there will be a third precedent, an agreement between Israel and Jordan, toward which we are pressing very rapidly. All these agreements have something in common, and that is, that the Arab side has understood the need for taking certain steps which will create in Israeli public opinion greater confidence about Arab intentions regarding

the long-term peace and reconciliation with the existence of Israel. In the case of Egypt, it was the dramatic journey of President Sadat to Jerusalem, his appearance in the Knesset, the Israeli Parliament. With King Hussein, it was similar, the joint appearance with Prime Minister Rabin on the lawn of the White House.

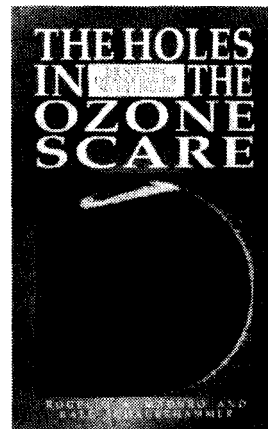
These are very important gestures which help to convince Israeli public opinion. And, as you know, Israel is a democracy. Therefore public opinion plays a major role in the decision-making of the political leadership. It's necessary to convince the Israeli public that there is a genuine wish on the Arab side for peace and reconciliation. This has been done to some extent in the interview which was given by the Syrian foreign minister to Israeli television. It is a very important step, I don't want to underestimate it, but it's very important that it be by other similar steps. For example, we fail to understand why President Assad refuses to meet face-to-face with the Israeli leadership. Why can't there be a meeting between foreign ministers? If the PLO and Israel can meet face-to-face and sign agreements as a result of this meeting, what is it that prevents the Syrian leadership from doing the same thing? It's very difficult to explain to the Israeli public opinion this lack of direct contact. The interview on the Israeli TV is important, but it's only the beginning of similar steps which we feel the Syrians ought to take.

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