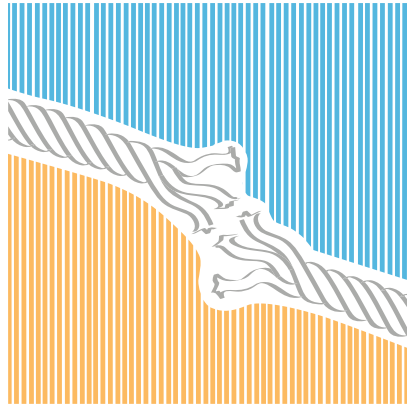


COST OF CONFLICT IN THE MIDDLE EAST



In cooperation with

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Preface

The objective of this report is to provide comprehensive estimates of costs of conflict and potential benefits of peace in the Middle East. In doing so, we have focussed on people of the region and not merely matters that concern states. This report is essentially about human security in the Middle East.

It is necessary to clarify what we mean by 'conflict in the Middle East'. In the first few decades after Israel's birth in 1948, the term 'conflict' essentially referred to wars and antagonistic relationship between Israel and Arab countries in its neighbourhood. Once Israel signed peace treaties with Egypt and Jordan and entered into negotiations with the Palestine Liberation Organisation, the conflict seemed to be narrowing in its scope. A decade ago, the primary actors in the conflict involved Israel and PLO. There was also the unresolved conflict between Israel and Syria and internal strife in Lebanon, which had regional implications.

Since 2000, the conflict has metamorphosed into several conflicts. The Palestinians are now represented by Hamas and Fatah, two organisations that are at loggerheads with each other, though at times they negotiate truce under the auspices of Arab countries. Since 2003, the US invasion of Iraq has added another dimension. In 2006, the exchange of missiles between Israel and the Lebanon-based Hezbollah further complicated the conflict. It is widely believed that Iran supports Hamas and Hezbollah and thus is present in the Arab-Israeli conflict through proxies. In addition, the President of Iran has publicly threatened to wipe out Israel from the map and the United States has admonished Iran for its development of nuclear weapons, amidst speculation about a possible US or Israeli attack on Iran's nuclear sites. Al Qaeda and its affiliated terrorist network have pronounced a war against 'Jews and Crusaders'. Though Al Qaeda had its origins in the developments in Afghanistan and Pakistan, its rhetoric, manpower and support base is very much about the Middle East. Thus, what was an identity and territorial conflict in one geography a decade ago has now expanded into a multi-dimensional, cultural and psychological warfare of global dimensions. If we look ahead, there is a risk of this conflict getting even more complicated. A resurgent Russia may want to assert its interests in the region. China has developed several economic relationships. If history is any guide, extensive economic engagement often leads to political and security repercussions. In this report, we have focussed on the Arab-Israeli conflict but also reflected on the growing complexity of the situation.

It is necessary to explain what we mean by 'costs'. In this context our emphasis on human security is very important. States are concerned about measurable costs such as those having a bearing on resource allocation, arms race, destruction of assets, among others. People are concerned about costs that have a bearing on their living conditions, such as security at cafes and dignity at check-posts, opportunities for education, damage to environment and social fabric. Some costs have monetary value. It would be insensitive and inappropriate to interpret some other costs in financial terms. For instance, it is possible and useful to measure the economic burden of refugees for both home and host countries. However, it would be inappropriate to measure the economic costs of death of children. It would be useful to measure

financial implications of farms and trees destroyed as they provide livelihood for farmers. However, it would be inappropriate to try to measure loss of biodiversity in terms of money. Life, of human beings and others in the ecosystem, is valuable in itself and not for the economic returns it may generate. Our report throws light on all such costs.

We have placed certain emphasis on opportunity costs. When people are involved in a conflict, their losses are not confined to what they have lost as compared to what they have. Their losses also include what they do not have that they could have had in the absence of conflict. In terms of opportunities for growth, economist Paul Collier has observed in his study of conflicts in Africa that a violent conflict reduces GDP growth rate by 2%. In the Strategic Foresight Group study on Cost of Conflict between India-Pakistan we had estimated 1% reduction in GDP growth rate for India. Our assessment was questioned by Indian economists who suggested that the losses would be closer to 2%. In the case of countries in the Middle East, the opportunity loss would be at least 2% reduction in GDP growth rate. Since, several countries in the Middle East have shown an ability to grow at 6%, we assume that a framework of peace and cooperation along with good governance and sound economic policies would enable the countries in the region to have a GDP growth rate of 8% per annum. Our report obviously goes beyond GDP to examine complexity and depth of issues in their various dimensions.

We have used 1991 as the benchmark year for most of our calculations. We believe that the Madrid Conference provided a historic opportunity to reverse history in the Middle East. It did not deliver hope since the conference was a one-time event. Had there been a semi-permanent conference, the outcome might have been different. Peace was possible then and it is possible in the next couple of years. Therefore, we have made some estimates using 1991 as the basis and another set of calculations using 2010 as the basis.

This report does not advocate any particular formula to resolve conflicts in the region. It is for the stakeholders to design the solution they can live with and indeed determine what future they want. We have presented four scenarios for 2025, if alternative courses of action are followed.

The fact that this report was supported by the leaders or governments of four neutral countries – Norway, Switzerland, Turkey and Qatar – and made possible by the intellectual participation of more than 50 distinguished experts from the Middle East speaks for their concern for truth. The election of a new President of the United States, as well new leaders in the region, provides a window of opportunity in 2009. It is not only for people of the Middle East but also for leaders of the international community to decide if they want to put an end to costs and accrue the peace dividend. We hope that this report will prove to be a useful instrument for the choices they make.

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