

ECONOMIC IMPLICATIONS OF THE ISRAELI-PALESTINIAN CONFLICT ON  
EGYPT. CASE STUDY: AID AND CROSS-BORDER TRADE

by

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A Thesis  
Submitted to the  
Graduate Faculty  
of  
George Mason University  
in Partial Fulfillment of  
The Requirements for the Degree  
of  
Master of Science  
Conflict Analysis and Resolution  
Master of Arts  
Conflict Resolution and Mediterranean Security

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Date: \_\_\_\_\_ Fall Semester 2015  
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Economic Implications Of The Israeli-Palestinian Conflict On Egypt. Case Study: Aid  
And Cross-Border Trade

A Thesis submitted in partial fulfillment of the requirements for the degree of Master of  
Science at George Mason University, and the degree of Master of Arts at the University  
of Malta

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## **DEDICATION**

This dissertation is dedicated to my loving family for their continuous encouragement and support throughout my years of studying.

## **ACKNOWLEDGEMENTS**

I would like to take this opportunity to first of all thank my parents who supported me throughout my several years of studying in Malta. Also, I would like to thank the whole staff of Mediterranean Academy of Diplomatic Studies and George Mason for proper coordination of activities and constant provision of valuable advices and feedback. I would like to express my deepest appreciation to my friends in Malta and abroad, who also supported me a lot.

Most of all I would like to thank my thesis supervisor Dr. Derek Lutterbeck for the help and guidance he provided to me, without his advices and coordination I would not be able to properly finish the dissertation. And last, but not least, I would like to thank all those who have contributed in any way, shape or form for successful completion of this research.

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## LIST OF ABBREVIATIONS

AFTA	Arab Free Trade Area
CIA	Central Intelligence Agency
COMESA	Common Market for Eastern and Southern Africa
DFLP	Democratic Front for the Liberation of Palestine
EU	European Union
GDP	Gross Domestic Product
IDF	Israeli Defense Forces
IHH	Turkish Foundation for Human Rights, Freedoms and Humanitarian Relief
IMF	International Monetary Fund
ISIS/ISIL	Islamic State of Iraq and Syria/Islamic State of Iraq and the Levant
MNNA	Major non-NATO allies
MOU	Memorandum of Understanding
PFLP	Popular Front for the Liberation of Palestine
PLO	Palestine Liberation Organization

PPP	Purchasing power parity
PRM	Palestinian Resistance Movement
SFD	Social Fund for Development
TIFA	Trade and Investment Framework Agreement
UN	United Nations
UNCI	Unified National Command of the Intifada
UNCTAD	United Nations Conference on Trade and Development
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
US	United States
USAID	United States Agency for International Development
WTO	World Trade Organization

## **ABSTRACT**

### **ECONOMIC IMPLICATIONS OF THE ISRAELI-PALESTINIAN CONFLICT ON EGYPT. CASE STUDY: AID AND CROSS-BORDER TRADE**

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George Mason University, USA, 2015

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This research studies one of the most complicated conflicts in the world – the Israeli-Palestinian conflict. The protracted conflict has brought lots of suffering for both communities and the region as a whole. Such conflicts have a lot of effects not only on neighboring countries, but on the rest of the world as well. The dissertation focuses on Egypt and relation of its economy to the conflict. The study tries to present an in-depth review of major events which happened during the conflict and their relation to economic factors. It observes a transition from war mentality to friendly economic and social ties.

Economic relations in the Middle East region are based on many aspects, and the conflict and its consequences play a huge role in their strengthening or weakening. Because Egypt was directly involved in the war, it tries to preserve its relations with both sides on an equal scale. The country plays a huge role in peacemaking efforts; it is a key



mediator between the parties. The research will present a case study of American aid and cross-border trade in the Gaza Strip.

This dissertation produced several research outcomes through an extensive study of relevant literature and further analysis. Also, a number of key findings, which include different aspects of relations among the two sides of the conflict, Egypt, the rest of the region and major international players were produced. These relations include a variety of important agreements which strengthened the relations among the key players. The research also draws attention to the need of resolution of the conflict, as it already touched many families, communities, and countries.

## **CHAPTER ONE INTRODUCTION**

In this dissertation the issue of the Israeli-Palestinian conflict will be discussed. The conflict have caused not only a lot of suffering for the peoples from both communities, but also resulted in huge economic losses for the region. There are many reasons for choosing Egypt as a case study, but two I find prevailing. The first one is the geographical proximity of Egypt to Israel and Palestinian lands, which had resulted in several wars and economic losses for Egypt. The second reason lies in the fact that Egypt has been acting as a mediator between the two conflicting parties in past years and it can be clearly seen that the country wishes this conflict to be finished. Taking into account these major factors, Egypt nowadays can be seen as a perfect example of a peacemaker state (nonbelligerent).

The main objective of this thesis is to explore economic aspects that had an impact on Egypt, which were caused by the conflict. There will be a lot of different arguments, expressions and opinions of well-known people, different statistics and figures. One of important goals is to study main events that happened throughout the conflict, which had an effect for the region and Egypt specifically. Also, it will be clarified how Egypt developed and which economic problems were encountered during the conflict up to the present time. A case study of United States Agency for International Development (USAID) aid to Egypt together with cross-border trade with the Gaza Strip

will be analyzed. The main question is: what are the economic consequences of the Israeli-Palestinian conflict for Egypt in relation to American aid and trade across the border? There is a need to explain how the research was compiled and written, but first it is important to describe the roots of the conflict itself.

Deprived for thousands of years of own state and native land, the Jews gradually began to return home to the Promised Land, but there was no one waiting for them with open arms. Natural and legitimate desire of the people for self-determination within their own state has continued for millennia. In Russia there is a saying, “a holy place is never empty,” and even more so during the absence of the Jewish people the Holy Land was not left blank. It was fully settled and inhabited by the Arabs, who also consider it as their homeland. If one imagines that aliens suddenly arrive on earth, saying that they previously lived here and now want to live again, current inhabitants of earth will begin to implement desperate resistance, which, in fact, is happening nowadays in the Middle East with exaggerated ethnic and religious overtones.

Intransigence of the parties, and in the first place on the Arab side, is due to black-and-white understanding of the history of civilization facing the past. Leaders of the opposing political forces are reluctant to dialogue. Israel’s position – “We will be here,” while the Palestinian’s – “Israel will not be here,” and all the rest is a short-term respite in the great war, in which the global peace in the region in its current form, perhaps, is only in the Israeli interests. Almost the entire Arab world is in favor of the protection of Palestine from the “aliens” and not daring to see a future without war. This conflict has brought a lot of grief to peoples and serious economic losses in the region as a whole and

in each country of the region on its own. Now, it is important to explore how the research will be organized.

First of all, the literature review will be focused on the literature which was used in writing of the dissertation. It will be discussed and analyzed. The literature review will be focused primarily on the Arab-Israeli conflict, its relation to neighboring countries, Egypt, and the region itself. Opinions of a number of authors will be provided and discussed in a broader context. Needless to say, this conflict is among the most complicated (or indeed the most complicated) in contemporary history of the world.

The following chapter will discuss methodology of the research. A set of methods of scientific knowledge which will be used to achieve the objective of the dissertation will be shown there. Each detail of methods used will be justified in order to confirm the ability to choose correct choice of research methods for the chosen subject, which determines the accuracy of the research's results.

Theoretical underpinning will be discussed in the succeeding chapter. Game theory of conflict was chosen for the research, as it reflects most important aspects of conflict in conjunction with economic consequences. The theory will clearly illustrate how conflict can influence economy of a certain country and the region itself, and why it is important to put an end to the conflict.

Next chapter will be focused on consequences of the conflict for region and the rest of the world. It will include presentation of historical aspects of growing Arab Islamism and its consequences. There will be views and opinions of scholars,

politicians, and so on. The chapter provides a clear statement why Islamism and its relation to third parties are dangerous for maintaining peace and stability in the world.

The following chapter will describe economic factors in the region. Economies of the Gaza Strip, the West Bank and Israel will be explored in details. Also, this chapter will be focused on economic relations among the parties. It is clear that different players have different views on economic issues, and many of them will be discussed there. Collaboration between the parties is needed for sustainable development of economic relations in the region.

Chapter on Egyptian economy will be focused on economic relations within the country and with close neighbors. How these relations started, how they went through and in what state are they now - all of these will be discussed there. Moreover, there will be a lot of statistical data and interesting issues which have impacted the economy of the state.

Next chapter will deal with the main research question. It will provide important data of Egypt's economy in connection to the conflict. Importance of border with the Gaza Strip will be analyzed, and also connections of USAID to Egyptian economy will be explained. It is important to show main characteristics of economy of the country and draw conclusions. The chapter will include up-to-date statistical information and opinions of noticeable persons. Answer to the main research question will be presented in this chapter with deep explanations.

Finally, conclusion will summarize all of the research findings and provide answer to the major question. The aim of this conclusion is to provide full information

about major challenges indicated in the research in short, but capacitive manner. In addition, the conclusion will contain author's opinion on the main issues posed in the research.

## **CHAPTER TWO LITERATURE REVIEW**

### **2.1 Introduction**

As the Israeli-Palestinian conflict dates back years ago, it is important to study the existing literature about how the Palestinian land was founded, and how it happened that one of the most difficult to resolve conflicts started. The literature review will be divided into several sections, each explaining history and other important variables.

### **2.2 Palestine in ancient history**

Palestine is the land with an ancient and very complex history. According to Kramer, around 11<sup>th</sup> century B.C. Hebrew tribes began to penetrate on the territory of Palestine; they created their states there (Kingdoms of Israel and Judah).<sup>1</sup> He points out, that there are three variables that must be distinguished: first one is the “promised land,” second is the area that was actually settled by the Israelis, and third is the land of Israel as defined by the Jewish law.<sup>2</sup> All three can be turned as “Eretz Israel” in Hebrew, or the

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<sup>1</sup>Kramer, Gudrun (2011). *A History of Palestine: From the Ottoman Conquest to the Founding of the State of Israel*. Princeton: Princeton University Press, p. 3

<sup>2</sup>*Ibid*, p. 5

land of Israel. Kramer notices that yet it was the Israelites who shaped the history of Palestine.<sup>3</sup> Later, Palestinian land was part of such states as Achaemenid, Alexander the Great, the Ptolemies and Seleucids, and also it was a province of Rome and Byzantium. During the rule of the Romans, subjected to harassment Jews were dispersed to other countries in the Mediterranean region, while part of them assimilated with local Christian population. In 638, the Arabs conquered Palestine, and it became a province of the Caliphate under the name of Al-Falastin. It was during this period when the country began to be occupied by Arab peasants. The dominance of Muslims in Palestine lasted for almost a thousand years. During the 1260-1516 period Palestine was a province of Egypt. Since 1516, the area was part of the Ottoman Empire, either as a part of Wilayah of Damascus or Wilayah of Beirut. In 1874, the area of Jerusalem was appointed to the Ottoman Empire and was managed directly from Istanbul.<sup>4</sup>

In *Contested Land, Contested Memory* Jo Roberts examines the 1948 Palestinian exodus. During the First World War, in 1917, Palestine was occupied by British troops and became (from 1920 to 1947) a mandated territory of Great Britain. She notices that at the beginning of the 20<sup>th</sup> century, Palestine was regarded by the international Jewish community as a center of Jewish statehood.<sup>5</sup> Thus, Zionist organization began to take practical steps to Judaize the country. The author explains that the Jewish people had a trauma after the Holocaust during the Second World War, so they wished to have at least

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<sup>3</sup>*Ibid*, p. 4

<sup>4</sup>*Ibid*, pp. 6-8

<sup>5</sup> Roberts, Jo (2013). *Contested Land, Contested Memory*. Toronto: Dundurn, p. 29



their own territory.<sup>6</sup> During this period, construction of Jewish settlements and towns was taking place (such cities as Tel Aviv, Ramat Gan, and Netanya were established). At the same time, Roberts notices, there was a sharp increase in the flow of Jewish immigrants from Europe, America, Asia and Africa.<sup>7</sup> In Palestine, which was already largely overcrowded, with lack of free land and water resources, there were emerging conflicts between the Arabs, entrenched there for almost fifteen hundred years ago, and the Jews, consistently arriving to new territories. It can be said that 1947-1949 years marked a huge line on the relation between the Arabs and the Jews.<sup>8</sup>

## 2.3 Contemporary history

Palestine was one of the former Arab territories transferred under the control of the Great Britain within the established League of Nations mandate system adopted in accordance with the Covenant of the League of Nations (Article 22).<sup>9</sup> All mandated territories, as expected, have become fully independent states, except for one. This exception was Palestine where the mandate, in addition to “provide assistance and advice,” had a primary goal of implementation of the Balfour Declaration, published by

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<sup>6</sup>*Ibid*, p. 32

<sup>7</sup>*Ibid*, p. 110

<sup>8</sup>*Ibid*, p. 111

<sup>9</sup> The Covenant of the League of Nations. Yale Law School.

[http://avalon.law.yale.edu/20th\\_century/leagcov.asp](http://avalon.law.yale.edu/20th_century/leagcov.asp) Retrieved on 30<sup>th</sup> June, 2014

the government of the Great Britain in 1917, which expressed support for “the establishment in Palestine of a national home for the Jewish people.”<sup>10</sup>

Fawzy Al-Ghadiry in his study on the history of Palestine points out that during the period of the mandate for Palestine (1922-1947) there was an intensive Jewish immigration, mainly from Eastern Europe.<sup>11</sup> As a result of the well-known Nazi persecution of the Jewish population, the author describes the influx of immigrants had increased dramatically in thirty years.<sup>12</sup> Palestinian demands for independence and resistance to Jewish immigration led to a rebellion in 1937, which was followed by prolonged terrorism and violence on both sides, which continued during the Second World War and immediately after it. Britain tried to use various forms of independence for the territory where violence prevailed, and in 1947 a solution of this problem was given to the United Nations.<sup>13</sup>

In the period of 1947-1977, after studying the various alternatives proposed, the UN decided to make a partition of Palestine into two independent states, one - Palestinian Arab and the other - Jewish, with Jerusalem, giving it international status (resolution 181 (II) of 29 November 1947).<sup>14</sup> One of the two declared its independence as Israel. John Quigley points out that the Zionist fund-raisers were able to collect 150 million US

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<sup>10</sup> The Balfour Declaration of 1917. [http://www.historylearningsite.co.uk/balfour\\_declaration\\_2.htm](http://www.historylearningsite.co.uk/balfour_declaration_2.htm)  
Retrieved on 30<sup>th</sup> June, 2014

<sup>11</sup> Al-Ghadiry, Fawzy (2006). *The History of Palestine*. <http://islamicquotes.org/wp/Downloads/files/Current-Affairs--Islamic-History/History%20of%20Palestine.pdf> pp. 51-52. Retrieved on 2<sup>nd</sup> July, 2014

<sup>12</sup> *Ibid*, p.50

<sup>13</sup> *Ibid*, p. 38

<sup>14</sup> Resolution adopted on the report of the Ad Hoc Committee on the Palestinian Question. UNGA. <http://daccess-dds-ny.un.org/doc/RESOLUTION/GEN/NR0/038/88/IMG/NR003888.pdf?OpenElement>  
Retrieved on 2<sup>nd</sup> July, 2014

dollars from American Jewry.<sup>15</sup> A certain 'Plan D' was implemented, which called for destruction of the Arab settlements, and as a result of the expansionist actions in the war of 1948, Israel occupied 77 percent of the territory of Palestine.<sup>16</sup> Also, Israel occupied a larger part of Jerusalem. The author notes that more than half of the indigenous Palestinians fled out of the territory or were expelled, while Jordan and Egypt occupied other parts of the area, which were used in accordance with the partition of the resolution to the never created Palestinian Arab state.<sup>17</sup>

In his book on Israeli-Palestinian conflict Kuznetsov declared that as a result of the 1967 war, Israel occupied the remaining territory of Palestine, which was under Jordanian and Egyptian control (the West Bank and the Gaza Strip).<sup>18</sup> Subsequently, Israel annexed the rest of Jerusalem. The author describes that the war led to second exodus of Palestinians, which touched about 500,000 people. He highlighted that the international community did not carry out steps to put the conflict to an end, and only in its resolution 242 of 22<sup>nd</sup> November 1967 the UN Security Council called Israel to withdraw from the territories occupied in the conflict in 1967.<sup>19</sup>

Caplan studied what happened after the war, as there was little hope for the Palestinians - in 1974 the UN General Assembly reaffirmed inalienable rights of the Palestinian people to self-determination, national independence and sovereignty, as well

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<sup>15</sup> Quigley, John (2005). *The Case for Palestine: An International Law Perspective*. Durham: Duke University Press, p. 57

<sup>16</sup> *Ibid*, pp.57-62

<sup>17</sup> *Ibid*.

<sup>18</sup> Kuznetsov, Dmitry (2006). *Arab-Israeli conflict: History and modernity*. Blagoveshchensk: BGPU, pp. 44-45

<sup>19</sup> Resolution 242 (1967) of 22 November 1967. UNSC.

<http://unispal.un.org/unispal/nsf/0/7D35E1F729DF491C85256EE700686136> Retrieved on 2nd July, 2014

as the right of return.<sup>20</sup> The following year, the General Assembly established the Committee on the Exercise of the Inalienable Rights of the Palestinian people. The General Assembly granted the Palestine Liberation Organization (PLO) an observer status in the Assembly and other international conferences held under the auspices of the United Nations. Caplan concluded that the creation of a Palestinian state would possibly bring an end to the need of armed struggle, so a lot of lives could be saved.<sup>21</sup>

Authors of the *Israel and the Palestinian Refugees* claim that between 1977 and 1990 the situation in the region continued to deteriorate. In June 1982, the authors note, Israel invaded Lebanon, saying that its goal was to destroy the PLO. This was followed by an agreement on a ceasefire. The PLO forces that remained in Lebanon were withdrawn from Beirut and located to neighboring countries after having been provided with appropriate security guarantees for the thousands of Palestinian refugees. Shortly thereafter, the authors say, there was a mass murder of refugees in the camps of Sabra and Shatila (Beirut, Lebanon).<sup>22</sup>

Landis and Albert declared that in September 1983, an international conference on Palestine adopted the Geneva Declaration, which, among other things, contains the following principles: the need to oppose and reject such Israeli policies and practices in the occupied territories which are aimed at the establishment of settlements, as well as change the status of Jerusalem; the right of all States in the region to exist within

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<sup>20</sup> Caplan, Neil (2010). *The Israel-Palestine Conflict: Contested Histories*. Chichester: Wiley-Blackwell, p. 236

<sup>21</sup> *Ibid*, p. 237

<sup>22</sup> Benvenisti, Eyal; Gans, Chaim; Hanafi, Sari (2007). *Israel and the Palestinian Refugees*. Berlin: Springer, p. 414

internationally agreed frontiers and the right of all peoples to justice and security; internationally recognized borders, with justice and security for all people, as well as the legitimate and inalienable rights of the Palestinian people.<sup>23</sup>

In December 1987, there was a mass uprising in the Israeli-occupied Palestinian territory, an “intifada.” Barber explains that the First Intifada was a continuation of a very long and severe conflict between the Arabs and the Jews.<sup>24</sup> The methods used by the Israeli forces during the uprising led to significant losses of lives and a large number of injuries among the civilian Palestinian population.<sup>25</sup>

Osmanczyk studied the Madrid Peace Conference on the Middle East, which took place in October 1991. Its aim, according to the author, was to achieve a just, lasting and comprehensive peace settlement through direct negotiations in two ways: between Israel and the Arab states as well as between the Israelis and the Palestinians.<sup>26</sup> The basis of the negotiations were the UN Security Council resolutions 242 (1967) and 338 (1973), the “land for peace” formula. A series of subsequent negotiations, the author notes, allowed to reach mutual recognition between the Government of the State of Israel and the PLO as the representative of the Palestinian people, as well as to sign the Declaration of Principles on Interim Self-Government Arrangements by both parties in Washington, DC on September 13, 1993.<sup>27</sup> In addition, the implementation of subsequent agreements led

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<sup>23</sup> Landis, Dan; Albert, Rosita D. (2012). *Handbook of Ethnic Conflict: International Perspectives*. New York: Springer, p. 201

<sup>24</sup> Barber, Brian K. (2009). *Adolescents and War: How Youth Deal with Political Violence*. New York: Oxford University Press, p. 208

<sup>25</sup> *Ibid.*

<sup>26</sup> Osmanczyk, Edmund Jan (2003). *Encyclopedia of the United Nations and International Agreements: A to F*. New York: Routledge, p. 1748

<sup>27</sup> *Ibid.*, p. 1749

to a number of positive changes, such as a partial withdrawal of the Israeli forces, a partial release of prisoners and establishment of effective administration in the Palestinian self-rule areas. Osmanczyk indicated that the United Nations had been actively involved in the peace process both as the guarantor of international law and in terms of mobilization and provision of international assistance.<sup>28</sup> In 2000-2001, the Israelis and the Palestinians were negotiating a final status agreement, which remained unfulfilled.<sup>29</sup>

In 2000, explains Quigley, a controversial visit by Ariel Sharon, who at the time was the leader of the Likud, to the sacred courtyard of Haram al-Sharif, or the “Temple Mount” in Jerusalem led to the outbreak of the Second Intifada. Consequences of these actions were an increase in the number of victims, reoccupation of the territories under Palestinian self-rule, military incursions, and extra-judicial killings of suspected Palestinian militants, suicide bombings, rocket and mortar attacks, as well as destruction of buildings.<sup>30</sup> In the West Bank, the author notes, Israel began a construction of the wall of separation, passing through the occupied Palestinian territory, which was recognized illegal by the International Court of Justice in 2004.<sup>31</sup> In 2002, the UN Security Council adopted resolution 1397, confirming the vision of a region where the two states, Israel and Palestine, live side by side within secure and recognized borders. Emerson and Tocci focuses on the moves of major international players during that time. In 2003, the Middle

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<sup>28</sup> *Ibid.*

<sup>29</sup> *Ibid.*

<sup>30</sup> Quigley, John (2005). *The Case for Palestine: An International Law Perspective*. Durham: Duke University Press, p. 222

<sup>31</sup> Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territory. ICJ. <http://www.icj-cij.org/docket/index.php?pr=71&code=mwp&p1=3&p2=4&p3=6> Retrieved on 5<sup>th</sup> July, 2014

East Quartet (the United Nations, the European Union, the United States, and Russia) endorsed a detailed “road map” to achieve the idea of two states, enshrined in resolution 1515 of the Security Council.<sup>32</sup> In 2005, in the framework of the Israeli Disengagement Plan Israel withdrew its settlers and troops from the Gaza Strip, while retaining effective control over its borders, coastline, and airspace. After elections in the Palestinian Legislative Council in 2006, the Quartet came to the conclusion that future assistance to the Palestinian Authority will be reviewed by donors against the new government’s commitment to non-violence, recognition of Israel, and acceptance of previous agreements.<sup>33</sup>

A new, albeit informal, work for a peaceful settlement began in December of 2003, describes Mattar, where representatives of Israel and the Palestinian civil society under the leadership of two former ministers of Israel and the Palestinian Authority, Yossi Beilin and Yasser Abed Rabbo respectively, issued a so-called Geneva Accord (or the Geneva Initiative) - a detailed project of peace agreement affecting final status issues.<sup>34</sup> The author specifies that despite lack of official status, the draft settlement received considerable public support both in Israel and Palestine. After the meeting, which was held on 5<sup>th</sup> December 2003 in New York, UN Secretary-General Kofi Annan said that the “road map” is a “key mechanism” to go forward and that the momentum needed to solve the Middle East conflict should come from the peoples, working together

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<sup>32</sup> Emerson, Michael; Tocci, Nathalie (2003). *The Rubik Cube of the Wider Middle East*. Brussels: CEPS, pp. 47-48

<sup>33</sup> Landis, Dan; Albert, Rosita D. (2012). *Handbook of Ethnic Conflict: International Perspectives*. New York: Springer, p. 234

<sup>34</sup> Mattar, Philip (2005). *Encyclopedia of the Palestinians*. New York: Routledge, p. 176

for the sake of change. However, the author notes, people in both communities soon realized, that the Geneva Initiative had one major drawback – it ignored any recognition of harm done during the times of conflict by “the other” and lacked future peace settlement.<sup>35</sup>

Mattar declared that from April 2004 onward, the Israeli right-wing government felt that they can do whatever they want with the Palestinians.<sup>36</sup> Thus, there was a further escalation of violence which took various forms. As a result of rocket attacks in Gaza City in March and April, the Israeli Defense Forces eliminated two senior leaders of the Hamas Islamist movement - Sheikh Ahmad Yassin and Dr. Abd al-Aziz Rantisi.<sup>37</sup> In November 2004, Palestinian leader Yasser Arafat, whose disease was progressing during the preceding 11 months, died at the age of 75 during treatment in France. The Israeli government talked about opening a new chapter of relations with the Palestinians.<sup>38</sup>

Despite some opposition in Israel, Prime Minister Ariel Sharon had a well-organized and timely evacuation of all civilian settlements in Gaza and four settlements in the northern West Bank in August of 2005, says Zelnick. He notes that Sharon wanted to have concrete diplomatic gains.<sup>39</sup> In September, the last Israeli soldier left the Gaza Strip; settlements, located in the area, were transferred to the Palestinians. The author declared that this marked the first withdrawal of the Israeli forces from the occupied Palestinian territory since June 4, 1967, despite the fact that Israel retained control over

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<sup>35</sup> *Ibid*, p. 178

<sup>36</sup> *Ibid*, p. 69

<sup>37</sup> *Ibid*.

<sup>38</sup> *Ibid*.

<sup>39</sup> Zelnick, Robert (2006). *Israel's Unilateralism: Beyond Gaza*. Stanford: Hoover Institution Press, p. 125



the borders of Gaza, its airspace, and territorial waters. In his address to the General Assembly, Prime Minister Sharon acknowledged: “The right of the Jewish people to the Land of Israel does not mean disregarding the rights of others in the land. The Palestinians will always be our neighbors. We respect them and have no aspirations to rule over them. They are also entitled to freedom and to a national, sovereign existence in a state of their own.”<sup>40</sup>

In 2006, Migdalovitz describes, there were two events that had a significant impact on the dynamics of the Israeli-Palestinian conflict. Ariel Sharon suffered an incapacitating stroke, while as a result of elections for a new Palestinian Legislative Council, Hamas, which does not recognize Israel, does not accept previous agreements and does not deny the violence, received the majority of seats. Palestinian President Mahmoud Abbas called on Hamas leader Ismail Haniyeh to form a new government; almost at the same time, Ehud Olmert was elected as Prime Minister in Israel.<sup>41</sup>

Jones says that in response to the Hamas victory on the elections, Israel stopped the transfer of Palestinian tax revenues, while main external sources of funds, including the United States and the European Union, ceased to provide financial and economic assistance to the newly formed Palestinian Authority with Haniyeh as the Prime Minister.<sup>42</sup>

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<sup>40</sup> *Ibid*, p. 126

<sup>41</sup> Migdalovitz, Carol. Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy. In: *Economics and Geopolitics of the Middle East*. Edited by Richard N. Dralonge (2006). New York: Nova Science Publishers, p. 10

<sup>42</sup> Jones, Jeremy (2007). *Negotiating Change: The New Politics of the Middle East*. Cornwall: I.B. Tauris & Co Ltd., p. 58

Migdalovitz examines that in the context of growing humanitarian crisis in the Gaza Strip, without coordination with the Palestinian government, the Quartet approved the proposal of the European Union of a “temporary international mechanism” (TIM) aimed at promoting “direct delivery of assistance to the Palestinian people.”<sup>43</sup> In 2006, the EU had spent about 865 million US dollars for this purpose.<sup>44</sup>

The author notes, that while assistance aimed at alleviating the suffering of the Palestinian territories took place and Palestinian leaders were negotiating to reconcile the factions between Fatah and Hamas, Israel was continued to be bombed from the Gaza Strip with the use of Qassam rockets. At the same time, Israel continued to pursue “targeted killings” of alleged Palestinian militants.<sup>45</sup>

Cohn-Sherbok pointed out that international sanctions against Hamas resulted in economic difficulties for the Palestinians.<sup>46</sup> By September 2006, President Abbas from the side of Fatah and Prime Minister Haniyeh from the side of Hamas agreed on the establishment of a Palestinian unity government. However, a fierce battle between Palestinian armed groups in the Gaza Strip began, which killed a lot of participants, resulting in talks on unity had been ripped off.<sup>47</sup> The author notes that attempts to revive

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<sup>43</sup> Migdalovitz, Carol. Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy. In: *Economics and Geopolitics of the Middle East*. Edited by Richard N. Dralonge (2006). New York: Nova Science Publishers, p. 25

<sup>44</sup> *Ibid.*

<sup>45</sup> *Ibid.*, p. 27

<sup>46</sup> Cohn-Sherbok, Dan (2011). *Introduction to Zionism and Israel: From Ideology to History*. London: Continuum International Publishing Group, p. 196

<sup>47</sup> *Ibid.*, p. 197

the negotiations after organized in 2007 Annapolis Conference at Maryland, USA by the administration of George Bush did not actually produce any results.<sup>48</sup>

Israeli Prime Minister Benjamin Netanyahu, the leader of the right-wing Likud party, who came to power in the early elections of February 2009, expressed his intention to continue the peace talks, but at the same time to avoid any pre-engagement on the establishment of a Palestinian state, says Cohn-Sherbok.<sup>49</sup> Completion of the “George W. Bush era” in the United States and demonstratively high attention to Middle Eastern affairs by the new administration of President Barack Obama, from the first days of its existence provided activation of Washington as a mediating role in resolving the Israeli-Palestinian conflict, says the author. The new American president has repeatedly stated his vision of solution based on the principle of two states, while this principle is also supported by the Quartet, serving today as an important mediator in the peace process.<sup>50</sup>

After repeated attempts to reconcile Fatah and Hamas, Peters and Newman declare that in May 2011 an agreement on inter-Palestinian reconciliation was signed in Cairo, thereby putting an end to confrontation between Fatah, which controls the West Bank, and Hamas, entrenched in the Gaza Strip. The agreement has been critically acclaimed by the Israeli authorities, who called the Palestinian leader Mahmoud Abbas to rescind it.<sup>51</sup>

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<sup>48</sup> *Ibid.*

<sup>49</sup> *Ibid*, p. 198

<sup>50</sup> *Ibid.*

<sup>51</sup> Peters, Joel; Newman, David (2013). *The Routledge Handbook on the Israeli-Palestinian Conflict*. Oxon: Routledge, p. 453

Speaking on May 19, 2011 on American policy in the Middle East, American President Barack Obama said that the basis of the settlement of the Israeli-Palestinian conflict should be to restore the limits of Israel's borders of the state in 1967.<sup>52</sup> This Obama's statement drew sharp criticism from Israel, notices Young. Israeli Prime Minister Benjamin Netanyahu said he was ready to compromise in resolving the conflict before the announcement of Obama's new principles, but now Israel does not accept the proposal of the American administration, since returning to the old borders of the state will make it defenseless.<sup>53</sup>

Authors of *The Arab Awakening: America and the Transformation of the Middle East* declare that on the 28<sup>th</sup> of September, 2011, the UN Security Council unanimously approved the request of the PLO for a permanent membership in the organization and handed it to a special committee consisting of all 15 members of the Security Council.<sup>54</sup> On the 1<sup>st</sup> of October, the United States Congress blocked the provision of aid package of 200 million US dollars to the Palestinian National Authority in response to the Palestinian bid to join the UN. At the same time, Shlaim says, Israeli Prime Minister Benjamin Netanyahu said on 27 September that his country will not any more freeze construction of Jewish settlements in the West Bank of the Jordan River, because this has led to nothing.<sup>55</sup>

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<sup>52</sup> Young, Ron (2014). *Crossing Boundaries in the Americas, Vietnam, and the Middle East: A Memoir*. Eugene: Wipf and Stock, p. 268

<sup>53</sup> *Ibid.*

<sup>54</sup> Pollack, Kenneth M. and others (2011). *The Arab Awakening: America and the Transformation of the Middle East*. Washington: Brookings, p. 135

<sup>55</sup> Shlaim, Avi. Israel, Palestine, and the Arab Uprisings. In: *The New Middle East: Protest and Revolution in the Arab World* edited by Fawaz A. Gerges. (2013). New York: Cambridge University Press, pp. 396-397

Wright maintains that on the night of October 12, 2011 a move that had no precedents before happened. The government of Israel approved an agreement about the terms of release of Corporal Gilad Shalit, who was captured by Hamas militants in the summer of 2006. In exchange for Shalit, Israel released 1,027 Palestinian prisoners.<sup>56</sup> The agreement included the release of the most famous Palestinian extremists and terrorists, about 400 of whom were serving life sentences for carrying out or organizing bloody terrorist acts.<sup>57</sup>

On the 29<sup>th</sup> November, 2012 the UN General Assembly under resolution 67/19 granted Palestine a non-member observer state status in the United Nations. Molavi notices, that immediately after this, Israel practically destroyed the two-state solution: Israeli inner cabinet approved building of housing units in the West Bank, Jerusalem and advanced plans to build in E1 area, which connects Jerusalem with Ma'aleh Adumim, in response to the Palestinian UN move.<sup>58</sup>

On July 8, 2014 Israel launched Operation Protective Edge in the Hamas-ruled Gaza Strip. Talks on anti-Semitism were in place during and after the operation. According to Reuters, at least 17 people were killed when an Israeli missile hit a building belonging to the UN mission school in the northern Gaza Strip on the 30<sup>th</sup> July 2014.<sup>59</sup> Several children were among the victims, while another 200 people were injured. According to statements made by Palestinian medics, some 3,000 refugees trying to

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<sup>56</sup> Martin, Carol (2012). *Theatre of the Real*. Basingstoke: Palgrave Macmillan, p. 117

<sup>57</sup> *Ibid.*

<sup>58</sup> Molavi, Shourideh C. (2013). *Stateless Citizenship: The Palestinian-Arab Citizens of Israel*. Leiden: BRILL, p. 56

<sup>59</sup> Human Rights Watch accuses Israel of war crimes in Gaza. Reuters.

<http://uk.reuters.com/article/2014/09/11/uk-mideast-gaza-war-idUKKBN0H60YD20140911> Retrieved on 10<sup>th</sup> July, 2014

escape the fighting were placed in the school. The UN officials said that Israel was informed 17 times about the exact location of the school and that there were civilians sheltering there, while Human Rights Watch accused Israel of committing war crimes.<sup>60</sup>

Tim Lister, a correspondent from the CNN, says that the Ministry of Foreign Affairs of Egypt issued an appeal to the Israeli authorities, the Palestinian National Authority, representatives of Hamas and Islamic Jihad, which called for an immediate resumption of the proximity talks on the settlement of the situation in the Gaza Strip.<sup>61</sup> After several rounds of negotiations, Israel and Hamas were consented to accept the peace initiative of Egypt. Operation Protective Edge was seized, and now there is a ceasefire. However, despite Egypt's will to help in solving the conflict, militants of the Islamic State of Iraq and the Levant (ISIL) murdered 33 Egyptian soldiers on the Sinai Peninsula in October. Thus, the peace talks were postponed.<sup>62</sup>

## **2.4 Egypt and its relation to the conflict**

Foreign policy of Egypt has a moderate character, says Rosa Balfour. She notices that such factors as the size of population, historical events, military strength, diplomatic expertise and strategic geographical position give Egypt extensive political influence in

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<sup>60</sup> *Ibid.*

<sup>61</sup> Egypt reclaims role as Arabs' indispensable nation with Gaza talks. CNN, Tim Lister. August 7, 2014. <http://edition.cnn.com/2014/08/06/world/meast/egypt-gaza-role/> Retrieved on 17<sup>th</sup> November, 2014

<sup>62</sup> Upcoming Israel-Palestine peace talks postponed. Daily News Egypt. October 26, 2014. <http://www.dailynewsegypt.com/2014/10/26/upcoming-israel-palestine-peace-talks-postponed/> Retrieved on 15<sup>th</sup> November, 2014

Africa and the Middle East.<sup>63</sup> For many centuries, Cairo was a crossroads of regional commerce and culture. The author implies that its educational and Islamic institutions are at the center of social and cultural development of the region. Permanent headquarters of the Arab League is in Cairo. The position of Secretary General of the Arab League was traditionally occupied by Egyptians.<sup>64</sup>

Egypt was the first Arab country to establish diplomatic relations with Israel after the signing of the Camp David Peace Agreement, declares Balfour.<sup>65</sup> Egypt has a significant influence in the Arab world and has historically played an important role in the resolution of conflicts between different Arab countries and in the Israeli-Palestinian conflict itself.<sup>66</sup> Most Arab nations still rely this role on Egypt, although previously its efforts were defied by Saudi Arabia and oil-rich Gulf countries. She also noted that due to internal problems and reluctance to play a positive role in regional issues, Egypt lost its influence in Africa and in neighboring countries. At the same time, the country has good relations with its African neighbors - Libya and Sudan, although a small area on the Egyptian-Sudanese border on the Red Sea, Hala'ib Triangle, is a disputed territory.<sup>67</sup>

As a pioneer in making peace in the region and believing that peace in the Middle East is the best solution for the development of Egypt, its third president, Anwar Sadat, visited Israel in 1977, says Quandt.<sup>68</sup> Camp David Accords in 1978 and peace treaty between Egypt and Israel in 1979 reflected a radical change in the politics of the region.

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<sup>63</sup> Balfour, Rosa (2013). *Human Rights and Democracy in EU Foreign Policy: The Cases of Ukraine and Egypt*. New York: Routledge, p. 91

<sup>64</sup> *Ibid*, p. 92

<sup>65</sup> *Ibid*.

<sup>66</sup> *Ibid*.

<sup>67</sup> *Ibid*.

<sup>68</sup> Quandt, William B. (1986). *Camp David: Peacemaking and Politics*. Washington: Brookings, pp. 1-2

Transition from confrontation to peace strategy was a strategic choice. At the same time, the author notices that Camp David put strains between Cairo and the Arab countries - Egypt was subsequently criticized by Arab states and expelled from the League of Arab States in the period from 1979 to 1989.<sup>69</sup>

There is a huge distinction between cold peace (Egypt and Israel) and destructive violent struggle (Gaza-Israel), proclaims Handelman.<sup>70</sup> Egypt is a key partner in achieving peace in the Middle East and resolving the Israeli-Palestinian conflict, notes Balfour.<sup>71</sup> It has played an important role in the negotiations that led to the Madrid Peace Conference in 1991, which was sponsored by the Soviet Union and the United States, said Covarrubias and Lansford.<sup>72</sup> Former president Hosni Mubarak personally promoted the peace talks. The authors pointed out that in 1996 Summit of the Peacemakers was held in Sharm el-Sheikh; it was attended by American President Bill Clinton and other world leaders.<sup>73</sup>

Covarrubias and Lansford points out that there were two summits in 2000- one in Sharm el-Sheikh and another in Taba. They aimed to resume the Camp David talks, suspended in July 2000, while in June 2003 Mubarak took George W. Bush on another summit for a peaceful settlement in the Middle East.<sup>74</sup> Another summit was convened in Sharm el-Sheikh in the early 2005. It was attended by leaders of Egypt, Israel, the

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<sup>69</sup> *Ibid.*

<sup>70</sup> Handelman, Sapir (2011). *Conflict and Peacemaking in Israel-Palestine: Theory and Application*. Oxon: Routledge, p. 57

<sup>71</sup> Balfour, Rosa (2013). *Human Rights and Democracy in EU Foreign Policy: The Cases of Ukraine and Egypt*. New York: Routledge, p. 101

<sup>72</sup> Covarrubias, Jack; Lansford, Tom (Ed). (2007). *Strategic Interests in the Middle East: Opposition or Support for US Foreign Policy*. Cornwall: Ashgate, p. 169

<sup>73</sup> *Ibid.*

<sup>74</sup> *Ibid.*



Palestinian Authority and Jordan. The head of Egyptian intelligence services, General Omar Suleiman, played a significant role in the negotiations between the Israeli and Palestinian sides and is respected on both sides, as the authors indicated. Such negotiations continue up to this date, as it can be seen after Israel's Operation Protective Edge.

## **2.5 Conclusion**

To summarize the existing literature, it can be said that the Israeli-Palestinian conflict cannot be viewed in isolation from the whole complex of problems that have accumulated in the Middle East. The situation is much more complicated. The Arab-Israeli conflict appears as a separate component of civilizational conflict. Insolubility of this conflict lies in the duration of the confrontation. The most important factor of this conflict is the territorial one, however by its very nature it is much broader and includes other factors, such as religion, ideologies, resources, and so on. Up to date, according to authors, the international community has been actively involved in the Middle East region in order to facilitate the resolution of this conflict, but none of the world powers succeeded to stop the bloodshed and suffering. Egypt is the main mediator of the conflict, and current ceasefire is the country's merit.

As it can be seen from the literature, Egypt is the country that really needs this conflict to be stopped, as it threatens the security of Egypt itself. It supports the right of the Palestinians to establish a free, independent and sovereign state on the basis of

international legal principles. The Palestinian problem has always been part of the issue of national security of Egypt, which had always made every effort to protect the Palestinian people. Egypt's role in resolving the Israeli-Palestinian conflict is unambiguous and irreplaceable. The country is trying to build a bridge between the conflicting parties. Egypt succeeded in implementing temporary ceasefire, but it was messed up with doubts and mistrust. Thus, more effort is required for long-term peace.

## **CHAPTER THREE METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the research methodology of the study. The purpose of this research is to examine economic effects of the Israeli-Palestinian conflict of Egypt. The literature review emphasized the importance of Egypt in the conflict, so it is important to explain the issue further. The study was conducted in two phases. In the first phase, all appropriate data was collected with the use of a qualitative approach. This data was collected from different sources. Then, the next phase was focused on analyzing of the data and drawing conclusions. Postpositivism was chosen as a philosophy of the research, so it is essential to present its main features.

### **3.2 Philosophy**

Postpositivism is a set of concepts, which replaced positivism. Supporters of various postpositivist concepts disagree with each other, criticize outdated notions of positivism, but retain continuity with it. As positivists, followers of postpositivism focus

on rational methods of cognition. Karl Popper, a British philosopher, is considered as one of the most prominent postpositivists.<sup>75</sup>

For Popper, failure of concept of verification (verifiability) of research proposals is not accidental. Verification methodology is based on the belief that knowledge can be absolutely true. This is delusional. Sooner or later, a new theory comes to replace an old theory; something that seemed true now is recognized as a delusion. Therefore, the task of epistemology is not in searching of theory, but in resolving the problem of growth of knowledge. The growth of knowledge is achieved in the process of rational debate that always had criticism of existing knowledge. Therefore, Popper called his philosophy critical rationalism.<sup>76</sup>

Scientific theory recognizes a concept that can only be compared with experimental data, and therefore, at any time, it can be falsified. In contrast to philosophy, science cannot be rigged, that is, philosophy has no scientific character. However, not having any scientific status, philosophy has meaning. Popper solved the problem of differentiation between science and philosophy. Philosophy serves as understanding of the growth of scientific knowledge and includes, in particular, principles of rational-critical debate. Attention to the need for a thorough study of the history of the development of scientific knowledge was drawn. A study of science, not accompanied by the study of its history, leads to one-sided knowledge and creates conditions for dogmatism. For postpositivism, the world is objective, however knowledge

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<sup>75</sup> Phillips, Denis C.; Burbules, Nicholas C. (2000). *Postpositivism and Educational Research*. Lanham: Rowman & Littlefield, pp. 29-30

<sup>76</sup> *Ibid*, pp. 34-36

about it is passed through lens of subjective experience of individuals. Knowledge is determined by individual experience.<sup>77</sup>

### **3.3 Research objectives and hypothesis**

The objectives of this study were to:

- Explore consequences of the conflict on the economy of Egypt;
- Describe the economic factors of the Israeli-Palestinian conflict;
- Identify effects of the conflict on the region and the rest of the world;
- Explain economic conditions in the region.

Hypothesis I: the Israeli-Palestinian conflict has a direct economic influence on Egypt.

Hypothesis II: the Israeli-Palestinian conflict does not have any economic influence on Egypt.

### **3.4 Research design**

In this research the relationship between economic factors of Egypt and the Israeli-Palestinian conflict is assessed. The study is based on academic writings such as

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<sup>77</sup>*Ibid.*

books, journals, and online resources. Credibility is the most important factor while using such resources. The books studied for the research are written by academics mostly of American and European backgrounds. However, there are also a number of studies written by academics of Arab and Russian background. Most of them were educated in Western universities. Their academic background and research area is about Arab foreign policy, history, global security and the conflict itself.

Online resources that have been used are from trusted organizations, like the CIA World Factbook, World Bank, and so on. Mostly secondary sources were used. While collecting the information there were no obstacles in terms of language or problem understanding. Many different sources were used, mainly from America, Europe, and the Arab world.

The research utilizes qualitative data collection tools. There was a need to gain an understanding of reasons and motivations, uncover main trends, thoughts and opinions. The thesis also contains several major events which played an important role in transformation of political and economic relations. A lot of data was gathered and further analyzed during the study.

### **3.5 Conclusion**

It can be said that there were found a lot of interesting facts and figures, which were discussed throughout the research. Though different authors have different points of view, it was important to find a golden middle and describe it. When the research was

conducted, the analysis provided such results: there is a direct relationship between politics of United States Agency for International Development (USAID) in Egypt and cross-border trade with the Gaza Strip. These two variables were identified in the research. It is important to note that this relation was identified as a direct one. So, hypothesis I was confirmed. More is explained in Chapter 8.

## **CHAPTER FOUR THEORY**

### **4.1 Introduction**

There is a need to use theoretical underpinning in order to show the complexity of the conflict and how it relates to economic aspects. After a throughout analysis, Game Theory was chosen as the basis for theoretical underpinning. There is a need to explain the issue further with details.

### **4.2 Game Theory**

Game Theory is a branch of mathematical economics, which studies conflict resolution between players and their optimal strategies. Conflict can refer to different areas of human interest, such as economics, sociology, political science, cybernetics and even military. Conflict is any situation in which the interests of two or more participants are affected, who are traditionally called players. There is a certain set of strategies for each player that might be applied. When they cross, multi-player strategy create a certain situation in which each player receives a certain result, which is called a win, it can be either positive or negative. When choosing a strategy, it is important to consider not only



obtaining the maximum profit for oneself, but also possible moves of the enemy and their impact on the overall situation.<sup>78</sup>

Fundamentals of game theory originated in the 18<sup>th</sup> century with the beginning of the Enlightenment era and development of economic theory. For the first time, mathematical aspects and application of the theory were presented in a classic book of 1944 by John von Neumann and Oskar Morgenstern, *Theory of Games and Economic Behavior*.<sup>79</sup> The first concept of game theory analyzed antagonistic games where there were winning player and loser. Despite the fact that game theory examined economic model, up to the 1950s it was only a mathematical theory. As a result of a sharp rise in the American economy after the Second World War, more funding for science was provided, thus attempts to start the practical application of game theory in anthropology, economics, cybernetics, and engineering began. During the Second World War and immediately after it the military were seriously interested in game theory, which saw it as a powerful tool for the study of strategic decisions.<sup>80</sup>

In the early 1950s, John Nash was developing methods of analysis, in which all participants either benefit, or all suffer defeat. These situations were called “Nash equilibrium.” According to his theory, the parties should use the optimum strategy that leads to the creation of stable equilibrium. Players are beneficial to maintain this balance, since any change will worsen their situation. These works of Nash made a serious contribution to the development of game theory; mathematical tools of economic

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<sup>78</sup> Rapoport, Anatol (1974). *Game Theory as a Theory of Conflict Resolution*. Dordrecht: D. Reidel Publishing, p. 6

<sup>79</sup> *Ibid*, p. 5

<sup>80</sup> *Ibid*, pp. 10-11

modeling were revised. The optimal strategy is when everyone is trying to do better for themselves, doing the best for others. Over the past years, the value of game theory and interest to it was significantly growing; some areas of modern economic theory are not possible to be explained without application of game theory.<sup>81</sup>

#### **4.3 Game Theory and the Israeli-Palestinian conflict**

I am sure that one is familiar with the “Prisoner’s Dilemma.” The following analysis will be based on it, but it will be focused on the Israeli-Palestinian conflict. Initially, every conflict has war and peace scenario, these are the two most important variables. The two variables used in the analysis will be “Offense” (when a party wages an attack on the enemy) and “Peace” (when a party wishes to follow a peace plan). A simple scoring system will be used instead of prison sentence. It will reflect economic prosperity, political legitimacy, and security (any combination can be used).

The strategy must have four major components. First of all, a player should not attack the other in the first strike before it is itself first the victim of such an attack. Secondly, once a player is attacked, it should be ready to fight back and attack the other party on the next round of the game. Thirdly, players should be ready to forgive even if they were attacked in order to stop the cycle of attacks. Forgiveness usually separates good strategy from the best. Finally, the objective of a player should not be to score more than the other party, e. g. an envious player.

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<sup>81</sup>*Ibid.*

There are some conditions to these components as well. A good strategy requires a player to fight back, however the best strategy is when both sides forgive each other and stay in peace. Added to this, an envious player will continue to attack round by round despite that it brings less benefit.

According to the setting, the following table can be used to describe the conflict:

	Palestine “Peace”	Palestine “Offense”
Israel “Peace”	Israel: 5 points Palestine: 5 points	Israel: 0 points Palestine: 10 points
Israel “Offense”	Israel: 10 points Palestine: 0 points	Israel: 1 point Palestine: 1 point

As it can be seen from the table, whether both the Israelis and the Palestinians will follow the “Peace” variable (that is, total ceasefire from both sides and peace agreement), they will both benefit. This is the best possible strategy. At the same time, I think that such win-win situation in the case of the conflict is close to impossible, because none of the parties can forgive the other the losses happened in past years. So, it can be said that though it is the best strategy, it is very far from what is happening on the ground. If both Israel and Palestine choose “Offense,” they will never reach a mutual ceasefire and recognition.

Still, it is a very simplistic explanation of the issues and it lacks application. It is clear that the best strategy will benefit both sides, thus bringing them to abide to the peace plan and cooperating together. Despite the seeming rationality of both sides following the best strategy, it is still an illusion, because it lacks forgiveness. Once there is forgiveness, the conflict might be resolved. In such case, the probability of the resolution seems much more real. However, it is important to note that it is only a hypothetical game, where if one sides chooses other strategies than the best one, it only loses points, while in real life these equal to human lives and economic losses.

#### **4.4 Egypt, American aid, and cross-border trade**

In the case of American aid to Egypt and cross border trade, game theory can be applied as well. The setting: if Egypt keeps the Rafah border closed, American aid will not be questioned by the Israelis. Once the border is opened, the aid becomes under question.

	Aid “No change”	Aid “Under question”
Egypt “Border closed”	Egypt: 5 points Aid: 5 points	Egypt: 0 points Aid: 10 points
Egypt “Border opened”	Egypt: 10 points Aid: 0 points	Egypt: 1 point Aid: 1 point

Here, the best strategy for Egypt is to keep the border closed and for the US to keep the aid as it is. Such situation is happening at present, because the border is closed. Once the border is opened, the aid becomes questioned. It is important to mention that if the aid stopped, Egypt might open the border to regain economic losses. Also, there are doubts that if the border will be opened, the aid will still continue to be applied. So, again, the best strategy is mutually beneficial. Chapter 8 provides a detailed explanation of the issue.

## **4.5 Conclusion**

To end with it can be said that though the game theory oversimplifies matters a lot, it is still an important element in finding a solution for a conflict. In the case of the Israeli-Palestinian conflict, the best strategy for both sides is to preserve peace, however it is nearly impossible due to the longstanding rivalry and unwillingness to forgive. In the case of aid and cross-border trade, the best option for Egypt is to keep the border closed, while for the US - to continue provision of the financial aid. As it can be seen, conclusion of a peace agreement will solve many problems not only for the Israelis and the Palestinians, but for Egypt as well, as it was dragged into the conflict and wishes to preserve country's economic development. Thus, the parties need to learn how to forgive; otherwise, the conflict will only bring more losses and suffering.

## **CHAPTER FIVE**

### **CONFLICT'S INFLUENCE ON THE REGION AND THE REST OF THE WORLD**

#### **5.1 Introduction**

There are many different consequences of the Israeli-Palestinian conflict on the region and the world can be identified. However, I think that the most important impact is the rise of Islamism and Islamic terrorism, which spread all over the world, touching different areas of political life on the planet. Beginning of the crisis in the Palestinian Resistance Movement (PRM), which coincided with the dismantling of structures of the Palestine Liberation Organization (PLO) in Lebanon, created new conditions for finding a real alternative to offer ways of settlement of relations with Israel.<sup>82</sup> First of all, it was manifested in the strengthening of Islamic influence in the Palestinian media.<sup>83</sup> In the occupied territory, to a greater extent in the Gaza Strip, but also in the West Bank, a steady trend to an increase in religious sentiment in Palestinian society became clearly manifested. However, it would be wrong to reduce the sources of this process only to the crisis in the PRM, forgetting about the activities of large groups of Islamic orientation after the partition of Palestine.

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<sup>82</sup>Syed, M. H. (2002). *Islamic Terrorism, Myth or Reality*. Delhi: Kalpaz Publications, pp. 161-162

<sup>83</sup>*Ibid*, p. 214

## 5.2 Islamic Liberation Party

Modern organized Palestinian Islamic movement owes a lot to activities of the Muslim Brotherhood organization, which created its own cell in the region in the second half of the 1940s.<sup>84</sup> For various reasons, including geographic proximity to Egypt, Muslim Brotherhood was much more active in the Gaza Strip, which predestined the presence of more stable religious sentiment among the Palestinian population as compared to the West Bank, which was mostly dominated by secular nationalists. However, it should be recognized that, unlike politicians, Muslim leaders have focused on purely religious activities, avoiding direct involvement in armed opposition to Israel. Moreover, Muslim Brotherhood in Palestine believed that their primary task was the struggle for the formation of a truly Islamic society on the basis of systematic building of the foundations of Islamic morality.<sup>85</sup> Thus, the goal of spiritual transformation of every Palestinian who would be able to identify oneself as a part of the Muslim Ummah should have been achieved. According to leaders of Muslim Brotherhood, only on this foundations a fight for the establishment of an Islamic state could began, as an example of which early Islamic caliphate was taken.<sup>86</sup>

However, stated systematic and gradual implementation of tasks in the construction of an Islamic state was not always found understood and supported by individual leaders of the organization and its supporters. An example of this is the

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<sup>84</sup>*Ibid*, pp. 201-202

<sup>85</sup> Demant, Peter R. (2006). *Islam vs. Islamism: The Dilemma of the Muslim World*. Westport: Praeger Publishers, p. 148

<sup>86</sup>*Ibid*.

emergence of the Islamic Liberation Party (Hizb ut-Tahrir). Its founder was Taqiuddin al-Nabhani, who received religious education, which enabled him to take the post of Qadi in a Sharia court in Haifa during the British Mandate for Palestine.<sup>87</sup> In the early 1940s, he continued his education in Egypt, and entered into the most prestigious university among the Muslims of Cairo, Al-Azhar.<sup>88</sup> Due to the fact that the university was a mainstay of the Egyptian Muslim Brotherhood, it is not surprising that al-Nabhani shared the ideas of the organization and later joined its ranks. In the short term, before the partition of Palestine, Sheikh al-Nabhani became a prominent figure in the Islamic environment. After 1948, he returned to Palestine, settling first in Nablus, and then moved to Jerusalem.<sup>89</sup>

Likely to become an eyewitness of separation of his country, al-Nabhani could not agree with the tactics of gradualism preached by the Muslim Brotherhood. In 1950, he went out of the ranks of the organization, and a few years later, in 1952-1953, founded the Islamic Liberation Party.<sup>90</sup> It pursued the same objective as the Muslim Brotherhood, the creation of an Islamic state. However, two organizations had profound disagreements on tactics. Preaching the idea of an Islamic caliphate, Sheikh al-Nabhani insisted on the need for radical revolutionary methods of struggle.<sup>91</sup> Moreover, in contrast to the ideologues of the founder of the organization, Party of Liberation stated that formation of

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<sup>87</sup> Guidere, Mathieu (2012). *Historical Dictionary of Islamic Fundamentalism*. Lanham: Scarecrow Press, pp. 154-155

<sup>88</sup> Burgio, Franco (2007). *Islamic Movements in Uzbekistan: Who is Hizb-ut-Tahrir?* Norderstedt: GRIN Verlag, p. 5

<sup>89</sup> *Ibid*, pp. 5-6

<sup>90</sup> *Ibid*.

<sup>91</sup> Leiken, Robert (2011). *Europe's Angry Muslims: The Revolt of The Second Generation*. New York: Oxford University Press, p. 156



a Muslim community is not the beginning of the road to the Islamic state, but the crown of this struggle. According to al-Nabhani, the task of forming of a truly Islamic society outside of the existence of Islamic caliphate is considered impossible, since only in the reign of the Islamic regime the introduction of Sharia is the basis of life of orthodox Ummah. On this basis, Taqiuddin al-Nabhani assigned a much smaller place for the establishment of Islamic institutions and preaching Islam.<sup>92</sup>

The Islamic Liberation Party converged with Muslim Brotherhood on the fact that the Palestinian problem was not the central or most important for the Muslim community. However, Sheikh al-Nabhani considered the existence of the State of Israel and its occupation of Palestine as part of a challenge for the Muslim world.<sup>93</sup> He saw the way to solve the Israeli-Palestinian conflict only through the construction of Islamic caliphate in the boundaries of all Arab countries, but only on the basis of the Islamic revolution.<sup>94</sup>

Activities of the Party of Liberation were limited mainly to Jerusalem and the West Bank. Formally, however, it has not been legalized. Its leader took steps to its registration in the Ministry of Interior of Jordan twice, but both times it was refused. After the 1967, the party virtually ceased its political activities, finding it impossible to hold the Islamic Revolution under occupation. However, its structure was formally persisted in hiding, without conducting any political action. This “frozen” state lasted until the end of the 1980s, and only with the beginning of the intifada in the occupied territories the party began to appear - leaflets were distributed by few supporters of the

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<sup>92</sup>*Ibid*, pp. 156-157

<sup>93</sup>Guidere, Mathieu (2012). *Historical Dictionary of Islamic Fundamentalism*. Lanham: Scarecrow Press, p. 128

<sup>94</sup>*Ibid*.

Party of Liberation. In most cases, these proclamations were printed outside of Palestine. All this proves that the party, awakened by the uprising, was not able to recover its lost ground in the Palestinian community.<sup>95</sup>

During this period, the entire Middle East, including the West Bank and the Gaza Strip, saw a rapid rise of Islamic sentiment and, most importantly, a steady trend towards the politicization of Islam in general was clearly revealed. Muslim organizations were increasing their influence not only on the daily lives of the faithful, but they were actively involved in political struggle in countries of the region. At the turn of 1970-80s, there several important developments were operating, the impact of which continues to affect the development of socio-political situation in the Muslim world to date. Among them is enough to recall the overthrow of the Shah's regime in the Islamic revolution in Iran in 1979, an armed uprising of the Islamic opposition in Syria in 1979-1982, the assassination of President Anwar Sadat by members of a radical Muslim organization in 1981, the emergence of powerful Shiite military political factions in Lebanon and the beginning of their military actions against Israel in 1983-1984. There is no doubt that all these changes could affect the position of the Muslim Ummah in the occupied Palestinian territories.<sup>96</sup>

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<sup>95</sup> Emerson, Steven (2003). *American Jihad: The Terrorists Living Among Us*. New York: The Free Press, pp. 195-196

<sup>96</sup> Timeline of the Arab-Israeli Conflict and Peace Process. Institute for Curriculum Services. <http://www.icsresources.org/content/factsheets/ArabiIsraeliTimeline.pdf> Retrieved on 21<sup>st</sup> July, 2014

### 5.3 The Islamic Organization

It was during these years that in the bowels of Muslim Brotherhood, the largest organization of the Muslims of the West Bank, important processes started to occur. According to some reports, in the early 1980s in the Gaza Strip only there were at least eight Islamic groups inextricably linked to Muslim Brotherhood or to those who have quit the organization.<sup>97</sup> This period can be attributed to the process of laying the foundations of authority and influence of Sheikh Ahmed Yassin, who became a popular spiritual leader of the Muslims in Palestine during the Intifada. In 1973, Sheikh Yasin created and personally led the forces of the Islamic Organization, which became the largest organization of Muslim Brotherhood to act in the Gaza Strip.<sup>98</sup> After his arrest in 1984, which lasted for several months, the Islamic Organization was headed by his proponent, Ibrahim Yazuri.<sup>99</sup>

To a large extent, the expansion of Islamic movements and organizations in the population of occupied Palestine to the activities of the universities in Gaza and the West Bank were discovered since 1967, and more precisely in 1972-1978. Thus, the Islamic group had influence among university students who lived in the West Bank (one - in Nablus, another one - in Hebron), as well as in the Islamic University of Gaza. Their supporters dominated student councils of these institutions in the 1980s.<sup>100</sup> All of these

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<sup>97</sup> Syed, M. H. (2002). *Islamic Terrorism, Myth or Reality*. Delhi: Kalpaz Publications, pp. 205-206

<sup>98</sup> Patterson, David (2010). *A Genealogy of Evil: Anti-Semitism from Nazism to Islamic Jihad*. New York: Cambridge University Press, p. 167

<sup>99</sup> *Ibid.*

<sup>100</sup> Syed, M. H. (2002). *Islamic Terrorism, Myth or Reality*. Delhi: Kalpaz Publications, pp. 199-200

universities (there were six such institutes in the occupied territories on the eve of the uprising) based their activities on Islamic educational and training methods. Centers of distribution of religious literature and videotapes, which contained sermons of prominent Muslim Ummah, were located there. These centers were also used for organization of debates and Islamic propaganda.<sup>101</sup> In addition, Palestinians from the occupied territories could receive religious education outside of Palestine, including Cairo University, Al-Azhar. This fact gave the Islamic groups more opportunities to establish new contacts with their foreign peers in the occupied territories. The situation was actively used to create various charities funded by representatives of rich Gulf Arab countries, who provided various forms of assistance to those Muslims in need, especially in the numerous refugee camps.<sup>102</sup>

The most remarkable and paradoxical in this regard is the relation of Israel to the revitalization of Islamic groups in the occupied territories. During the 1970-80s, until the beginning of the Intifada, the Israeli authorities not only did not prevent them from work, but also provided full support.<sup>103</sup> It is sufficient to recall the opening of the Islamic University in the 1970s, the resolution of construction of mosques in Gaza and the West Bank, establishment of Muslim schools, clubs and centers, which eventually turned into a streamlined infrastructure, provided a fruitful activity of Islamic movements and organizations among the Palestinians. At the same time, the Israeli authorities have made no secret of its plans to put the “Islamic screener” against actions of secular nationalist

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<sup>101</sup> *Ibid.*

<sup>102</sup> *Ibid.*

<sup>103</sup> Abootalebi, Ali Reza (2000). *Islam and Democracy: State-society Relations in Developing Countries, 1980-1994*. New York: Garland Publishing Inc., p. 125

factions of the PLO (especially Fatah) in the occupied territories, which were seen as the main threat to Israel's security. For example, in 1979 the Israeli military authorities have officially recognized Palestinian Muslim Brotherhood as a permitted religious association (Mujama al-Islamiya) and provided tacit support.<sup>104</sup>

It is important to note that the plan of Israel brought a certain "positive" effect. In particular, Palestinian Muslim Brotherhood held "positive neutrality" in its relations with the Israeli authorities for a long time, relying mainly on humanitarian aspect of activities. Moreover, at the turn of the 1970-80s, in some areas of the Gaza Strip and the West Bank clashes occurred between the followers of the Muslim Brotherhood, supported by the Islamic Jihad movement, and supporters of the PLO, mainly represented by members of the Fatah movement in the area of occupation.<sup>105</sup>

Relationships between Palestinian Islamic organizations and the PLO were complicated. For example, the Islamic Liberation Party always negatively evaluated activities of the PLO. Leaders of Islamic Liberation Party believed that the actions of the PLO created a split in the Muslim Ummah, as its governance gives priority to the tasks of the national struggle to the detriment of general objectives of Islam. Equally uncompromising attitude towards the secular nationalists, especially the PLO, was held by many other Islamic movements and groups in Palestine. At the same time, the chairman of the PLO Executive Committee, Yasser Arafat, who was forced to leave

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<sup>104</sup> How Israel Helped to Spawn Hamas by Andrew Higgins, 24 January, 2009. The Wall Street Journal. <http://online.wsj.com/news/articles/SB123275572295011847> Retrieved on 22<sup>nd</sup> July, 2014

<sup>105</sup> Abootalebi, Ali Reza (2000). *Islam and Democracy: State-society Relations in Developing Countries, 1980-1994*. New York: Garland Publishing Inc., p. 184

Beirut under the pressure of the Israeli army in the first half of the 1980s, attempted to enlist the support of Islamic groups.<sup>106</sup>

After evacuation in Tripoli to northern Lebanon, Arafat made a pact of “strategic cooperation” with local Islamic movements and Sunni structures, including Lebanese Muslim Brotherhood, represented by Islamic party of monotheism, Islamic Unification Movement.<sup>107</sup> Said Shaaban, leader of the Sunni group, said that it is impossible to solve the Palestinian issue without combined efforts of the Muslim Ummah. However, this maneuver of the PLO leadership did not bring him any serious results to establish contacts with the Palestinian Islamic forces. Moreover, in November 1983, Yasser Arafat and the PLO troops loyal to him were forced to leave North Lebanon under the pressure from armed Shiite movement Amal and breakaway opposition faction Fatah under the command of Abu Musa, which was associated with increased support, not only moral, from the side of Syria. Gradually, the “Islamic factor” became the source of a higher potential danger to the PLO and Yasser Arafat than secular opposition Palestinian organizations that have found an ally and protector in the face of Damascus.<sup>108</sup>

## 5.4 Islamic Jihad Movement in Palestine

In ranks of Muslim Brotherhood, which operated in the occupied territories, there was a process of further disengagement, which has led to the emergence of a Palestinian

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<sup>106</sup> *Ibid.*

<sup>107</sup> Tessler, Mark A. (1994). *A History of the Israeli-Palestinian Conflict*. Bloomington: Indiana University Press, p. 635

<sup>108</sup> *Ibid*, pp. 643-644

Islamic Jihad movement on the political scene. At the end of the 1970s, a not very well-known young member of Palestinian Muslim Brotherhood, Fathi al-Shaqaqi, arrived in Egypt to study medicine.<sup>109</sup> There he found news about the Islamic revolution in Iran. These events and the subsequent Iranian experience of society transformation had a huge impression on a young Palestinian. Shaqaqi readily adopted the Iranian model of action, adding some elements of the Egyptian practice of radical Islamic groups to it. Islamic Jihad Movement in Palestine, created by him, emerged as a political union of cells, whose members differed in their theoretical concepts with the concept of Palestinian Muslim Brotherhood, in particular in evaluating Palestinian nationalism.<sup>110</sup> Supporters of this movement formed the opposition faction within the organization, and then went out of its ranks, finding a complete organizational independence from Muslim Brotherhood. However, the founder of the Islamic Jihad Movement retained his formal membership in Muslim Brotherhood.<sup>111</sup>

After returning to the Gaza Strip, Shaqaqi and his companions, among whom was a large percentage of graduates of Egyptian universities and Muslim schools, began to actively promote their ideas. In this work they have created their own infrastructure (mosques, schools, clubs) first and foremost in the Gaza Strip. In the first half of the 1980s, the movement's activities were limited to theoretical disputes with Muslim Brotherhood. Despite the fact that Shaqaqi and his supporters held a common position on a number of issues with former colleagues in the organization, they had their own

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<sup>109</sup> Abu-Amr, Ziad (1994). *Islamic Fundamentalism in the West Bank and Gaza: Muslim Brotherhood and Islamic Jihad*. Bloomington: Indiana University Press, p. 93

<sup>110</sup> *Ibid*, p. 119

<sup>111</sup> *Ibid*.

opinions on certain fundamental issues. Like Muslim Brotherhood, their goal was to create an Islamic state in which Sharia law was to be the regulator of all aspects of life of devoted Muslims. However, Shaqaqi and his followers greatly differed from the Muslim Brotherhood in determining the means and methods to accomplish the goal. In its approach to the issue, the Islamic Jihad Movement firmly held the position of theory of the Islamic Revolution.<sup>112</sup> Ideologists of the movement believed that the presence of an Islamic state in Palestine and its functioning were not a prerequisite to solve the problem of the Israeli occupation of these lands. Moreover, they believed that it was jihad, as a sacred duty of every Muslim, to be a decisive step towards the formation of an Islamic state.<sup>113</sup> At the same time, they were consistent supporters of the destruction of the State of Israel. Thus, the Islamic Jihad Movement had risen in opposition to reformism of Palestinian Muslim Brotherhood and its concept of the gradual transformation of the Palestinian society. It is important to note that the Islamic Jihad, in contrast to the Muslim Brotherhood, did not reject the national aspect of the Palestinian problem, which secular PLO factions relied on.<sup>114</sup>

Shaqaqi and his supporters repeatedly demonstrated their commitment to the ideas of radicalism and confrontation, which were the characteristics of some nationalist groups as part of the PLO. These sympathies have imposed a serious mark on the approach of the Islamic Jihad Movement to institution building. Initially, it was formed as a closed community of a limited number of like-minded people, resembling a small model of an

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<sup>112</sup> Lindholm Schulz, Helena (1999). *The Reconstruction of Palestinian Nationalism: Between Revolution and Statehood*. Manchester: Manchester University Press, p. 79

<sup>113</sup> *Ibid.*

<sup>114</sup> *Ibid.*



underground group. As already noted, the movement was made up of small cells, obeying a single political authority. Each newly joined member of the Islamic Jihad Movement was assigned an individual number and given an underground name. He was obliged to maintain contacts with a team leader only to ensure the highest degree of secrecy in action. It is also important to note that members of the Islamic Jihad were mainly recruited among young Palestinians kept in Israeli jails.<sup>115</sup>

Chosen model for building of the movement and its activities leaves Islamic Jihad Movement with only one opportunity for constant maintenance of high prestige and influence among the masses - an active and decisive action. Since the mid-1980s, the Islamic Jihad Movement finally goes into hiding, becoming a small but militant underground organization.<sup>116</sup> At the same time, it must be admitted that the activity of the movement was so high for two or three years before the Intifada that most researchers point to an important role of mobilization of Palestinian masses by the Islamic Jihad in the occupied territories and preparation of uprising.<sup>117</sup>

Armed actions carried out by members of the Islamic Jihad Movement before and at the beginning of the Intifada, which were based on the idea of self-sacrifice for the sake of the purposes of the common struggle, caused considerable resonance. They pushed Israel to punitive retaliatory action against the supporters of the movement, especially against its governors. In March 1986, the Israeli security forces arrested the leader of the Islamic Jihad Movement Fathi Shaqaqi, deporting him in August 1988 to

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<sup>115</sup> Hassan, Riaz (2014). *Life as a Weapon: The Global Rise of Suicide Bombings*. Oxon: Routledge, p. 86

<sup>116</sup> *Ibid*, p. 81, 87

<sup>117</sup> *Ibid*, p. 89

Lebanon.<sup>118</sup> In addition, on the 6<sup>th</sup> of November 1987, Sheikh Abd al-Aziz Awda was expelled from the occupied territories in neighboring Lebanon, who taught at the Islamic University of Gaza.<sup>119</sup> Israeli authorities considered him as one of the leaders of the movement. Currently, Abd al-Aziz Awda is the most wanted terrorist by the FBI.<sup>120</sup>

However, even weakened by repressions, the Islamic Jihad Movement enjoyed broad support in the occupied territories. It continued to struggle, distributing leaflets, staging demonstrations and organizing strikes. At the same time, members of the movement did not renounce armed resistance methods. During uprisings, the Islamic Jihad Movement tried to play an independent role in Palestine, demonstrating its independence from the leadership of Unified National Command of the Intifada (UNCI). Nevertheless, the remaining Islamic Jihad Movement leaders were willing to coordinate with the UNCI. This approach of the movement's leaders to interact with other political forces in Palestine reflects their common position, which was to seek common ground with local activists of various factions of the PLO involved in the Intifada. At the same time, they were rigidly opposed to foreign leadership of the PLO, located in Tunisia. Moreover, according to some sources, Islamic Jihad Movement refused to play a role in the UNCI, giving priority to the specific practice of action and to preserve the unity of forces involved in the struggle against Israel.<sup>121</sup>

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<sup>118</sup> Syed, M. H. (2002). *Islamic Terrorism, Myth or Reality*. Delhi: Kalpaz Publications, p. 179

<sup>119</sup> Robinson, Glenn E. (1997). *Building a Palestinian State: The Incomplete Revolution*. Bloomington: Indiana University Press, p. 148

<sup>120</sup> FBI. Most wanted terrorists. [http://www.fbi.gov/wanted/wanted\\_terrorists/abd-al-aziz-awda](http://www.fbi.gov/wanted/wanted_terrorists/abd-al-aziz-awda) Retrieved on 25<sup>th</sup> July, 2014

<sup>121</sup> Syed, M. H. (2002). *Islamic Terrorism, Myth or Reality*. Delhi: Kalpaz Publications, p. 183

It is noteworthy that, while being generally a rival to secular Palestinian organizations, the Islamic Jihad Movement went on active cooperation with them at the beginning of the uprising. This position of the movement's leaders may become more understandable when one considers some of the features of the situation in the occupied territories. Thus, according to some reports, in the period preceding the beginning of the revolt, youth organizations were found in relatively close cooperation to Fatah and the Islamic Jihad Movement.<sup>122</sup> Also, structures controlled by Fatah provided funds and weapons for the needs of Jihadists at that time. Finally, the recognition of the role of Islamic Jihad in the Israeli-occupied zone can be considered as a statement of the Secretary General of the Popular Front for the Liberation of Palestine (PFLP), George Habash, who said: "I would like to express my deepest appreciation for the phenomenon of the Islamic Jihad in occupied Palestine."<sup>123</sup>

At the end of 1987, a new political situation began to develop in the occupied territories. It was mainly characterized by three major features. Firstly, there was a classic revolutionary situation during autumn in Palestine, in which "elites," i.e. the Israeli military authorities, could not keep Palestinian population in the Gaza Strip and the West Bank under control, and the "lower classes," i.e. the Palestinians, did not want to preserve the status quo and were ready for the most decisive action for its change. Secondly, on the background of the highest degree of mobilization of the masses in the lands held by Israel with force of weapons, the position of Muslim Brotherhood remained sluggish and

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<sup>122</sup> Bar-On, Mordechai (2004). *A Never-ending Conflict: A Guide to Israeli Military History*. Mechanicsburg: Greenwood Publishing Group, p. 226

<sup>123</sup> Tessler, Mark A. (1994). *A History of the Israeli-Palestinian Conflict*. Bloomington: Indiana University Press, p. 694

inadequate to reality; it was caught in danger of losing any impact in the area of occupation. Thirdly, the repression inflicted on the leaders and supporters of radical Islamic groups, particularly the Islamic Jihad Movement, created a unique opportunity for the Palestinian Muslim Brotherhood. It was aware of the danger to their continued existence as a mass organization of Muslims in terms of their inactivity of governance, in order to take a certain niche in the common struggle of the Palestinian people against the Israeli occupation and to push itself to the forefront of resistance.<sup>124</sup>

## **5.5 Creation of Hamas**

Faced with the choice, a significant part of Muslim Brotherhood went to drastic changes not only of the image of the organization, but also of its approach to its practice. However, this transformation was painful, since it led to a split within the organization. First signs of organizational changes within Muslim Brotherhood began to appear in January 1988, i.e. a month after the beginning of the Intifada. A month later, the organization had significant processes that led to the formation of Hamas (the Arabic acronym for Islamic Resistance Movement) as the military wing of Muslim Brotherhood in the occupied territories.<sup>125</sup> Initiators and ideological inspirers of the creation of this movement were young and ambitious activists of the organization. Their spiritual leader became popular in Palestine, Sheikh Ahmed Yassin, the founder and leader of one of the

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<sup>124</sup>Syed, M. H. (2002). *Islamic Terrorism, Myth or Reality*. Delhi: Kalpaz Publications, p. 191

<sup>125</sup>Lindholm Schulz, Helena (1999). *The Reconstruction of Palestinian Nationalism: Between Revolution and Statehood*. Manchester: Manchester University Press, p. 76

factions of Muslim Brotherhood, the Islamic Organization, as well as the head of the Islamic Center in Gaza.<sup>126</sup> In fact, the Islamic Organization became the nucleus for a new Islamic group. The second person in the leadership of the movement was Sheikh Abu Khalil, who was arrested by the Israeli military authorities and deported from the occupied territories six months later. In the next two years, Sheikh Khalil was actually the leading foreign representative of Hamas, who was responsible for financial revenues.<sup>127</sup>

After a short time frame, military wing of Muslim Brotherhood was narrowed to Hamas. It was transformed into an independent political movement that not only contested the palm of the Islamic Palestinian groups in the occupied territories to the Islamic Jihad Movement, but even opposed itself to the PLO. Moreover, Hamas had pointedly distanced itself from the Muslim Brotherhood, which actually lost popular support in Gaza and the West Bank. The Islamic Resistance Movement started fighting for the right to be called the legitimate representative of interests of the Palestinian people, challenging the PLO on this status. Defending its right to execute this role, Hamas has resorted to the argument, which is expressive in its simplicity and is fixed in the minds of followers thanks to a well-known graffiti since the times of Intifada: “the Quran is the sole legitimate representative of the Palestinian people.”<sup>128</sup>

Moving away from Muslim Brotherhood, leaders of Hamas were required to articulate their ideological priorities and their understanding of tactics and strategy of the Palestinian struggle. Their proclaimed goal to establish an independent Islamic state

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<sup>126</sup> Milton-Edwards, Beverley; Farrel, Stephen (2013). *Hamas: The Islamic Resistance Movement*. Cambridge: Polity Press, p. 168

<sup>127</sup> *Ibid*, p. 169

<sup>128</sup> Cubert, Harold M. (2014). *The PFLP's Changing Role in the Middle East*. New York: Routledge, p. 178

practically did not differ from the slogans of other Islamic groups and organizations, including the Islamic Jihad Movement, the UNCI, or even Muslim Brotherhood. However, one can identify a number of special features that characterize the ideological platform of Hamas in this issue. Theorists of Hamas categorically rejected the main principle of the ideological work of Muslim Brotherhood, which was to “re-Islamize” the Palestinian society as the foundation to build an Islamic state. Moreover, Hamas focused its attention on the need for creation of an independent Islamic state in all of Palestine, including the part that had been allocated by the United Nations to form the State of Israel. At the same time, according to the ideologues of Hamas, a new public education should be the initial step towards the formation of a Pan-Islamic state which would unite the whole Muslim Ummah world.<sup>129</sup>

Position of the leaders of Hamas, aimed at refusing to recognize Israel’s right to existence and their intention to consolidate the entire territory of Palestine within a single state was based on the fact that Palestine is the Holy Land, and with religious-legal point of view – it was waqf. This argument, according to the founders of Hamas, practically and legally excluded the possibility of division of Palestine’s territory, or rejection of its parts, or creation of a state other than the Islamic one. At the same time, however, it was declared that in the new state “all religions can coexist in security and safety...”<sup>130</sup> It is

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<sup>129</sup> Lindholm Schulz, Helena (1999). *The Reconstruction of Palestinian Nationalism: Between Revolution and Statehood*. Manchester: Manchester University Press, pp. 110-113

<sup>130</sup> Alexander, Yonah; Hoenig, Milton M. (2008). *The New Iranian Leadership: Ahmadinejad, Terrorism, Nuclear Ambition, and the Middle East*. Westport: Greenwood Publishing Group, p. 91

important to draw one caveat, which was the fact that followers of these religions must recognize Palestine as an integral part of the Muslim world.<sup>131</sup>

All of these provisions found documentary evidence in the Charter of Hamas (or Hamas Covenant), which was published in August of 1988.<sup>132</sup> Charter included 36 articles in a small booklet of 40 pages. In concentrated form, the contents of this document of the movement were expressed in the slogan of Hamas: “Allah is our objective. The Prophet is our leader. Quran is our law. Jihad is our way. Dying in the way of Allah is our highest hope.”<sup>133</sup> In fact, this slogan was taken from Muslim Brotherhood. Such a formulation of the goals and objectives of the movement itself completely eliminates the probability of a peaceful settlement of the Israeli-Palestinian conflict, as it contradicts one of the fundamental principles of the movement - jihad.<sup>134</sup>

Notable is the attitude of Hamas to the PLO and Palestinian nationalism as a whole. Thus, Hamas leaders’ ideas were based on the fact that Arab nationalism, including the Palestinian, is nothing but a “part of the Muslim faith.” This message leaves no doubt that the Palestinian nationalism, as convicted by leaders of Hamas, is of secondary importance compared to their Islamic movement in nature and explains the relationships that exist between religious and secular segments of the Palestinian resistance and clearly manifested from the beginning of the Intifada. It is also confirmed

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<sup>131</sup> *Ibid.*

<sup>132</sup> *Ibid.*, p. 90

<sup>133</sup> Brandin, David H. (2009). *The Horns of Moses*. Bloomington: iUniverse, p. 97

<sup>134</sup> *Ibid.*

by the persistence with which Hamas leaders offered to “Islamize” the program of the PLO.<sup>135</sup>

Thus, from its inception, the Hamas movement has entered into a tough competition with secular Palestinian groups, challenging their superiority in expression of interests of the nation. In contrast to the Islamic Jihad, Hamas does not differentiate between the UNCI in the occupied territories and the PLO leadership in Tunis. Hamas took a similar negative attitude to these governance structures of the PLO, refusing not only to coordinate with the UNCI, but even to contact with it. Hamas acted for its absolutely independent line in the uprising from the UNCI and rigidly sticks to it. Rigidity and consistency of Hamas’s policy resonated among many Palestinians, particularly among the most disadvantaged parts in refugee camps in the Gaza Strip. At the same time, it would be wrong to say that in the first months of the Intifada, the Islamic Resistance Movement actions went beyond the tactics pursued by the UNCI, including in relation to campaign of nonviolent disobedience to the Israeli military authorities in the occupied territories.<sup>136</sup>

By the spring of 1988, the Islamic Jihad Movement was severely weakened by repressions and arrests of its managerial personnel.<sup>137</sup> Under these circumstances, certain there would be a decrease in the activity of the movement and the fall of its popularity. Caught in such dramatic situation for itself, the Islamic Jihad Movement did not abandon its principles, but it took several months to fully restore control within the movement in

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<sup>135</sup> Abu-Amr, Ziad (1994). *Islamic Fundamentalism in the West Bank and Gaza: Muslim Brotherhood and Islamic Jihad*. Bloomington: Indiana University Press, p. 93

<sup>136</sup> *Ibid*, pp. 91-91

<sup>137</sup> *Ibid*, pp. 94-96



order to re-establish the partially defeated underground structures and to resume full-scale resistance to the Israeli occupation.<sup>138</sup>

However, the vacuum in the block of Islamic groups and organizations that have been fighting in occupied Palestine was not left blank. The situation was more than timely for “political novice,” the Hamas movement, which was only beginning to gain popularity and support among the Palestinian population in the Gaza Strip and the West Bank. It began to challenge the primacy of the Islamic Jihad Movement, and although it was not a mass movement, it enjoyed the sympathy of a large part of the Palestinian population, including not only the religious-minded Palestinians, but also supporters of secular nationalists.<sup>139</sup>

Confirmation of rivalry between Hamas and Islamic Jihad Movement in the initial period of the uprising was the fact that there was no clear coordination between them, so actions conducted were uncoordinated. Probably an additional motive for their mutual rejection was the fact that leaders of the Islamic Jihad Movement did not hide their sympathy for the Shiite clergy in Iran. Given this position, it would be difficult to expect a rapid establishment of contacts between the Hamas movement, rigid adherent of Sunni Islam, and the “Shiite faction,” as the Islamic Jihad Movement was sometimes called by its opponents in the occupied territories.<sup>140</sup>

As for the revived Islamic Liberation Party, its activities, because of the Intifada, were reduced to only a minor addition to the motley picture of the forces involved in the

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<sup>138</sup>*Ibid.*

<sup>139</sup>*Ibid.*

<sup>140</sup>Syed, M. H. (2002). *Islamic Terrorism, Myth or Reality*. Delhi: Kalpaz Publications, p. 207

uprising. In this regard, the Islamic Liberation Party was not only unable to challenge gaining strength Hamas, but did not even had a chance to compete with impaired Islamic Jihad Movement. All this resulted in significant and rapid ascent to the Islamic Resistance Movement as a leader of a group of Islamic spectrum in Palestine. By August 1988, Hamas put the “element of the street” in action.<sup>141</sup> The Islamic Resistance Movement had not only become the dominant force of the Islamic movements and organizations in the occupied Palestine, but also acted as an equal competitor to the PLO, as well as the UNCI, in the struggle for popular support in the area of occupation.<sup>142</sup>

In the first months after the announcement of its creation, when there was an intensive process of formation of the movement, Hamas put confirmation of the legitimacy of its claims to represent the interests of the Palestinian people as a priority. Probably, the pursuit of realization of this task was dictated by stressed rigid and uncompromising approach the leaders of Hamas put to the problem of relations with the PLO, which sometimes overgrown to open hostility.<sup>143</sup>

One of the differences between the policies of Hamas and the UNCI in the Israeli-occupied territories is the position on participation in the uprising of Palestinian Christians, whose share of the Arab population of the West Bank and the Gaza Strip was about 15%.<sup>144</sup> Religious rhetoric of Hamas leaders and limitation of their audience to Muslim ones only in the first months of the uprising caused Christian Palestinians not

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<sup>141</sup> Milton-Edwards, Beverley; Farrel, Stephen (2013). *Hamas: The Islamic Resistance Movement*. Cambridge: Polity Press, p. 170

<sup>142</sup> *Ibid.*

<sup>143</sup> *Ibid.*, pp. 178-179

<sup>144</sup> Kuruvilla, Samuel J. (2013). *Radical Christianity in Palestine and Israel: Liberation and Theology in the Middle East*. London: I.B.Tauris Publishers, p. 53

only a cautious attitude to the Islamic group, but even a certain rejection. Nevertheless, it should be noted that unlike other Arab societies, where the problem of the relationship between the Muslim and Christian faiths was more intense, Christian Palestinians have played a prominent role in secular national organizations and movements, providing resistance to Israel. It is suffice to recall that such influential faction of the PLO as the Popular Front for the Liberation of Palestine (PFLP) and the Democratic Front for the Liberation of Palestine (DFLP) were headed by representatives of Christian community.<sup>145</sup> In addition, Christian Palestinians are also not an exception in the governing bodies of the Fatah movement. Quite naturally, the UNCI, which represented the interests of the PLO in the occupied territories, did not limit the scope of the work of faith-based, establishing contacts with the Muslim majority of the Palestinian people, and the Christians of the Gaza Strip and the West Bank.<sup>146</sup>

Such flexibility of the UNCI against Palestinians, which constituted religious minorities, quickly brought positive results. Already on the 31<sup>st</sup> January 1988 in the cities of the West Bank, which constitute the majority of Christian Palestinians, including Orthodox and Catholics, was the first mass march in support of action of the UNCI.<sup>147</sup> In particular, residents of a small town of Beit Sahour, located two kilometers from Bethlehem, including Christians, who made up 75% of its population, were actively involved in the uprising, and in April-May of 1989 became one of the initiators of an

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<sup>145</sup> *Ibid*, p. 54

<sup>146</sup> *Ibid*, p. 55

<sup>147</sup> The "Forest Jihad" by Colonel Jonathan Fighele. 28 October, 2008. International Institute for Counter Terrorism. <http://www.ict.org.il/Article.aspx?ID=1043> Retrieved on 3<sup>rd</sup> August, 2014

organized campaign of civil disobedience.<sup>148</sup> Municipality of Beit Sahour created committees of mutual aid, and its population refused to pay taxes to the Israeli government. Thus, the Christian population of Jerusalem, Bethlehem, Ramallah, Beit Sahour and towns of Palestine, whose sympathies primarily belonged to secular groups, especially the PFLP, the DFLP, and the Palestinian Communist Party, demonstrated the unity of the Palestinians in the occupied territories in relation to national goals, which defended the UNCI personifying various secular faction of the PLO.<sup>149</sup>

This indicated that Palestinian leaders of Islamic orientation and structures behind them were unable to overcome existing interfaith barriers and consolidate the Palestinian society. Probably rigid conservatism of the Islamic opposition, especially Hamas, had played an important role in enhancing the value of the “Islamic factor” during the intifada, while at the same time allowed the UNCI and the Tunisian leadership of the PLO to show great promise of denominational position in defending the national interests of the Palestinian people, speaking under the slogan “We are all Palestinians.” In any case, by mid-summer of 1988 PLO leaders, who settled in Tunisia and temporarily lost control of the situation in the Israeli-occupied Palestine, were able to regain control of the whole course of the intifada.<sup>150</sup> They were able to significantly push back four real creators of the revolt in the face of the UNCI on second roles, which was presented to local activists as the most important and influential factions of the PLO. “Compensation” in this case was to be the cooperation of the leaders of the UNCI in the Palestine National

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<sup>148</sup> Lynd, Staughton (Ed). (1994). *Homeland: Oral Histories of Palestine and Palestinians*. New York: Olive Branch Press, p. 275

<sup>149</sup> *Ibid.*

<sup>150</sup> *Ibid*, pp. 276-277

Council. To a large extent, this process of transition of organizational and governing functions in the occupied territories of the UNCI to the central leadership of the PLO in Tunis contributed to the repression and collapse of the Israeli military authorities against local activists, including leaders of the Joint National leadership of the uprising. Thus, the PLO was able to confirm its legitimacy as the representative of the Palestinian people, including the Israeli-occupied territories.<sup>151</sup>

## **5.6 Hamas, ISIL, and danger to world's security**

Israeli Prime Minister Benjamin Netanyahu had a speech at the 69<sup>th</sup> session of the UN General Assembly in New York. Prime Minister delivered his speech on Monday, 29<sup>th</sup> September. From the rostrum of the UN General Assembly, Netanyahu spoke about the threat of Islamic extremism, the reasons why his country had to launch the operation Protective Edge in the Gaza Strip, about Palestinian terror and the right of the Jewish people to self-defense.<sup>152</sup>

He referred about the threat posed by the Islamic State of Iraq and the Levant ((ISIL) or ISIS (Islamic State of Iraq and Syria)) group in order to move to the three main themes of his speech: Iran's nuclear program, Hamas, and Mahmoud Abbas. Netanyahu linked the threat that comes from the ISIS nowadays to the international community to the threat that comes from Hamas to Israel. "Hamas, like the Islamic State, wants a

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<sup>151</sup> *Ibid.*

<sup>152</sup> Binyamin Netanyahu: Isis and Hamas 'branches of the same poisonous tree.' The Guardian. 29 September 2014. <http://www.theguardian.com/world/2014/sep/29/netanyahu-un-isis-hamas-branches-poisonous-tree> Retrieved on 4<sup>th</sup> December, 2014

caliphate,” he said. “‘ Hamas’ immediate goal is to destroy Israel but has a wider goal the same as ISIS,” the prime minister said. “ISIS and Hamas are branches of the same poisonous tree. When it comes to their ultimate goals: Hamas is ISIS and ISIS is Hamas.”<sup>153</sup>

Netanyahu also responded to accusations of genocide that were recited by Mahmoud Abbas on 26<sup>th</sup> September. Israeli Prime Minister called militants of Hamas war criminals. He said that this is what Mahmoud Abbas had to speak about. “Hamas deliberately placed its rockets where Palestinian children lived and played,” Netanyahu continued, pulling out a photo from a France 24 report during the war, showing Gazan children playing near a rocket launcher. “These are the real war crimes,” he said. He continued by saying: “Israel was using its missiles to protect its children, Hamas was using its children to protect its missiles. Hamas deliberately put its rockets in hundreds of residential areas.” He also added that “we did not deliberately target civilians in Gaza and we regret every civilian casualty.” “No other country and no other army in history has gone to greater lengths to avoid casualties among the civilian population of their enemy. Our soldiers uphold the highest moral values of any army in the world - they should be admired not condemned.” Hamas, on the other hand, “was doing everything it could to target civilian lives.”<sup>154</sup>

After Netanyahu’s UN General Assembly speech, the US State Department refused to agree with assertion that, “as Hamas’s charter makes clear, Hamas’s immediate

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<sup>153</sup> *Ibid.*

<sup>154</sup> *Ibid.*

goal is to destroy Israel. But Hamas has a broader objective. They also want a caliphate... So when it comes to their ultimate goals, Hamas is ISIS and ISIS is Hamas.”<sup>155</sup>

Jen Psaki, US State Department spokesperson answered the question regarding Netanyahu’s “Hamas is ISIS” statement. She said that Hamas was not viewed as part of an “Islamic attempt to rule the world.”<sup>156</sup>

Hamas, which rejects Israel’s existence, still certainly agrees with Prime Minister Binyamin Netanyahu, while disagrees with the US State Department - that its “ultimate goal” is to establish an “Islamic state” (caliphate) over what it sees as the “occupied lands of Palestine.”<sup>157</sup> In short, while the US disputes PM Netanyahu’s statement that “Hamas is ISIS, and ISIS is Hamas” – Hamas itself does not.<sup>158</sup>

At the same time, senior Hamas leader Mahmoud al-Zahar said that “we don’t want to establish an Islamic emirate in Gaza; we want an Islamic state in all Palestine.” He added that if Hamas could insert some of its military assets into Judea and Samaria, “we will be able to go for a successful battle that we will win at the end.” Despite entering a “unity” government with Fatah, he promised that Hamas will stick “to the program of resistance,” adding that “during the last war on Gaza, we learned how to liberate all the occupied lands of Palestine.”<sup>159</sup>

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<sup>155</sup> Hamas agrees with Netanyahu: 'We want an Islamic State' by Mark Langfan. Israelnationalnews. <http://www.israelnationalnews.com/News/News.aspx/185747#.VIHhRdKG86E> Retrieved on 4<sup>th</sup> December, 2014

<sup>156</sup> *Ibid.*

<sup>157</sup> *Ibid.*

<sup>158</sup> *Ibid.*

<sup>159</sup> *Ibid.*

## **5.7 Conclusion**

To summarize, it should be noted that sudden appearance of many Islamic movements and organizations in the political arena in the occupied Palestinian territories at the turn of the 1980-90s actually turned a natural result of the processes, which started in the 1940s. Despite the fact that the “Islamic factor” is unlikely to be dominant in the political realities of modern Palestine, it would be wrong to belittle its importance. This conclusion was confirmed by the entire course of events during the Intifada and the subsequent development of the situation in the Palestinian National Authority. So, such Islamic movement can pose a real threat not only for the security of the Middle East region, but for the world as a whole.



## **CHAPTER SIX ECONOMIC FACTORS**

### **6.1 Introduction**

The following chapter will focus on economic factors in the region. Economies of the Gaza Strip, the West Bank, Israel and Palestine will be explored in details. It is also important to bring attention to economic relations among the parties. It is clear that different players have different views on economic issues; however collaboration between the parties is needed for sustainable development of economic relations in the region.

### **6.2 The Gaza Strip and the West Bank**

Economically, the Gaza Strip is heavily dependent on Israel.<sup>160</sup> Goods to the Gaza Strip may be delivered only by land through Israel or Egypt (the area of Egypt adjacent to the Gaza Strip is sparsely populated). In addition, there is no port in Gaza. After signing of the Oslo Accords, the Gaza Strip using European sponsors had started construction of a harbor. However, in 2000, Israel bombed the port, which was under construction, in

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<sup>160</sup> Freedman, Robert Owen (Ed). (1991). *The Intifada: Its Impact on Israel, the Arab World, and the Superpowers*. Gainesville: University Press of Florida, p. 373

response to the killing of two Israeli soldiers in Ramallah.<sup>161</sup> Foreign investors have stopped the construction. Since then, projects of construction of the port have not been renewed. Only in 2014 the Palestinians in collaboration with Egypt started to think about building of airports, seaport and railway in Gaza.<sup>162</sup>

In 1998, Israel allowed the Palestinian Authority to open an airport in Gaza. Weekly flights to several Arab countries were carried out with its use. On October 8, 2000, after the outbreak of the Second Intifada, Israel closed the airport. In December 2001, Israel bombarded and crippled its runway, since, according to the Israeli security services, weapons were smuggled through the airport into Gaza, including in a personal helicopter of Arafat, which was exempted from inspection.<sup>163</sup> In 2005, the airport was returned to the Palestinian side in an unusable state, since it was not functioning.<sup>164</sup>

After victory of Hamas in the elections in the Palestinian Authority, Israel introduced blockade of the Gaza Strip. After Hamas made a coup and seized power in Gaza, Israel had further strengthened the blockade, which led to dire humanitarian situation in the Gaza Strip. Israel was passing only medicines, food, cleaning supplies and fuel for power plants in limited quantities to Gaza, while gasoline for private cars was not available. Many goods that were prohibited for delivery to Gaza, ranging from

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<sup>161</sup> Egypt-Gaza tunnels: the lifeline under threat by Sawsan Ramahi. 6 November 2013. Middle East Monitor. <https://www.middleeastmonitor.com/articles/middle-east/8169-egypt-gaza-tunnels-the-lifeline-under-threat> Retrieved on 8<sup>th</sup> August, 2014

<sup>162</sup> Palestinians plan airports in West Bank, seaport and railway in Gaza. Haaretz. <http://www.haaretz.com/news/middle-east/1.573441> Retrieved on 4<sup>th</sup> November, 2014

<sup>163</sup> Cordesman, Anthony H.; Moravitz, Jennifer (2005). *The Israeli-Palestinian War: Escalating to Nowhere*. Westport: Greenwood Publishing Group, pp. 409-410

<sup>164</sup> *Ibid.*

construction materials to tableware and glasses. Import of certain types of products was prohibited as well, such as tea, coffee or chocolate.<sup>165</sup>

Ban on the import of building materials was especially heavy for people in Gaza, as thousands of private homes and public buildings were destroyed in 2009 by the Israeli army during Operation Cast Lead; tens of thousands of people were left homeless. Reconstruction of houses during the ban on import of building materials is extremely difficult. At the end of 2009, the sector has begun to build houses using bricks made on site out of a mixture of gravel, clay and straw.<sup>166</sup>

According to the Israeli authorities, the ban on import of building materials and metal exists by virtue of the fact that they are used by Hamas to build fortifications, including underground bunkers, and the manufacture of rockets to fire onto Israel.<sup>167</sup> Part of goods, including fuel, was delivered to Gaza by smuggling from Egypt through underground tunnels, through which weapons were also imported. These tunnels are often destroyed by the Israeli Air Force.<sup>168</sup>

In early June of 2010, the Gaza Strip was visited by Steffen Jensen, a Danish reporter. The first woman he interviewed had a very negative mindset: “We have nothing,” she said. “We need everything! Food, drinks... everything!”<sup>169</sup> It disturbed her

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<sup>165</sup> Israel Ministry of Foreign Affairs. New Government policy brings more goods to Gaza. 15 January 2012. [http://mfa.gov.il/MFA/ForeignPolicy/Peace/Humanitarian/Pages/New\\_government\\_policy\\_brings\\_more\\_goods\\_to\\_Gaza\\_June\\_2010.aspx](http://mfa.gov.il/MFA/ForeignPolicy/Peace/Humanitarian/Pages/New_government_policy_brings_more_goods_to_Gaza_June_2010.aspx) Retrieved on 4<sup>th</sup> November, 2014

<sup>166</sup> Finkelstein, Norman G. (2010). *“This Time We Went Too Far”: Truth and Consequences of the Gaza Invasion*. New York: OR Books, p. 165

<sup>167</sup> *Ibid*, pp. 167-168

<sup>168</sup> *Ibid*.

<sup>169</sup> Danish reporter: Humanitarian crisis in Gaza? What humanitarian crisis? Robert Spencer. Jihad Watch. 7 June 2010. <http://www.jihadwatch.org/2010/06/danish-reporter-humanitarian-crisis-in-gaza-what-humanitarian-crisis> Retrieved on 5<sup>th</sup> November, 2014

not at least that she stood between mountains of vegetables, fruit, eggs, poultry and fish, while she spun this doomsday scenario, wrote the journalist. He said that “there was certainly no shortage of vegetables, fruits or any other ordinary, basic foods.” Also, he added that many fruits and vegetables were imported from Israel. One owner of a small grocery shop said that he would not be able to do business if it was not for contraband goods from Egypt; about 75-80% of his goods were from Egypt, while several other products, including milk, came from Israel.<sup>170</sup> Jensen concluded by saying that there are problems in Gaza, but it is not lack of food. The huge issue is lack of jobs and a sustainable domestic economy.<sup>171</sup>

On the night from 30 to 31 May 2010, the convoy of six ships of Gaza Freedom Flotilia, which was organized by the Free Gaza Movement and the Turkish Foundation for Human Rights and Freedoms and Humanitarian Relief (İHH), was stopped by naval forces of Israel in international waters near the borders of Israel when it tried to access a closed military zone.<sup>172</sup> Ships’ masters were invited to take on board the boarding team and change the course to the port of city of Ashdod. Passenger ship Mavi Marmara resisted the Israeli security check group. As a result of subsequent events, 9 passengers were killed and 30 injured, while 10-15 Israeli soldiers also got injured.<sup>173</sup> The rest of the fleet did not resist and were taken without casualties. All the ships were transmitted under the protection of the port of Ashdod, where on the next day the activists were sent outside

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<sup>170</sup> *Ibid.*

<sup>171</sup> *Ibid.*

<sup>172</sup> Scharia, David (2014). *Judicial Review of National Security*. New York: Oxford University Press, p. 42

<sup>173</sup> *Ibid.*

of Israel, those who refused to leave Israel - were arrested and deported from Israel in the next few days.<sup>174</sup>

It was said that since 2007 eight attempts to break the blockade of the Gaza Strip by the Free Gaza Movement were organized, five convoys were permitted by Israel, but with Operation Cast Lead all ships had to be held for inspection.<sup>175</sup> The day before the departure of the flotilla, the Israeli officials said that the fleet will not be passed to the Gaza Strip that is fighting with Israel without inspection leading. Israeli Foreign Ministry claimed that the breakthrough of the blockade would lead eventually to an uncontrolled flow of arms to the Hamas movement. The incident caused a significant deterioration of the situation in the Middle East. There were fierce debates about the legality and legitimacy of both Israeli forces' and flotilla organizers' actions, tough reactions of foreign ministries of many countries and the United Nations, numerous protests worldwide.<sup>176</sup>

On 3<sup>rd</sup> June 2010, Israeli Prime Minister offered representatives of the international Quartet the weakening of Israel's naval blockade of the Gaza Strip in exchange to the control of international forces for incoming goods.<sup>177</sup> Inspection for transportation of prohibited goods had to be conducted in Egyptian or Israeli ports. Since then, the blockade of the Gaza Strip by Israel and Egypt was facilitated, and the list of goods permitted to be imported was expanded. At the same time, open delivery of

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<sup>174</sup> *Ibid.*

<sup>175</sup> *Ibid.*, p. 43

<sup>176</sup> *Ibid.*

<sup>177</sup> Asseburg, Muriel (2010). *Weakening of Israel's naval blockade of the Gaza Strip – But How?* German Institute for International and Security Affairs. Munich: SWP, p. 3

construction materials into Gaza remains, due to the blockade, extremely low and is about 4% of the required amount. Settlers had to collect building materials in the former destroyed Israeli settlements. This collection of materials is often dangerous, as it occurs in the vicinity of the border with Israel, and only for the summer of 2010 the Israeli border guards shot and wounded ten Palestinian minors engaged in collecting building materials.<sup>178</sup>

In March 2011, it became known that there was developing an idea that the Israeli authorities were planning to build an artificial island in front of beaches of the Gaza Strip.<sup>179</sup> Seaport and airport, harbor for yachts and boats, logistics centers, tourist attractions, hotels, electrical substations, facilities for water desalination and so on will be created there. All of this was intended to allow the Gaza Strip to live without any Israeli involvement and security risks, as well as to provide an opportunity to remove the blockade sector. Estimated cost of the project is 10.5 billion US dollars, while the duration of construction is 5 to 10 years.<sup>180</sup>

According to the report of the UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), published in June of 2011, the number of poor living on just 1 dollar a day has tripled in Gaza within 5 years of the blockade and reached 300,000 people.<sup>181</sup> However, in April 2011, deputy director of the Red Cross in

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<sup>178</sup> Timeline Palestine 2010. [http://www.timelines.ws/countries/PALES\\_D.HTML](http://www.timelines.ws/countries/PALES_D.HTML) Retrieved on 8<sup>th</sup> November, 2014

<sup>179</sup> Israel may build artificial island off Gaza Strip coast. Conal Urquhart. 30 March 2011. The Guardian. <http://www.theguardian.com/world/2011/mar/30/israel-artificial-island-gaza-coast> Retrieved on 8<sup>th</sup> November, 2014

<sup>180</sup> *Ibid.*

<sup>181</sup> UNRWA: Gaza blockade anniversary report. <http://www.unrwa.org/newsroom/press-releases/unrwa-gaza-blockade-anniversary-report> Retrieved on 9<sup>th</sup> November, 2014

the Gaza Strip stated that: “There is no humanitarian crisis in the Gaza Strip.”<sup>182</sup> In July 2011, a commission headed by Geoffrey Palmer, assigned by UN Secretary General Ban Ki-moon to investigate the circumstances of the conflict off the coast of the Gaza Strip, recognized the legality of the naval blockade of Gaza in its report.<sup>183</sup>

After the end of hostilities in June 1967, command of the Israeli army announced the West Bank, the Gaza Strip, and the Golan Heights a closed military zone. It is noteworthy that Israeli right-wing nationalist organizations freely marched in the occupied territories, which was accompanied by the seizure of land and the establishment of settlements. At the same time, the Palestinians were forbidden to be near the “green line” and to visit East Jerusalem at night. In 1972 there were made some concessions that allowed the Palestinians to go to work in Israel, to move between Gaza and the West Bank and visit East Jerusalem with a special permission. However, once in 1987 the First Intifada started, permissions were severely restricted.<sup>184</sup>

Only an owner of a special magnetic card or a green certificate, issuance of which were put through quotas, could go to work in Israel. Persons under arrest or those held by police or army patrol at least once were barred from traveling to the occupied territories. According to the UN, from 1967 to 2006, 650,000 Palestinians were subjected to

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<sup>182</sup> Red Cross official: Gaza isn't experiencing a humanitarian crisis. 21 April 2011. Haaretz. <http://www.haaretz.com/news/diplomacy-defense/red-cross-official-gaza-isn-t-experiencing-a-humanitarian-crisis-1.357268> Retrieved on 13<sup>th</sup> November, 2014

<sup>183</sup> Report of the Secretary-General's Panel of Inquiry on the 31 May 2010 Flotilla Incident. United Nations. [http://www.un.org/News/dh/infocus/middle\\_east/Gaza\\_Flotilla\\_Panel\\_Report.pdf](http://www.un.org/News/dh/infocus/middle_east/Gaza_Flotilla_Panel_Report.pdf) Retrieved on 13<sup>th</sup> November, 2014

<sup>184</sup> Azoulay, Ariella; Ophir, Adi (2012). *The One-State Condition: Occupation and Democracy in Israel/Palestine*. Stanford: Stanford University Press, p. 72

arrest.<sup>185</sup> Therefore, on that basis alone, the Israeli authorities restricted freedom of movement for one-sixth of the entire Palestinian population of the occupied territories. Already in 1991, the entire general exit permit was replaced by an individual one, preparation of which was limited because of routine bureaucratic delays. Also, it was necessary to obtain the permission while traveling between Gaza, West Bank and Jerusalem.<sup>186</sup>

After the incident, which happened in March 1993, when Palestinian extremists killed fifteen Israelis including six soldiers, the Israeli authorities had used complete blockade of the occupied territories for the first time. Army checkpoints were established along the “green line,” and a special permit was needed in order to go through, which was issued in extremely limited amounts and by criteria that the Israeli security forces had never revealed.<sup>187</sup> Since that time, a complete blockade of Palestinian territories was constantly introduced on Israeli holidays or during periods of military operations in any area of the Gaza Strip or the West Bank. The closure was also usually used as a collective punishment after Palestinian suicide bombings or attacks on Israeli military or civilians.<sup>188</sup>

With the beginning of the Second Intifada Israel fully blocked all Palestinian territories. Movement of the Palestinians between the West Bank and Israel, and between

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<sup>185</sup> Report of the Special Rapporteur on the situation of human rights in the Palestinian territories occupied since 1967. United Nations General Assembly.

<http://unispal.un.org/UNISPAL.NSF/0/B59FE224D4A4587D8525728B00697DAA> Retrieved on 13<sup>th</sup> November, 2014

<sup>186</sup> *Ibid.*

<sup>187</sup> Occupied territories human rights practices, 1994. US Department of State, February 1995.

[http://dosfan.lib.uic.edu/ERC/democracy/1994\\_hrp\\_report/94hrp\\_report\\_nea/OccupiedTerritories.html](http://dosfan.lib.uic.edu/ERC/democracy/1994_hrp_report/94hrp_report_nea/OccupiedTerritories.html) Retrieved on 15<sup>th</sup> November, 2014

<sup>188</sup> *Ibid.*



the West Bank and Gaza was completely banned for a few months. From 2001 to present time work permits to residents of the West Bank and one-time passes for ambulances and trucks bringing mainly food and medicine are rarely issued. Every year work permits receive over 60,000 Palestinians of the West Bank. Until September 2007, such authorizations received only several hundreds of Gaza citizens.<sup>189</sup>

However, after the announcement of the Gaza Strip as a “hostile entity” by the Israeli government it became a completely isolated giant concentration camp. Around 70% of Gaza citizens needed direct assistance from international organizations, so as not to die of hunger. According to international human rights organizations, if the blockade of Gaza will not be removed, this figure will inevitably grow. In the early years of the Second Intifada the Israeli military command applied the blockade of many areas of the West Bank (mainly in the A area), but eventually most of them were removed.<sup>190</sup>

Notwithstanding, the mode of blockade around Nablus (about 200 thousand inhabitants) is in place for many years. Departures from Jenin, Tulkarm, Jericho, and Ramallah are associated with prolonged standing thorough inspections at checkpoints, which are closed for a third part of the year. Restriction of movement, related geographic subdivision and blockade of the occupied territories have the most difficult implications for the functioning of the main Palestinian social structures and institutions that critically affect the ability of residents of the West Bank and Gaza to implement fundamental human rights. The 2007 annual report of B’Tselem Human Rights Movement rightly

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<sup>189</sup> Dhillon, Navtej; Yousef, Tarik (Ed). (2011). *Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East*. Washington: Brookings Institution Press, p. 108

<sup>190</sup> Social Watch. Humanitarian disaster in Gaza. <http://www.socialwatch.org/node/16632> Retrieved on 18<sup>th</sup> November, 2014

emphasizes: “The Palestinian economy in the West Bank has also suffered from the restrictions on movement, continuing to split up into smaller local markets throughout 2007. Traveling expenses within the West Bank also remained exceptionally high. The permit regime and the limited number of commercial vehicles allowed to move freely throughout the West Bank continued to curb transportation of goods and raw materials. This was exacerbated by the fact that many workers have difficulty reaching their workplaces on a regular basis. However, the unemployment rate in the West Bank decreased somewhat, dropping from 24.2 percent in the second quarter of 2006 to 22.6 percent in the second quarter of 2007. By contrast, unemployment prior to the second intifada was about 17 percent.”<sup>191</sup>

### **6.3 Economy of Palestine**

Foundation of the economy of the Gaza Strip and the West Bank were mainly agriculture and work of the Palestinians in Israel.<sup>192</sup> However, since the beginning of the Second Intifada, the Israeli authorities closed the border, blockaded Palestinian territories and stopped to allow Palestinians to work in Israel (thus about 100,000 out of 125,000 Palestinians lost their jobs). These measures have caused serious damage to the Palestinian economy, particularly in the densely populated Gaza Strip. Many businesses and companies were closed. Complete collapse was avoided thanks to international

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<sup>191</sup>Human Rights in the Occupied Territories. Annual report of 2007. B’Tselem.

[http://www.btselem.org/download/200712\\_annual\\_report\\_eng.pdf](http://www.btselem.org/download/200712_annual_report_eng.pdf) Retrieved on 18<sup>th</sup> November, 2014

<sup>192</sup> Arnon, Arie (Ed). (1997). *The Palestinian Economy: Between Imposed Integration and Voluntary Separation*. Leiden: BRILL, pp. 94-95

financial assistance, which amounted to 2 billion US dollars in 2004.<sup>193</sup> Unemployment rate is 23%, while 18% of the residents of the West Bank and 38% of Gaza live below the official poverty line.<sup>194</sup>

Gross Domestic Product (GDP) of the West Bank and Gaza is estimated to 6.44 billion US dollars in 2008, while purchasing power parity (PPP) is 2,900 US dollars. GDP growth in 2012 was 5.7% for the West Bank and Gaza taken together, while the total population is more than 4.5 million in 2014.<sup>195</sup>

Cultivation of olives, citrus fruits and vegetables, meat and other food products is developed. The industry is represented mainly by small family businesses that produce cement, clothing, soap, handicrafts and souvenirs (wood and pearl products). In the Israeli settlements there are small but modern industrial enterprises. Most of the electricity is imported from Israel. The volume of exports (0.9006 billion US dollars in 2013) is significantly inferior to imports (5.1639 billion US dollars in 2013). Exported goods are olives, citrus and other fruits, vegetables, building stone, and flowers. Imported goods are food products, consumer goods and building materials. Major trading partners are Egypt, Israel, and Jordan.<sup>196</sup>

Budget of the West Bank and the Gaza Strip consisted of 2.1 billion US dollars revenues and 3.2 billion US dollars expenditures in 2011. Gross external debt in 2013

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<sup>193</sup> CIA World Factbook. 27 September 2006. Found on: <http://israelipalestinian.procon.org/view.answers.php?questionID=000592> Retrieved on 18<sup>th</sup> November, 2014

<sup>194</sup> CIA World Factbook. Gaza and the West Bank. <https://www.cia.gov/library/publications/the-world-factbook/geos/we.html> Retrieved on 18<sup>th</sup> November, 2014

<sup>195</sup> *Ibid.*

<sup>196</sup> Arnon, Arie (Ed). (1997). *The Palestinian Economy: Between Imposed Integration and Voluntary Separation*. Leiden: BRILL, pp. 108-109

amounted to 1.3 billion US dollars in 2007. In circulation as the main currencies are Israeli Shekel and the Jordanian Dinar.<sup>197</sup>

Economy of the occupied Palestinian territories is on the brink of collapse. In the face of deteriorating economic situation levels of unemployment, poverty and food insecurity increase. This is stated in a new report by the United Nations Conference on Trade and Development (UNCTAD). Report “UNCTAD’s assistance to the Palestinian people: changes in the economy of the occupied Palestinian territory” was released in September, 2014. It notes that even before recent military operations the economic situation in the Gaza Strip has been extremely difficult, mainly as a result of the effects of seven years of blockade and two devastating Israeli military operations, in particular, in November 2012 and December 2008. Consequences of the recent conflict have led to total collapse of the economy, warn economists of UNCTAD.<sup>198</sup>

The report states that in the ongoing occupation of the Palestinian territories real income per capita has decreased, while unemployment, poverty and food insecurity have increased. Main negative consequences of occupation still weigh heavily on Palestinian women, among whom the highest unemployment rate in the world is reported. Authors of the report believe that the Israeli occupation of zone C deprives residents of the occupied Palestinian territories of most natural resources, with the result that they are losing at least a third of its GDP each year.<sup>199</sup>

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<sup>197</sup> CIA World Factbook. Gaza and the West Bank. <https://www.cia.gov/library/publications/the-world-factbook/geos/we.html> Retrieved on 18<sup>th</sup> November, 2014

<sup>198</sup> Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory. UNCTAD. [http://unctad.org/meetings/en/SessionalDocuments/tdb61d3\\_en.pdf](http://unctad.org/meetings/en/SessionalDocuments/tdb61d3_en.pdf) Retrieved on 21<sup>st</sup> November, 2014

<sup>199</sup> *Ibid.*

Economic growth in the occupied Palestinian territories, which in 2010 and 2011 averaged to 11%, fell to only 1.5% in 2013 and reached its lowest level since 2006, well below the rate of population growth. In the first half of 2013, despite continued economic blockade by Israel, the growth rate in the Gaza Strip remained high, mainly due to implementation of donor-funded projects. However, by the end of the year rates dropped due to lack of resources caused by measures to curb the “tunnel economy” on the border with Egypt. As a result, the growth rate in the Gaza Strip, which in 2010 and 2011 averaged to 26% in 2013, fell down to 4.5%. In 2013, real GDP per capita in the Gaza Strip was by 20% lower than in 1994.<sup>200</sup>

## 6.4 The Israeli economy

Israel is a developed industrial-agrarian country.<sup>201</sup> Concept of the market can be applied to the Israeli economy. The state takes the leading role in key industrial sectors: electricity, water, railways, and refineries. Funds raised mainly from the United States and European countries also contributed to the development of the Israeli economy. In 1950-1960s it was required to provide nearly 2 million immigrants with food, clothing, shelter and other services in areas of health, education, building of hospitals, factories, roads, schools, and new homes.<sup>202</sup>

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<sup>200</sup> CIA World Factbook. Gaza and the West Bank. <https://www.cia.gov/library/publications/the-world-factbook/geos/we.html> Retrieved on 18<sup>th</sup> November, 2014

<sup>201</sup> Abbas, Muhammad (2007). *Israel: The History and How Jews, Christians and Muslims Can Achieve Peace*. Lincoln: iUniverse, p. 116

<sup>202</sup> *Ibid*, pp. 148-149

Israel is one of high-income group countries in the world by the size of its gross national income (GNI) per capita.<sup>203</sup> It produces food products, textiles, clothing, tobacco products, electronic equipment, as well as for military and medical purposes, and diamonds (Israel is one of the world's largest centers for processing and polishing of diamonds). The country has also developed metallurgy and mechanical engineering sectors, including aerospace, shipbuilding, pharmaceutical, microelectronics, production of computers and robots, as well as for military purposes.<sup>204</sup>

The country has a well developed agriculture, while large proportion of the production is exported.<sup>205</sup> Main cultivated crops are peanuts, cotton, wheat and sunflower. Vegetable crops produced are tomatoes, cucumbers, peppers, potatoes and onions, while fruit crops are bananas, plums, pears, figs, apples, kiwi, mango, peaches, olives, grapes, and so on. In Israel cattle, sheep, goats, and some types of poultry are bred. Milk production in the country is among the highest in the world. Ponds are stocked with carp, flathead mullet and other fish; sardines are fished in the Mediterranean.<sup>206</sup>

Main sources of state revenue are duties and taxes (about 25% of GDP) and foreign tourism. Israel is ranked 37<sup>th</sup> in the world in terms of GDP per capita. In 2013, this figure rose to 36,200 US dollars. High-tech industries remain fantastically high

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<sup>203</sup>The World Bank. GNI per capita, countries. <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD>  
Retrieved on 24<sup>th</sup> November, 2014

<sup>204</sup>Ben-Porath, Yoram (1986). *The Israeli Economy: Maturing Through Crises*. Cambridge: Harvard University Press, p. 49

<sup>205</sup>*Ibid*, pp. 52-53

<sup>206</sup>*Ibid*.

growth rate. Amount of total imports is more than total exports – 67 and 60 billion US dollars respectively.<sup>207</sup>

Economically active population is about 3.4 million people. Main part of it is employed in industry (17.3%), wholesale and retail trade, repair shops for cars and household appliances (13.2%), real estate, renting and business (12.3%), healthcare and social services (9.9%). Sectoral structure: agriculture – 1.6%, industry – 18,1%, services – 80.3%.<sup>208</sup>

Absence of most natural resources Israel has compensated with development of labor-intensive industries, requiring the use of a highly skilled workforce, as well as establishment of centers of scientific research and modern education system. Thus, much of the industry is focused on creating high-quality products using the latest hardware in areas such as medical devices, agriculture, telecommunications, food processing, chemicals, computers and the development of solar energy systems. High-tech industries account for about 50% of total industrial production in Israel. Growth in industrial production in the first quarter of 2008 was significantly higher than in 2007 and reached 9% a year.<sup>209</sup>

Israel is characterized by a mixed economy. Sale of state-owned companies has led to the restructuring of the economic structure of Israel and redistribution of economic power and leverage. For nearly half a century, centers of economic influence were concentrated in the hands of government and trade unions. Now, however, the economy

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<sup>207</sup> CIA World Factbook. Israel. <https://www.cia.gov/library/publications/the-world-factbook/geos/is.html>  
Retrieved on 24<sup>th</sup> November, 2014

<sup>208</sup> *Ibid.*

<sup>209</sup> Sherman, Arnold; Hirschhorn, Paul (1986). *Handbook of Israeli High Technology*. Israel Economist, p. 35

is controlled by about twenty groups. “Economic power” moved from big banks and concerns to a number of competing investment and industrial groups-families over the 1990s. Among other things, transition of economic structures to the private sector have led to an increase in the level of management, which confirmed higher efficiency of the control of the private sector over the public one.<sup>210</sup>

Non-farm activities are kept under the control of private capital, Histadrut trade union organization and the state. Histadrut members own shares in the holding companies of Hevrat Ha'Ovdim (Working Corporation), which functions as an ordinary capitalist corporation, although it appeared under the slogan of the socialist ideal of collective management and suggests lack of guidance and worker self-management layer. Histadrut has grown into a powerful economic force, extending its influence to almost all areas of the economy in the country; it owns a multinational Bank Hapoalim.”<sup>211</sup>

Main owners in the public sector, along with the state itself, are the Jewish Agency and local authorities. The largest companies in Israel, Israel Aerospace Industries, El Al airlines and Israel Chemicals Ltd. are allocated in joint public stock. Shipping company, shipyards, refineries, power plants and water supply system are also at the disposal of this sector.<sup>212</sup>

With limited economic potential and a relatively small domestic market potential, Israel can achieve an increased economic growth, but only by expanding exports. In Israel, revenues from imports of goods have always exceeded those from exports.

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<sup>210</sup> *Ibid*, pp. 36-37

<sup>211</sup> Troen, S. Ilan; Lucas, Noah (2012). *Israel: The First Decade of Independence*. Albany: SUNY Press, pp. 279-280

<sup>212</sup> *Ibid*.



Important import items are weapons, petroleum, machinery and equipment, spare parts, chemicals and metals, vehicles, food (wheat, raw materials for the production of vegetable oils, meat, coffee, cocoa, sugar), and appliances. Diamonds, weapons, machinery and equipment, fruit and canned food, textile and clothing, chemical fertilizers and other chemical products go for export.<sup>213</sup>

The negative balance is covered mainly by donations and loans from the government of the United States. As trade between Israel and its neighboring countries is low because of political situation and weakness of their economies, Israel puts itself the aim of penetrating to more distant markets. Israel is free to export goods to the United States and the EU countries. In order to achieve maximum success, Israeli enterprises seek to join industry's international trade, which is the most relevant. Establishment of joint ventures with foreign firms often allows combining innovative potential with ample opportunities of foreign firms.<sup>214</sup>

Currently elected Israeli policy of liberalizing foreign trade is subjected to a severe test of strength. Domestic manufacturers complain of economic stagnation and the need to raise tariffs to create a barrier to cheaper imports from third world countries. A particularly difficult situation has developed in the textile industry, which is unable to compete with imports from the Far East.<sup>215</sup>

In the first decade after independence, Israel has been focused on development of agriculture and creation of water, transport, and energy infrastructure. Since the country

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<sup>213</sup>*Ibid*, pp. 281-283

<sup>214</sup>*Ibid*.

<sup>215</sup>*Ibid*.

has a huge potential of skilled professionals while experiencing a shortage in basic types of raw materials, the industry is focused on Israel's scientific production of goods on the basis of their own scientific research and technical innovations.<sup>216</sup>

Over the past few decades, the Israeli industry has reached the world level in the field of medical electronics, agricultural engineering, telecommunications, industrial chemistry and processing of diamonds. Israeli diamonds industry, the export of which exceeded 9 billion US dollars, producing about 80% of the world's supply of small polished stones, most of which are diamonds used for jewelry. 40% of all diamonds are polished in Israel, making it the largest commercial and manufacturing center in the field of industry.<sup>217</sup>

The highest growth was observed in sectors with high technology that attract investments in research and development; traditional branches of Israeli industry are: food processing, production equipment, clothing, furniture, fertilizers, chemicals, rubber products, plastic and metal. Chemical industry is quite developed: raw materials for the production of medical and veterinary drugs, anti-corrosion materials, nitrogen, phosphates, chlorine, sodium hydroxide, polyester resins, means to protect agricultural products from pests, growth regulators, flavors, and so on. The main source of energy is mostly imported oil, by which almost 80% of the country's energy needs are met, while

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<sup>216</sup>*Ibid*, p. 283

<sup>217</sup>Israel Cyprus Diamond Centre. Israel diamond industry. <http://icdc.com.cy/en/about/israel-industry>  
Retrieved on 27<sup>th</sup> November, 2014

the rest is covered by coal, purchased from abroad. Solar power is used (Israel ranks second in the world for use in the homes of solar water heaters) and wind power.<sup>218</sup>

Large deposits of phosphate are present in the Negev, from where the products are delivered by rail to Haifa. From waters of the Dead Sea potassium, bromine and magnesium are extracted, which are used in agriculture and pharmaceutical industries. Copper mines in Timna Valley, on place of the legendary King Solomon's mines, were opened for operation in 1955, but in 1976, after the fall in world prices for copper, they were conserved. In many quarries materials for the manufacture of cement and concrete are being developed. There are small oil (mining 9-16,5 million tons per year) and natural gas reserves in the country.<sup>219</sup>

## 6.5 Conclusion

To generalize, it can be said that economies of Israel and Palestine are two sides of one coin – while the economic development of the first is high, citizens of the second try to survive. Economic developments of Palestinian territories are directly dependent on the development of political situation in the region. Difficult situation is still being maintained unchanged regarding the economy of the Gaza Strip and the West Bank.

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<sup>218</sup> Solar Water Heating Spreading Fast Worldwide.  
<http://www.sustainablebusiness.com/index.cfm/go/news.display/id/23251> Retrieved on 28<sup>th</sup> November, 2014

<sup>219</sup> USGS 2009 Minerals Yearbook: Israel. <http://minerals.usgs.gov/minerals/pubs/country/2009/myb3-2009-is.pdf> Retrieved on 28<sup>th</sup> November, 2014

Despite some improvements in certain areas which were carried out in past years, in future it is possible to destroy all the basic elements of the Palestinian economy. Thus, it will inevitably lead to a new escalation of the situation and complication of the peace process, which is extremely difficult. Radical change of economic situation in the West Bank and the Gaza Strip lies with the implementation of major objectives set by leaders of the Palestinian Authority - the creation of a truly independent and sovereign Palestinian state.

## **CHAPTER SEVEN ECONOMY OF EGYPT**

### **7.1 History of economy**

Agricultural production has existed in Egypt for nearly 8 thousand years, but only since the mid-1970s it had ceased to be the sole source of livelihood for the majority of Egyptians. Up until the mid-20<sup>th</sup> century vast majority of the population lived in rural areas.<sup>220</sup>

Urban civilization of Egypt is very old. Alexandria was founded by Alexander the Great, and although the official date of founding of Cairo is considered to be A.D. 969, urban settlements in the area have been around since the first pharaohs. Over the centuries, Cairo was not only a political but also an economic center, which played a huge role as a terminal station at the crossroads of Africa, Arabia, India, Syria, the Balkans and the Northern Mediterranean.<sup>221</sup>

Foundations of the modern Egyptian economy were laid with Muhammad Ali, who ruled the country in 1805-1849. At that time, export of cotton to European countries began to grow, construction of dams and canals became more intensive. Due to large-

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<sup>220</sup> Woldetsadik, Tadesse Kassa (2013). *International Watercourses Law in the Nile River Basin: Three States at a crossroads*. New York: Routledge, p. 276

<sup>221</sup> Appiah, Anthony; Gates, Henry Louis (Ed). (2010). *Encyclopedia of Africa, volume 1*. New York: Oxford University Press, p. 227

scale public works, the irrigation system was changed completely, which allowed to grow crops all year round. Construction of first railways and modernization of ports are also linked to the reign of Muhammad Ali.<sup>222</sup>

Lack of incentives for production, lack of access to modern technology and the influx of cheap manufactured goods from Europe hampered the development of industry in the 19<sup>th</sup> century. Local textile production was limited with the introduction of a special tax on Egyptian producers by the British administration. Starting from the 1920s, Egyptian and foreign entrepreneurs have started to create textiles and other industries. To a large extent, development of local industry was facilitated by the fact that during the Second World War the country was isolated from the outside world.<sup>223</sup>

After the revolution of 1952, one of the main objectives of national development was the industrialization of Egypt. By the early 1990s, industrial production concentrated 22% of the labor force in the country.<sup>224</sup> Gamal AbdelNasser has significantly strengthened the role of the state in the economic life of Egypt, nationalized at first foreign, and then owned by local capital, enterprises and banks and refocused the national trade in barter transactions with countries of the socialist camp.<sup>225</sup> Although the implementation of the ambitious plans of industrialization of Egypt faced difficulties as early as 1965, the most serious blow to the economy brought the defeat in the war with Israel in June of 1967. As a result of the war, such important areas as the Suez Canal and

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<sup>222</sup> Issawi, Charles (2013). *An Economic History of the Middle East and North Africa*. New York: Routledge, p. 4

<sup>223</sup> *Ibid*, p. 14

<sup>224</sup> *Ibid*, p. 204

<sup>225</sup> Tucker, Spencer C.; Roberts, Priscilla (Ed). (2008). *The Encyclopedia of the Arab-Israeli Conflict: A Political, Social, and Military History*. Santa Barbara: ABC-CLIO, p. 317

the Sinai Peninsula were lost, where the bulk of the country's oil fields contains. The entire industry of Egypt was put on the military effort in order to prepare for the return of those territories.<sup>226</sup>

After a partial victory of Egypt in the 1973 war and a fourfold increase in world oil prices in 1973-1974, the process of economic reforms in the country accelerated. During implementation of the policy of "open doors," banking and monetary sectors of the economy were liberalized. According to Anwar Sadat, it was done to help attract foreign capital into the country and facilitate the export of Egyptian labor in such major oil-producing Arab countries as Libya and Saudi Arabia. Economic growth accelerated, the state of the country's balance of payments improved.<sup>227</sup>

In 1991, by agreement with the International Monetary Fund (IMF), the government of Egypt has announced the launch of a program to reform the economy.<sup>228</sup> Wages were frozen, subsidies on basic foodstuffs and services were phased out. Assurances, given by Nasser that every college graduate will be provided with jobs, were forgotten. In 1993, the implementation of the privatization program began, which by 1997 included the transfer of 85 out of 314 state-owned enterprises to private hands. Egypt's reform efforts were rewarded with a loan from the IMF.<sup>229</sup>

The reform program in Egypt aimed at accelerating the pace of economic development, the creation of nearly half a million jobs annually and tighter integration

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<sup>226</sup> *Ibid.*

<sup>227</sup> Reich, Bernard (Ed). (1990). *Political Leaders of the Contemporary Middle East and North Africa: A Biographical Dictionary*. Westport: Greenwood Publishing Group, pp. 456-457

<sup>228</sup> Zahid, Mohammed (2012). *The Muslim Brotherhood and Egypt's Succession Crisis: The Politics of Liberalisation and Reform in the Middle East*. Cornwall: I. B. Tauris, p. 45

<sup>229</sup> *Ibid.*

with world markets. Privatization, trade liberalization, reduction of the role of the state in the sphere of investment activity – all of these took a prominent place in the economic restructuring. Budget deficit was reduced; foreign exchange reserves reached 17 billion US dollars in 1996. The same year, the inflation rate dropped to 7%. Advances in the restructuring of the economy have been fixed during the Third Conference of the Middle East and North Africa (November 1996, Cairo), which were entered into an investment agreement to the Egyptian economy in the amount of 10 billion US dollars.<sup>230</sup> In 1997, GDP per capita was about 1.300 US dollars, which allowed the World Bank to include Egypt in the category of middle-income countries.<sup>231</sup>

Unemployment remains one of the most serious economic problems. According to estimates for 2013, unemployment rate was approximately 13.4%, while labor force had 27.69 million people.<sup>232</sup> According to the CIA World Factbook, 22% of Egyptians live below poverty line. In 1991, the Social Fund for Development (SFD) was created, which was designed to mitigate negative effects of economic reforms.<sup>233</sup> Analysis of the activities of the SFD by the World Bank led to the conclusion that every year this fund

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<sup>230</sup> Rabinovich, Itamar (2009). *The Brink of Peace: The Israeli-Syrian Negotiations*. Princeton: Princeton University Press, p. 257

<sup>231</sup> GDP per capita (current US\$), Egypt, 1997. The World Bank.

<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?page=3> Retrieved on 30<sup>th</sup> November, 2014

<sup>232</sup> CIA World Factbook. Egypt. <https://www.cia.gov/library/publications/the-world-factbook/geos/eg.html> Retrieved on 30<sup>th</sup> November, 2014

<sup>233</sup> Bigio, Anthony G. (Ed). (1998). *Social Funds and Reaching the Poor: Experiences and Future Directions*. Washington: IBRD, p. 159



created thousands of jobs (a large part of all the places outside the agricultural sphere of activity) in the country, mainly in small enterprises.<sup>234</sup>

## **7.2 Geographical differentiation of economic activity**

About 97% of Egypt's territory is desert, and agriculture is possible only in a few oases. A narrow strip of land along the Mediterranean coast is suitable for rainfed agriculture. The total area of fertile land is 2.5 million hectares, 97% of which is concentrated in the valley and delta of the Nile.<sup>235</sup> There are five main agricultural areas. The most important is the Nile delta, which accounts for slightly less than half of fertile land and approximately for 60% of the rural population. Here rice, cotton, wheat, fruits and vegetables are grown. Around Cairo, population is engaged mainly in vegetable production; in Middle Egypt cotton is cultivated, corn, sorghum, sugar cane, fruits and vegetables. On lands of Faiyum Oasis, irrigated by the Nile through the irrigation canals, cotton, clover, corn, sorghum and vegetables are produced. On the territory of Upper Egypt (from Assiut to Aswan) sugar cane, wheat, clover and cotton are cultivated. On the periphery of these agricultural areas due to land reclamation, a considerable area is being gradually mastered. Out of officially registered 405 thousand recovered hectares about a

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<sup>234</sup> Access to Finance and Economic Growth in Egypt. World Bank. By Nasr, Sahar.  
[http://siteresources.worldbank.org/INTEGRITY/Resources/Access\\_to\\_Finance.pdf](http://siteresources.worldbank.org/INTEGRITY/Resources/Access_to_Finance.pdf) Retrieved on 2<sup>nd</sup> December, 2014

<sup>235</sup> U.S. Department of State (2011). *Background Notes: North Africa, January, 2011*, Egypt.InfoStrategist.com.

third of land was really suitable for farming. The country is gradually deprived of some of the most fertile land as a result of urban development in the Nile Valley.<sup>236</sup>

Though there are several sugar cane plants in Upper Egypt, the vast majority of industrial enterprises are concentrated around Cairo and major cities in the Nile Delta. In the industrial area of Cairo, which is home to nearly a quarter of the total population, such industrial giants as steel mills and hundreds of small craft workshops are producing furniture, small items of metal and other objects of everyday use. In the second-largest city, Alexandria, refineries and food processing companies operate.<sup>237</sup>

### **7.3 Organization of production**

In a mixed economy of Egypt the dominant role still belongs to the public sector, which was gradually reduced in the course of implementation of program of reforming the economy and the process of privatization of former state-owned enterprises.<sup>238</sup> The private sector includes most of the agricultural production, small institutions, trade-related services, and small handicraft production with fewer than 10 people, which is mainly specialized in the production of fabrics, food, furniture, leather goods and hardware. Large-scale industrial production, transport and communications, trade and banking were included in the public sector from the 1960s. The state owns more than 150

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<sup>236</sup> *Ibid.*

<sup>237</sup> *Ibid.*

<sup>238</sup> Privatization: A Key to Solving Egypt's Economic Woes. By Karim Badr el-Din, 3 November 2014. The World Bank. <http://blogs.worldbank.org/arabvoices/privatization-key-solving-egypt-s-economic-woes> Retrieved on 4<sup>th</sup> December, 2014

large industrial enterprises, which produce two thirds of the entire product of industrial production and employ about half of all industrial workers.<sup>239</sup>

In 1970, Sadat's government followed the policy of attracting foreign (both Western and Arabic) capital. However, most of the foreign investment went not on development of production, but on funding of services in the sphere of consumer goods' distribution. Nevertheless, the flow of funds contributed to investment in industries of national private investors and made a complete use of the available production capacity. In 1991, by the recommendation of the IMF, the government embarked on a program of economic restructuring. This program included the liberalization of interest rates, currency exchanges, activity of prices and the introduction of single sales tax. Efforts to restructure the economy continued in 1996 with the support of a two-year IMF program. The purpose of the program was to accelerate the pace of economic growth, establish approximately 500,000 jobs annually and integrate Egypt's economy into the world economic system. The industrial sector took a prominent place in the program of privatization of the state. Steps were also carried out to liberalize trade and investment.<sup>240</sup>

However, the results of economic reforms are mixed. In the private sector, the number of small and medium-sized enterprises reached 211,000 in the middle of the 1990s. Foreign direct investment and the share of exports, not related to export of oil products, continued to increase.<sup>241</sup>

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<sup>239</sup> Oron, Yitzhak (Ed). (1960). *Middle East Record Volume 1, 1960*. Jerusalem: Jerusalem Post Press, p. 465

<sup>240</sup> Dieter, Weiss; Ulrich, Wurzel (1998). *Development Centre Studies The Economics and Politics of Transition to an Open Market Economy: Egypt*. Paris: OECD Publishing, pp. 80-81

<sup>241</sup> *Ibid.*

Main energy resource produced in the country is oil. Other sources include local natural gas and hydroelectricity generated mainly by two hydroelectric power stations near Aswan. Approximately three-quarters of the electricity produced by thermal power plants running on fossil fuels, while only one-tenth is accounted for hydropower. In 2011, Egypt produced 156.6 TWh of electricity. This branch provides full domestic energy needs. It is important to note that the country is planning to use nuclear energy in future.<sup>242</sup>

Egypt has few minerals. Exceptions are oil produced in the Suez Canal, Sinai Peninsula and the Western Desert, and natural gas, production of which is carried out near Alexandria, the Nile Delta, and the Libyan desert. Most of the oil produced is consumed domestically. As for production of crude oil, Egypt is placed 28<sup>th</sup> in the world, producing 720,000 barrels per day,<sup>243</sup> natural gas production amounts to 61 billion cubic meters in 2011, making Egypt 16<sup>th</sup> country in the world by natural gas production.<sup>244</sup> The country has significant reserves of building materials, such as sand, stone, gravel, gypsum, and limestone. In the oasis of Bahariya iron ore is developing. In a small volume of rich phosphorite deposits of the western coast of the Red Sea are developed, and in the territory of the Sinai Peninsula – manganese.<sup>245</sup>

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<sup>242</sup> Emerging Nuclear Energy Countries. World Nuclear Association. <http://world-nuclear.org/info/Country-Profiles/Others/Emerging-Nuclear-Energy-Countries/> Retrieved on 5<sup>th</sup> December, 2014

<sup>243</sup> CIA. Country Comparison. Crude oil production. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2241rank.html> Retrieved on 5<sup>th</sup> December, 2014

<sup>244</sup> CIA. Country Comparison. Natural gas production. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2249rank.html> Retrieved on 5<sup>th</sup> December, 2014

<sup>245</sup> Shillington, Kevin (Ed). (2005). *Encyclopedia of African History*. New York: Routledge, pp. 466-467

Despite constant efforts of the government to diversify the industry in the mid-1980s, the economy maintained leading positions in consumer goods, primarily in textiles and foodstuffs. By the end of the 1990s, the oil refining industry came to the fore, followed by food, textile and metallurgical industries.<sup>246</sup> Basic industries are concentrated in the public sector. Development of electrical and mechanical engineering industries is based on product assembly of finished parts. Durable goods, such as refrigerators, televisions, cars, trucks, buses and tractors are assembled at Egyptian enterprises. State enterprises for production of cement and phosphate have a sufficiently high efficiency, while smelters have low productivity. The manufacturing industry was the least affected during the economic reform programs of the 1990s.<sup>247</sup>

Before the beginning of the industrialization process in the 1960s, agriculture played a dominant role in the economy of Egypt, and even today it still employs approximately 30% of the labor force. Until the 1970s, an important Egyptian export was cotton, and then the leadership was passed to oil that keeps the leading role in national exports. In 2010, the share of oil exports accounted for about a half of total exports.<sup>248</sup>

Almost all cultivated land in Egypt is located in the valley of the Nile. The combination of fertile alluvial soils with prolonged sun exposure creates exceptionally favorable conditions for growing of a variety of crops. However, expansion of the irrigation system in the 1960s-70s was not accompanied by the creation of a reliable

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<sup>246</sup> *Ibid.*

<sup>247</sup> *Ibid.*, p. 468

<sup>248</sup> UN Comtrade. Egypt.

<http://comtrade.un.org/pb/FileFetch.aspx?docID=4033&type=country%20pages> Retrieved on 5<sup>th</sup> December, 2014

drainage system. As a result, in many areas, especially in Upper Egypt, a serious problem of soil salinity occurred.<sup>249</sup>

Dimensions of traditional farms are small. Approximately two-thirds of all agricultural lands are farms 2 hectares each. As a rule, the land belongs to the farmer who cultivates it. Many farms are leased and the tenant pays the owner either in cash or in kind (a part of the harvest). Most of the work in the fields is done by the owner of the site and members of his family, but at harvest time, for example at the time of the cotton harvest, even small farms need to hire additional labor. Some large farms specialize in growing vegetables and fruits. Most of farms are included in state cooperatives, which buy all grown cotton and partly some food crops (rice, wheat, and so on). Duties of cooperatives include supply of farmers with chemical fertilizers. The amount of fertilizer used per unit of cultivated area in Egypt is much higher than in most other countries, with the exception of Western Europe, Japan and South Korea.<sup>250</sup>

Almost all of farms contain cattle. Owners of small sites breed buffalos, which are used as draft power in the construction of irrigation facilities and cattle for dairy production. About a quarter of arable land is given for growing clover for fodder. Rural exodus to cities encouraged the introduction of mechanization in the agricultural sector. The main problem in the field of agricultural production is the creation of food

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<sup>249</sup>U.S. Department of State (2011). *Background Notes: North Africa, January, 2011*, Egypt.InfoStrategist.com.

<sup>250</sup>*Ibid.*

security, aimed at the country's food self-sufficiency. By the mid-1980s, Egypt imported up to 80% of wheat and flour required for domestic consumption.<sup>251</sup>

The start of the reform of the agricultural sector of economy refers to 1986. In 1995, the government controlled the price of cotton and sugar cane only. Egypt is the most competitive in the production of crops such as tomatoes, wheat, cotton, rice, potatoes, corn, beans, sugar beets, and many fruits. Fishing takes a very modest place in the economy. The main areas of fishing are Mediterranean coastal strip, the lake on the north of the Delta Nile and Lake Nasser. Annual fish catch is estimated at 350 thousand tons.<sup>252</sup>

The flat terrain of Egypt and the concentration of population in the valley and delta of the Nile allowed relatively easy to solve the problem of transportation. The country has no shortage of roads, railways and inland waterways. Thanks to dry mild climate, it is quite inexpensive to maintain a road network, and most of all of the freight traffic in the country is carried out by road. There are twelve international airports in Egypt and also several airports for domestic flights.<sup>253</sup>

Main seaports of the country are Alexandria, Suez, and Port Said. State-owned Suez Canal works effectively. As a result of the Israeli occupation of the Sinai Peninsula in 1967-1973, the Suez Canal was closed for the passage of Egyptian ships until 1975. After the liquidation of the consequences of the Egyptian-Israeli war, huge amount of

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<sup>251</sup> Taylor & Francis Group (2003). *The Middle East and North Africa 2004*. New York: Psychology Press, p. 326

<sup>252</sup> *Ibid*, p. 328

<sup>253</sup> The Airport Authority. List of all airports in Egypt. <http://airport-authority.com/browse-EG> Retrieved on 5<sup>th</sup> December, 2014

work was done to widen and deepen the channel, making it available for supertankers. During the period of forced inactivity of the Suez Canal, Egypt has lost an important source of foreign exchange earnings.<sup>254</sup>

## 7.4 Foreign economic relations

As a result of a significant reduction in export, trade balance always comes with a large deficit. From 1991 to 1994, exports, not related to oil and petroleum products, decreased by 20%.<sup>255</sup> In 2010, export earnings amounted to 29 billion US dollars, while profit from imports was 45 billion.<sup>256</sup> Oil and petroleum products are the major commodities of Egyptian export, while cotton, textiles, various crops (rice, potatoes, fruits and vegetables) also share a large portion of exports. Major import items are food products (about 30%), machinery and equipment, as well as a wide range of other industrial products - from cement to automobiles.<sup>257</sup>

Trade deficit is covered mainly by foreign transactions made by Egyptians working abroad, income from foreign tourism, the fee for the right to use the Suez Canal, financial aid by government of the United States and private lending banks. In the mid-1980s, due to difficulties in the field of investment and employment issues in the oil-

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<sup>254</sup> U.S. Department of State (2011). *Background Notes: North Africa, January, 2011*, Egypt.InfoStrategist.com.

<sup>255</sup> WTO. Egypt: June 1999. [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp106\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp106_e.htm) Retrieved on 7<sup>th</sup> December, 2014

<sup>256</sup> EconomyWatch. Egypt Trade, Exports and Imports. 29 March 2010. [http://www.economywatch.com/world\\_economy/egypt/export-import.html](http://www.economywatch.com/world_economy/egypt/export-import.html) Retrieved on 8<sup>th</sup> December, 2014

<sup>257</sup> WTO. Egypt: June 1999. [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp106\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp106_e.htm) Retrieved on 7<sup>th</sup> December, 2014



producing Arab countries caused by the sharp decline in oil export revenues, remittances and inflow of foreign tourists to Egypt have decreased because of fears of terrorism.<sup>258</sup>

Cash volumes of transfers by family members working abroad began to grow again after the 1991 war in the Persian Gulf. Then, large crowds of Egyptian workers went to Kuwait to restore the war-ravaged country's economy. Already in the early 1992, official remittances reached 6.1 billion US dollars. At 2014, the amount of external debt of Egypt is estimated at 46 billion US dollars.<sup>259</sup>

In the 1950-1960s, more than 90% of all banking assets were owned by four state-owned banks. All of them were controlled by the Central Bank of Egypt, which carried out the issuance of monetary unit of the country - the Egyptian pound (EPG). In the 1970s, four major banks have created mixed banks in which the proportion of shares of foreign investors did not exceed 49%. These banks had the right to engage in financial transactions in foreign currency. Importers of foreign goods were allowed to hold foreign currency accounts in Egyptian banks. In order to encourage the Egyptians working abroad to keep savings in Egyptian banks, a system was developed to encourage such investors. Innovations have allowed to extend credit facilities, facilitated investment in the domestic industry, but also contributed to an increase in inflation, which in the mid-1980s accounted for 25-30% per year.<sup>260</sup>

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<sup>258</sup> Zuehlke, Jeffrey (2003). *Egypt in Pictures*. Minneapolis: Lerner Publications, p. 64

<sup>259</sup> Egypt External Debt. Trade Economics. <http://www.tradingeconomics.com/egypt/external-debt>  
Retrieved on 8<sup>th</sup> December, 2014

<sup>260</sup> Egypt Inflation Rate. Trade Economics. <http://www.tradingeconomics.com/egypt/inflation-cpi>  
Retrieved on 8<sup>th</sup> December, 2014

Thanks to the efforts to stabilize the macro-economy, taken in the early 1990s, the inflation rate from 1992 to 1996 decreased from 21.1% to 7.2%, and by 1999 reached 3.7%. Currently, the rate is about 11%.<sup>261</sup> Program of reforming the economy has been extended to the banking sector. The activities of banks with 100% foreign capital are allowed in Egypt, they can carry out banking operations in both local and foreign currency. Approximately half of domestic credit flows to the private sector.<sup>262</sup>

In 1997, the share of government revenue was 23.7% of GDP. The deficit was covered by domestic and foreign loans. About 60% of revenue was achieved through taxes, primarily through income of state-owned enterprises such as the Suez Canal and oil refineries. In the mid-1990s, the budget deficit was less than 1.5% of GDP. Removal of subsidies for electricity and introduction of a single tax for sales allowed to increase the amount of government revenue to 23.5 billion EPG. At 2014, Egypt's budget deficit amounted to 9.1% of the GDP.<sup>263</sup>

As a member of the World Trade Organization (WTO), Egypt has favorable legal conditions for access of its products to foreign markets and can use a very efficient mechanism for settlement of trade disputes, which not only gives the opportunity to challenge and cancel unreasonable restrictions, but also plays an important preventive role, keeping trading partners away from arbitrary unilateral action. For example, Egypt could use this mechanism of the WTO as a defense in case when an anti-dumping investigation in respect of flat steel and iron, supplied by Egypt to the EU, was

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<sup>261</sup> *Ibid.*

<sup>262</sup> *Ibid.*

<sup>263</sup> Egypt Government Budget. Trade Economics. <http://www.tradingeconomics.com/egypt/government-budget> Retrieved on 8<sup>th</sup> December, 2014

introduced. An anti-dumping investigation, started on the 20<sup>th</sup> December 2001 by the EU in six countries, including Egypt (6% of the market of flat-rolled products of iron in the EU), was initiated by the Federation of European producers of steel products and was completed in April 2002.<sup>264</sup> As the Minister of Foreign Trade of Egypt Youssef Boutros Ghali said, in the case of an unfavorable course of the investigation, Egypt will take all necessary measures to protect its products from entering the anti-dumping duties.<sup>265</sup>

Egypt actively used grace period (until 2005), provided to it as a developing country to protect domestic producers from competition of imported goods by introduction of high customs tariffs and technical barriers. Thus, in February 2002, a higher tariff on imports of finished garments was introduced. It was assumed that the grace period would be used for modernization of national industry that can produce competitive products. Egyptian exporters of textile products used the grace period to increase their exports and develop new markets. At the same time, after the expiration of the grace period and cancellation in trade, Egyptian textile industry has experienced tough competition especially from the countries of Southeast Asia. The same can be related to the automotive industry and several other industries. Thus, position of Egypt in the WTO successfully met certain economic and trade issues. However, the inability to solve the existing problems in trade using only the mechanism of the WTO encourages

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<sup>264</sup> European Commission. Overview of the monitoring of third country anti-dumping, anti-subsidy and safeguard cases. 2011. [http://trade.ec.europa.eu/doclib/docs/2004/january/tradoc\\_112241.pdf](http://trade.ec.europa.eu/doclib/docs/2004/january/tradoc_112241.pdf)  
Retrieved on 10<sup>th</sup> December, 2014

<sup>265</sup> Malkawi, Bashar Hikmet (2006). *Jordan and the World Trading System: A Case Study for Arab Countries*. ProQuest, p. 112

Egypt to seek additional funds to resolve them through agreements with individual countries and regional organizations.<sup>266</sup>

In June 2001, the Association Agreement of Egypt with the EU was signed, which, according to experts of the Egyptian Center for Economic Studies, will have a more profound impact on the national economy than accession to the WTO.<sup>267</sup> In accordance with terms of the agreement, 12 years after its ratification by the parties the establishment of a Free Trade Area within the EU should be completed, which accounts for 40% of Egypt's foreign trade. In addition, Egypt is a party to the Pan-Arab Free Trade Agreement - Common Market for Eastern and Southern Africa (COMESA). In January 2002, a free trade area between Egypt, Iraq, Syria and Libya was created in order for a complete abolition of all customs duties and taxes. It was expected that this will stimulate the creation of the formation of a common Arab market.<sup>268</sup>

Main directions of Egypt's foreign policy are: increase in the inflow of foreign funds for economic development as well as exports of Egyptian products and services, rationalization of import, which is being increasingly implemented through bilateral trade agreements. Imbalance in trade with some countries also encourages Egypt to intensify efforts to conclude such bilateral agreements. So, between Egypt and the United States, one of its major trading partners, a Trade and Investment Framework Agreement (TIFA) signed in 1999 acts, which is the basis for the development of bilateral trade and

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<sup>266</sup> *Ibid*, pp. 107-108

<sup>267</sup> The Impact of Phasing-out Textile Quota on the Egyptian Textile and Clothing Sector (Case studies from Alexandria). Hanan Abouel-Farag. *Mediterranean Journal of Social Sciences* Vol. 3 (11) November 2012.

<sup>268</sup> Post, Jerrold M.; Baram, Amatzia (2002). *"Saddam is Iraq: Iraq is Saddam."* Darby: DIANE Publishing, p. 42

economic relations between the two countries.<sup>269</sup> The Bilateral Council was created in accordance with the instructions of the agreement, it coordinates the work aimed at the signing of the Free Trade Agreement between Egypt and the United States, eliminating barriers to bilateral trade and promoting more favorable investment conditions. This process was intensified by the visit of former Egyptian President Hosni Mubarak in 2001 to the United States.<sup>270</sup>

There is a number of bilateral trade and economic agreements between Egypt and France, which are a major factor in the expansion of bilateral trade and, above all, contribute to an increase of Egyptian exports to France. Bilateral agreements between Egypt and Italy are the determining factor in the development of trade and investment in the economy of Egypt. During a visit to China in 2001, Mubarak signed a number of bilateral agreements to expand economic ties between the two countries and the trade balance. An agreement with India was reached on formation of a joint working group to study the preparation of preferential bilateral trade agreement. Bilateral agreements between Egypt and other European, African and Asian countries were signed as well, and this process gets its further development. Egypt uses certain benefits provided by its membership in the WTO, but at the same time seeks to solve problems of trade and economic cooperation with foreign countries through bilateral agreements.<sup>271</sup>

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<sup>269</sup> Usa, Ibp Usa (Ed). (2009). *Egypt Company Laws and Regulations Handbook*. Washington: International Business Publications, p. 148

<sup>270</sup> *Ibid.*

<sup>271</sup> *Ibid*, pp. 159-160, 162

## 7.5 Economic relations with neighbors

The creation of an Arab coordinating body was proposed between Egypt and Libya, a joint group on elaboration of the question of a single monetary system was formed. At the joint ministerial meeting in Cairo the results of the process of creating of a unified energy system was assessed, the prospects of Libyan investments in agricultural projects in Egypt were also considered. It was decided to overcome the problem of mutual debts. Also, it was agreed to establish a joint database on industrial projects and develop measures for the harmonization of standards and the use of a “single quality” of industrial products. An agreement on scientific and technical cooperation was signed. The idea of building the airport on the Egyptian-Libyan border was discussed.<sup>272</sup>

Active cooperation with countries of the Persian Gulf in the economic sector still has a paramount importance for the Egyptians in connection with access to significant financial resources, including in the framework of investment cooperation. The most noticeable contribution of Persian Gulf countries is the investment in the project “New Valley”: the United Arab Emirates donated 1 billion US dollars to Egypt for the construction of the canal in the name of Sheikh Zayed.<sup>273</sup> Saudi Prince Alwaleed bin Talal signed a contract with Egypt for the purchase of 120 thousand Feddans in New Valley for the development of which he was going to spend 1 billion US dollars. In the long term, bin Talal plans to develop agricultural and industrial sectors for 500 thousand

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<sup>272</sup>*Ibid*, pp. 178-179

<sup>273</sup>Gulf States Reward Egypt for Political Change. Correspondents.org.  
<http://www.correspondents.org/node/3294> Retrieved on 12<sup>th</sup> December, 2014

Feddans. The implementation of decisions of the Kuwait Development Fund to provide Egypt with 200 million US dollars for the financing of operations in the “New Valley” was also discussed. It should be noted that Arab tourism is equally important for Egypt, it amounts to about one-third of the total number of tourists visiting Egypt.<sup>274</sup>

Close ties with Oman are maintained, as evidenced by the visit of Sultan Qaboos to Egypt in February 1999, a convergence of the two countries on the need for lifting the sanctions on Iraq, especially lifting of the economic embargo. In 1998, at a meeting of the Joint Committee, the parties signed an agreement for the promotion and protection of investments and strengthening of economy and technological cooperation. An agreement on cooperation in the field of research and technology with Bahrain was signed to take active steps to increase trade with Egypt: a decision to open the Egyptian trade mission in Manama, there is an agreement on the organization of exchange of exhibitions of industrial products.<sup>275</sup>

The idea of creating the common Arab market was first formulated in August 1964, but because of the highly volatile military and political situation in the region and large-scale military conflicts in the Middle East in 1967 and 1973, its implementation was postponed until better times. In June 1996, members of the Cairo Summit took a decision in principle on the formation of the Arab Free Trade Area (AFTA).<sup>276</sup> Removal of customs barriers facilitated an accelerated growth of inter-Arab trade.

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<sup>274</sup> *Ibid.*

<sup>275</sup> Edited by Usa, Ibp Usa (2009). *Egypt Company Laws and Regulations Handbook*. Washington: International Business Publications, p. 191

<sup>276</sup> Arab Free Trade Area Agreement (1997).

[http://www3.nd.edu/~jbergstr/DataEIAs2006/FTA5yrData\\_files/PDF%20Files/Africa/Pan-Arab%20Free%20Trade%20Area%20Agreement%20\(1997\).pdf](http://www3.nd.edu/~jbergstr/DataEIAs2006/FTA5yrData_files/PDF%20Files/Africa/Pan-Arab%20Free%20Trade%20Area%20Agreement%20(1997).pdf) Retrieved on 13<sup>th</sup> December, 2014

The main trading partner of Egypt is the EU. Relations between Egypt and the EU are based on the Agreement on Cooperation of 1977, which entered into force in November 1978. Four protocols to the agreement provide for the provision of financial aid to Egypt in the implementation of programs in economic, social and agricultural areas. Financial aid to Egypt under the agreement came in the form of budget, limiting the scope of use of its purpose. In essence, the agreement governs the relationships between the donor and the recipient. Conclusion of the agreement opened more opportunities for Egypt in obtaining financial assistance and other benefits.<sup>277</sup>

In January 1996, the Egyptian side came out with a proposal to increase tariff-free exports of Egyptian agricultural products to the EU. By the end of 1996, the text of the draft agreement was agreed by the parties. Trade and economic relations between Egypt and the EU have lots of challenges. In 1998, the European Commission introduced 20% anti-dumping duty on Egyptian cotton (the EU is a major consumer of this important Egyptian exports of goods).<sup>278</sup> As it was explained, such measures have been taken as a result of a thorough investigation of the relevant complaints in several European companies that affected not only Egypt, but also other countries, like China, India, Indonesia, Pakistan, and Turkey. Thus, Egyptian cotton producers were forced to suspend deliveries to European countries. In November 2010, Egypt and the EU signed a protocol establishing a certain mechanism of dispute settlement applicable to disputes under the

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<sup>277</sup> European Commission. Egyptian relations. [http://europa.eu/rapid/press-release\\_MEMO-95-2\\_en.htm](http://europa.eu/rapid/press-release_MEMO-95-2_en.htm) Retrieved on 13<sup>th</sup> December, 2014

<sup>278</sup> WTO. European communities - anti-dumping duties on imports of cotton-type bed linen from India. [http://www.wto.org/english/tratop\\_e/dispu\\_e/141\\_rw\\_a\\_e.pdf](http://www.wto.org/english/tratop_e/dispu_e/141_rw_a_e.pdf) Retrieved on 13<sup>th</sup> December, 2014



trade provisions of the Association Agreement. At present, Egypt is a major trading partner for the EU in the Southern Mediterranean region.<sup>279</sup>

## 7.6 Conclusion

Egypt is a very versatile country with a long history of economy. It cannot be judged with respect to one factor, because many factors should be taken into account in order to see the whole picture. On the one hand, predominance of the desert in Egypt, poor soil, small water resources and lack of forest resources are on the negative side, while on the other hand Egypt's geographical position plays a huge role in the development of its economy. Egypt is located in the Mediterranean, thus close to the countries of the European Union.

If one considers the history of Egypt's economy as a whole, there are lots of ups and downs. Nowadays, Egypt is in stable condition; however, its economy is very dependent on investment flows from the US and the EU. It should be also noted that Egypt's economy is heavily dependent on oil and gas industry, which is not a very favorable factor for future development. At the same time, it is a characteristic of all developing countries. However, because Egypt is not an oil-rich country, foreign financial aid is very important for country's sustainable development, so Egypt values such relations a lot.

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<sup>279</sup>European Commission. Countries and regions. Egypt. <http://ec.europa.eu/trade/policy/countries-and-regions/countries/egypt/> Retrieved on 13<sup>th</sup> December, 2014

## **CHAPTER EIGHT**

### **AMERICAN AID AND CROSS-BORDER TRADE**

#### **8.1 Introduction**

As it was noted previously, Egypt is heavily dependent on financial aid from outside of the country. The main contributor of such aid is the US. This chapter will explore economic consequences of the conflict on Egyptian economy with regards to the USAID and cross-border trade with Gaza. These are the two most important factors which influence the relations between the US and Egypt. However, first it is important to explain what grounds such valuable relations were based on.

#### **8.2 Six-Day War of 1967**

May 1967, the last month before the Six-Day War, was one of the most disturbing months in the Jewish history. June 1967 became one of the happiest. The Six-Day War (June 5 – 10) was a conflict, which Israel had sought to avoid. However, by the time it ended, Israel had almost four times more territory than it previously owned.<sup>280</sup>

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<sup>280</sup> McCarthy, Don (2013). *The Sword of David: The Israeli Air Force at War*. Barnsley: Pen & Sword Books Ltd., p. 12

Israel struck the first blow on June 5, 1967, but the drama was produced even earlier by Nasser. In May, he apparently decided that Arab states had finally reached military superiority, and launched a propaganda campaign against Israel, declaring its intention to do away with the “Zionist factor.” On May 22, he, in violation of international agreements, announced about the closure of shipping lanes to all Israeli shipping vessels and any foreign vessels that supply the Jewish state with strategic materials. In accordance with international law, such attempt of economic strangulation already provides a legal basis for the declaration of war; but Israel did not do that. Unfortunately, such restraint clearly strengthened the faith of Nasser that Israel felt itself weaker than the Arabs.<sup>281</sup>

In late May, Israeli Foreign Minister Abba Eban went to Europe and the United States to build international support. Meanwhile, the Arab world has played with more and more frantic statements. On May 27, Nasser said: “Our main objective will be the destruction of Israel.” Four days later, the president of Iraq Ab Rahman Aref Del said: “Our goal is clear - to wipe Israel off the map.”<sup>282</sup>

Before, Egypt and Syria had signed an agreement providing for consolidation of their armies in the coming war against Israel. Following this, Nasser flew to Jordan and signed an agreement with King Hussein about Jordan’s participation in the hostilities. Never before had the Jewish community worried so much. Three largest countries bordering with Israel united in a military alliance with the purpose of destroying it, while

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<sup>281</sup> Gluska, Ami (2007). *The Israeli Military and the Origins of the 1967 War: Government, Armed Forces and Defense Policy 1963-1967*. New York: Routledge, p. 218

<sup>282</sup> Tessler, Mark A. (1994). *A History of the Israeli-Palestinian Conflict*. Bloomington: Indiana University Press, p. 393

the rest of governments of the Arab countries openly said on the radio about willingness to use their forces in events of hostilities. The Iraqi army made preparations for the transfer of their units on the territory of Jordan. There was an impression that a new catastrophe was conceived.<sup>283</sup>

In Israel itself moods were gloomy. Safety of the country was seriously threatened and conscription of almost all men from 18 to 55 years had a negative effect on the economy. Moral atmosphere was not improved even after an elderly Israeli Prime Minister Levi Eshkol haltingly read his address to the nation. Many Israelis began to advocate for ensuring that the post of Minister of Defense had to be appointed to a combat hero Moshe Dayan. Eshkol, who held the post, was forced to vacate it then for Dayan.<sup>284</sup>

Two days later, Israel launched a surprise proactive offensive. In one day, the Israeli Air Force completely destroyed all Egyptian combat aircraft and knocked out most of the Syrian aircraft. Israel had asked the United Nations to persuade King Hussein of Jordan not enter the war. However, Hussein firmly believed in the victory of the Arabs and did not want to be deprived of the spoils of war. With positions in Jordan controlled Judea and Samaria, Jordanian artillery began shelling Jerusalem, Tel Aviv, and several Israeli airfields. Hussein had openly called on the Amman radio to “kill the Jews” by all means possible, wherever they (the Jews) were found.<sup>285</sup>

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<sup>283</sup> *Ibid*, pp. 391-192

<sup>284</sup> *Ibid*.

<sup>285</sup> Gluska, Ami (2007). *The Israeli Military and the Origins of the 1967 War: Government, Armed Forces and Defense Policy 1963-1967*. New York: Routledge, pp. 224-226

Unexpected loss of Egyptian Air Force attacked Nasser's vanity. A short time later, he called King Hussein, unaware that their conversation was heard by intelligence service of Israel. "Shall we say that the United States only fought on the side of Israel," he asked Hussein, "or the United States, along with Britain?" "The United States and Britain," answered Hussein.<sup>286</sup> Three hours later, Cairo radio announced that to its success Israel is bound to military support of the Americans and the British. Soon, almost the entire Arab world broke off diplomatic relations with America. Hussein refrained, and a week later apologized for lying. It is unknown if he would have done so if Israel had not made the content of his conversation with Nasser public.<sup>287</sup>

The war was a success for Israel on all three fronts. Israeli troops quickly seized the Sinai Peninsula. As a result of the two-day bloody battle (6-7 June), Israel took control of Judea and Samaria, which were annexed by Jordan in 1948. For the Jews, this victory was a huge military achievement of moral values: it meant that the old city of Jerusalem and the Western Wall were in the hands of the Jews again. However, in the battle for Jerusalem, Israel suffered heavy losses because they did not use guns in the Old City, trying to preserve the holy places of all religions that are located there. The most difficult for Israel was the battle for the Golan Heights, occupied by Syria. It was a real war in the mountains. For nineteen years, the Syrians fired on Israeli settlements. By June 10, Israel seized the heights.<sup>288</sup>

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<sup>286</sup> Aikman, David (2009). *The Mirage of Peace: Understanding the Never-Ending Conflict in the Middle East*. Ventura: Gospel Light Publications, p. 94

<sup>287</sup> *Ibid.*

<sup>288</sup> *Ibid*, p. 64

The war lasted for six days only, but the lives of 679 Israelis were claimed, that was a very high price for such a small country. Despite heavy losses, Israel and the Jewish world were covered by euphoria on 10<sup>th</sup> of June. Some time ago Israel was threatened with destruction, and now it was recognized as the greatest military power in the Middle East. Borders that existed before 1967 were called the “Green Line,” because in maps, which were drawn by the ceasefire agreement after the War of Independence, borders of Israel were marked with this color.<sup>289</sup>

Immediately after the war, the Israeli government intended to make significant territorial concessions in exchange for peace. However, Israel’s victory only added to the hatred of the Arabs to the Jewish state. Two months later, the entire leadership of the Arab world met in Khartoum (Sudan) and proclaimed the “three no’s”: “No to peace with Israel, no to negotiations with Israel, no recognition of Israel.” So, instead of bringing peace, Israel’s impressive victory sharpened the Arab-Israeli conflict.<sup>290</sup>

### **8.3 Return of the Sinai: Camp David Accords**

After Nasser’s death, Anwar Sadat became the president of Egypt and did not let the reins out of his hands. During the campaign, he promised to return the lost territories to Egyptians. However, contrary to expectations, the new leader, despite the view of many politicians and military men, took time for the beginning of a new war with Israel.

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<sup>289</sup> *Ibid.*

<sup>290</sup> Kantowicz, Edward R. (2000). *Coming Apart, Coming Together*. Michigan: Wm. B. Eerdmans Publishing, p. 368

He managed to extend the truce, but the danger of a renewed conflict between the two countries remained. Meanwhile, Sadat continued to strengthen friendly relations with the Soviet Union. In March 1971, the head of state arrived in Moscow for an official visit. “Our friendship with the Soviet Union is not a temporary, but a principled friendship, not-stage, but constant. We have always and will always act together in a single-world anti-imperialist front,” said Sadat during one of his public appearances.<sup>291</sup> Egypt needed additional supplies of Soviet weapons. In addition, the country already had the air group of the Soviet Air Force, which helped the Egyptians to reflect attacks by the Israeli Air Force in February 1970.<sup>292</sup>

Sadat thought that military aid provided to Egypt by the Soviet Union was insufficient. Meanwhile, Moscow wanted to give preference to the pro-Soviet Secretary General of the Arab Socialist Union, who was considered as a candidate for the role of a new head of state. The Secretary General and his associates were arrested in May 1971 on charges of an attempted coup.<sup>293</sup> In 1972, Sadat started closing military-technical cooperation with the Soviet Union, hoping for closer cooperation with the United States. In July 1972, the Soviet military contingent was asked to leave Egypt. Thus, it marked a historic shift of Egyptian foreign policy – shift from cooperation with the Soviet Union to close cooperation with the United States.<sup>294</sup>

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<sup>291</sup> Ro'i, Yaacov (1974). *From Encroachment to Involvement: A Documentary Study of Soviet Policy in the Middle East, 1945-1973*. Jerusalem: Israel University Press, pp. 563-564

<sup>292</sup> *Ibid.*

<sup>293</sup> Egypt and Israel: War for Peace Anwar Sadat. <http://survincity.com/2010/10/egypt-and-israel-war-for-peace-anwar-sadat/> Retrieved on 11<sup>th</sup> December, 2014

<sup>294</sup> *Ibid.*

At the same time, governance of Egypt continued to prepare for war with Israel for the return of the Sinai Peninsula. It was the Yom Kippur War, which broke out in October 1973. Egypt and Syria made a surprise attack on the Israeli military bases and airfields on Yom Kippur, a celebration of all the Jews. Nevertheless, the Israeli Defense Forces (IDF) was able to recover pretty quickly from the shock and make a counter-attack. By October 19, the Israelis managed to inflict a sizeable defeat of the Egyptian army: the path to Cairo was opened. With the help of the Soviet Union's intervention, which was not interested in the complete defeat of the Arab armies, the two sides agreed to a ceasefire. Great influence on the resolution of the conflict between Egypt and Israel had the United States. US Secretary of State Henry Kissinger initiated negotiations on the delimitation of powers. Only on January 18, 1974, an agreement on disengagement of the Sinai front was signed.<sup>295</sup>

In the early November of 1977, Sadat suddenly appeared before the Egyptian Parliament with an initiative to start peace talks with Israel. Soon, Israeli Prime Minister Menachem Begin formally invited the Egyptian president to come to Jerusalem. During this historic visit to Israel, Sadat set out the basic conditions for the recognition by Egypt of the Jewish state. This visit has radically changed relationships between the two countries. This event was a prelude to the signing of a peace treaty at Camp David, which entered into force in 1979.<sup>296</sup>

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<sup>295</sup> Druks, Herbert (2001). *The Uncertain Alliance: The U.S. and Israel from Kennedy to the Peace Process*. Westport: Greenwood Publishing Group, p. 141

<sup>296</sup> *Ibid*, pp. 171-172



In August 1978, US President Jimmy Carter hosted a meeting of the two presidents at Camp David, where the two documents were signed: “Foundations of Peace in the Middle East” and “Fundamental for conclusion of a peace treaty between Egypt and Israel.” Sadat was able to achieve a complete return of the Sinai Peninsula to Egypt. The documents implied the establishment of stable relationships between states including mutual recognition of diplomatic, economic and cultural ties. The response to this event in the Arab world was expectable. Syria, Libya, Iraq and South Yemen broke off diplomatic relations with Egypt.<sup>297</sup>

For Egypt, it was important to link territorial agreements with the process of peace with Israel and prevent the accusations regarding the inaction of the Palestinian issue. At the same time, the main objective of Israel was to show unwillingness to make concessions in respect of its sovereignty in the territories of Judea, Samaria and the Gaza Strip. It should be noted that in the framework of signed Camp David agreements, Israel for the first time said that there was a need to recognize the legitimate rights of Israeli Arabs and their just requirements for long-term settlement in the West Bank and the Gaza Strip. Israel also agreed to Jordan participation in the discussion of this topic.<sup>298</sup>

Camp David Accords became the basis for further negotiations, which culminated in the signing of a historic peace treaty between Egypt and Israel on March 26, 1979, in Washington. The PLO and most Arab states condemned the agreement.<sup>299</sup>

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<sup>297</sup>*Ibid*, pp. 174-176

<sup>298</sup>*Ibid*.

<sup>299</sup>*Ibid*, p. 178

Anwar Sadat was murdered during a military parade in Cairo in 1981. It was noted that those involved in the conspiracy, radical Islamists, did not forgive him the peace treaty at Camp David, for which he was awarded the Nobel Peace Prize. After the death of Sadat, his course was continued by President Hosni Mubarak, who managed to maintain good relations with Israel for many years. Israel completed the withdrawal of troops from the Sinai Peninsula in April 1982.<sup>300</sup>

#### **8.4 Relations between Egypt and the United States**

As it was previously said, Egypt did a gradual shift from cooperation with the Soviets to rapprochement with the US. This fact is very important not only for Egypt, but for America as well, because it was one of the biggest diplomatic victories of the US during the Cold War. Relationships of Egypt and the United States have always been a major focus of politicians. It can be explained by the fact that the two countries have always had a great influence on the course of events: the US on a global scale, while Egypt – in the Arab world. Special nature of bilateral relations between Cairo and Washington lies in the fact of Cold War confrontation, when Egypt chose a path between the two superpowers. For about two decades, Egypt was one of the friendliest states to the Soviet Union in the East and the enemy of US ally - Israel, which in turn determined the confrontational relations of Cairo with Washington.

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<sup>300</sup>Tucker, Spencer C.; Roberts, Priscilla (Ed). (2008). *The Encyclopedia of the Arab-Israeli Conflict: A Political, Social, and Military History*. Santa Barbara: ABC-CLIO, p. 320

At present, Egypt and the United States have cooperation on a number of issues that are of great importance for the development of bilateral ties and stabilization of the situation in the Middle East. The United States is one of the main trade and economic partners of Egypt, the largest supplier of arms to Egypt, and the guarantor of the Egyptian-Israeli peace agreement. Beginning of the 21<sup>st</sup> century marked aggravation of international relations, both globally and in the Middle East region. The US appreciated that during the difficult moment for the country after the attacks of 9/11 in New York and Washington, President Hosni Mubarak spoke in support of any actions of the United States in the fight against terrorism. According to the Egyptian leader, “after the terrorist attacks have occurred in America, we have decided to support any move to eradicate terrorism, as we have experienced it ourselves.”<sup>301</sup> The leader of Egypt supported the US-led anti-terrorist operation in Afghanistan, saying that Washington probably had its reason to attack Kabul. Egyptian Foreign Minister Ahmed Maher also expressed serious concern about the fate of the Afghan people, “who have suffered enough and must not suffer again.”<sup>302</sup>

Egypt has a special relationship with the United States in the field of military-technical cooperation. The country is one of the main strategic partners of the United States in the region. Since 1980, Egypt and the US hold joint military exercises called Operation Bright Star. In October and November 1999, the largest Bright Star exercise

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<sup>301</sup>Contemporary Conflicts. SSRIC. Egypt After 9/11: Perceptions of the United States. By Samer Shehata. 26 March, 2004. <http://conconflicts.ssrc.org/archives/mideast/shehata/> Retrieved on 10<sup>th</sup> December, 2014

<sup>302</sup>*Ibid.*

was held, which were attended by 70,000 personnel from eleven countries.<sup>303</sup> Last two exercises (in 2011 and 2013) were cancelled, first because of the Egyptian Revolution, while the second was cancelled by US President Barack Obama on the pretext that Egyptian police raided two large camps created by Mohamed Morsi supporters.<sup>304</sup>

In 1989, Egypt received the status of an “ally of the United States outside of the North Atlantic Treaty Organization.” At present, Egypt is among 15 countries that are major non-NATO allies (MNNA), together with Israel, Jordan, and most recent, Afghanistan. This approach is explained due to the weight and influence of Egypt in the Middle East and North Africa. Arab capitals are closely monitoring the foreign policy of Cairo, position of Egyptians is considered important in the region. Because of this, the friendly relations of Egypt with the United States have a positive impact on their relations with other states in the region. On the other hand, Americans support a secular regime in Cairo, which allows to deal more effectively with the Islamists (whose arrival to power in the country would have been fraught by the negative consequences for the Arab world, as well as for American interests in the region).<sup>305</sup>

A considerable attention of Washington is devoted to Egypt. According to George W. Bush, friendship with Egypt was “one of the main cornerstones of our policy in this

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<sup>303</sup> Bright Star. GlobalSecurity.org. <http://www.globalsecurity.org/military/ops/bright-star.htm> Retrieved on 10<sup>th</sup> December, 2014

<sup>304</sup> U.S. Pulls Out of Egypt’s Bright Star War Game. By Mark Thompson. Time. 15 August, 2013. <http://swampland.time.com/2013/08/15/u-s-may-pull-out-of-egypts-bright-star-war-game/> Retrieved on 11<sup>th</sup> December, 2014

<sup>305</sup> US -Egyptian Relations. GlobalSecurity.org. <http://www.globalsecurity.org/military/world/egypt/foreign-relations-us.htm> Retrieved on 11<sup>th</sup> December, 2014

region, and it's based on our shared commitment to peace, security and prosperity.”<sup>306</sup> Egypt is the second largest recipient of American military and economic aid in the Arab world (after Iraq), amounting to 1.5 billion US dollars per year (in this case, however, the Americans are building military-technical cooperation in such a way to avoid getting the Egyptian army superiority over the Israel Defense Forces). The volume of American investments in Egypt's economy in 2012 alone exceeded 16 billion US dollars, while non-petroleum investments stood at 8.5 billion US dollars. As The Wall Street Journal pointed out, “The U.S. needs a stable Egypt that isn't a breeding ground for al-Qaeda, honors its peace treaty with Israel, and has a political process that settles domestic disputes without taking to violence and the streets.”<sup>307</sup>

## **8.5 USAID and cross-border trade between Egypt and the Gaza Strip**

United States Agency for International Development is the main body of state administration of the United States in the field of overseas aid. The main directions of the agency include support for trade, agriculture, economic growth, health, emergency humanitarian aid, assistance in conflict prevention and support for democracy in more than 100 countries around the globe. The act of creating USAID was signed by President John F. Kennedy in November of 1961. For the first time, one of the state institutions in

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<sup>306</sup> President Bush Meets with President Hosni Mubarak of Egypt. George W. Bush, White House Archives. 16 January, 2008. <http://georgewbush-whitehouse.archives.gov/news/releases/2008/01/20080116-2.html> Retrieved on 11<sup>th</sup> December, 2014

<sup>307</sup> America's Interests in Egypt. The Wall Street Journal. 18 August, 2013. [http://www.wsj.com/news/articles/SB10001424127887323639704579012864220982826?mod=rss\\_opinion\\_main&mg=reno64-wsj](http://www.wsj.com/news/articles/SB10001424127887323639704579012864220982826?mod=rss_opinion_main&mg=reno64-wsj) Retrieved on 10<sup>th</sup> December, 2014

the US concentrated on long-term care of economic and social developments of other countries, which combine the functions of several pre-existing organizations. About 1% of the US federal budget is annually allocated on funding programs of the organization. USAID has offices in most countries of the world, including Egypt.<sup>308</sup>

The US has a long history of helping to improve the quality of life of Egyptian citizens. The USAID-Egypt partnership began in the mid-1970s, when Egyptian economy was in stagnation, and the country itself was a low-income one.<sup>309</sup> At the time, infrastructure of Egypt was undeveloped, while population grew. USAID focused on developing the infrastructure first, and then other areas became important, like agriculture, economic growth, health, and education. Nowadays, Egypt has a very improved economy, one of the most diversified in the Middle East. Annual income per capita grew from 260 US dollars in mid-1970s to 2,070 US dollars.<sup>310</sup> Exports have increased dramatically, while flows from foreign direct investment (FDI) reached approximately 7 billion US dollars per year.<sup>311</sup> All of these gains were directly supported by USAID, and in order to maintain those gains USAID together with the Egyptian people carry out important moves for improving health and education systems. Between 1946 and 2011, the US's total aid to Egypt (less than a half of which went for military purposes) amounted to 71.7 billion US dollars. At present, out of all financial assistance to Egypt only one-fifth is economic, while the rest is military aid.<sup>312</sup>

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<sup>308</sup> USAID history. <http://www.usaid.gov/who-we-are/usaids-history> Retrieved on 14<sup>th</sup> December, 2014

<sup>309</sup> USAID. Egypt. History. <http://www.usaid.gov/egypt/history> Retrieved on 14<sup>th</sup> December, 2014

<sup>310</sup> *Ibid.*

<sup>311</sup> *Ibid.*

<sup>312</sup> Sharp, Jeremy. CRS. Egypt: Background and U.S. Relations. 5 June, 2014. <http://fas.org/sgp/crs/mideast/RL33003.pdf> Retrieved on 14<sup>th</sup> December, 2014

Philadelphi Route (or Philadelphia Corridor) is a strip of land between the Gaza Strip and Egypt with length of about 14 kilometers on the ground and 3 kilometers into the sea. Prior to 2005, it was completely controlled by the IDF. Philadelphia Corridor starts on the territory of Israel not far from Kerem Shalom, runs through the demilitarized zone divided into two parts (eastern and western) of the city of Rafah and ends close to the ruins of the Jewish settlement Rafah Yam, demolished after being deported in August 2005.<sup>313</sup>

In 1982, Menachem Begin offered Anwar Sadat two options: either Egypt takes the whole Rafah and gives Israel an equivalent area elsewhere, or the whole town would go to Israel in exchange for an equivalent area elsewhere will go to Egypt. Sadat said it clearly: “the land of Egypt is sacred. We do not want someone else’s land, but we will not give up a single square centimeter of our’s.” As a result, Israel had to demolish lots of houses in the center of Rafah and build a border on their places, which caused dissatisfaction of the locals. Initially, Rafah was divided into two parts with an ordinary fence. Over time, the fence was developed into a 9-meter concrete wall. This concrete wall was blown up several times by members of Hamas, allowing many terrorists to quietly infiltrate into Egypt.<sup>314</sup>

When the checkpoint was guarded by soldiers of the IDF, it gave Israel an opportunity to ensure that no weapons and ammunition are transported to the Gaza Strip from Egypt. However, terrorists have found an alternative way to smuggle weapons - underground steel tunneling. The tunnels have become an extremely profitable business:

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<sup>313</sup>*Ibid.*

<sup>314</sup>*Ibid.*

not only arms and ammunition were transported, but also drugs. Since the beginning of the Intifada, the Philadelphia Corridor became the front line of the war: Israeli soldiers constantly shelled it. In order to provide basic security, the IDF soldiers had to demolish several houses along the Philadelphi Route and build a 10-meter iron wall on their place. As the tunnels remained, the IDF had to carry out Operation Rainbow, during which several dozen of terrorists were assassinated. On 12 December, 2004, Hamas succeeded in destroying the IDF checkpoint. Formal control over the strip was transferred to Egypt. A security arrangement with Egypt concerning the transfer of control over the strip was signed and Egypt deployed 750 border guards (heavy armor is not permitted, only jeeps and small arms); the security, as the Israeli say, is not good. Despite obvious reluctance and unwillingness of Egypt to be held responsible for what is happening in the area of the Philadelphi route, it came under the formal control of Cairo, indifferent to defense needs of Israel. Despite prevailing in the area of the Philadelphi route chaos, the Israeli government is not willing to re-seize control of the territory which supports terror in the country.<sup>315</sup>

So, it can be clearly seen that Israel does not like how the Egyptians carry out their responsibilities in the case with smuggling of weapons and other commodities. As Israel is the ally of the United States and the US provides military and economic assistance to Egypt, Israel wanted to impact the situation. Thus, from 2004 onwards, there were six attempts in the US Congress to cut or relocate US's economic/military assistance to Egypt. Only once it worked – in 2007 the Congress refused 200 million US

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<sup>315</sup>*Ibid.*



dollars assistance to Egypt of previously allocated funds. From the perspective of Egypt, Israel is exaggerating the danger posed by smuggling of weapons through the tunnels and says that Israel wants to “sabotage” the Egypt-US relations. From the Israeli point of view, the Egyptians need to maintain strict control over the tunnels and do not allow the smuggling of whatever there is.<sup>316</sup>

A member of the Likud party, Yuval Steinitz, accused Egypt of allowing Hamas to obtain thousands of rifles, anti-tank missiles, tons of explosives, several dozen Katyusha rockets and shoulder-held anti-aircraft missiles. In his letters to the US Congress he stated that “It is almost ridiculous for the Egyptians to focus on finding the tunnels, since it would be much easier for them to intercept the smugglers before they get anywhere near the border.” He wanted to persuade the Congress to completely freeze the assistance to Egypt.<sup>317</sup>

Egypt had strongly rejected all these accusations. Egyptian Foreign Minister Ahmed Aboul Gheit stated that “If they continue to push and try to affect Egypt's relationship with the US and harm Egyptian interests, Egypt will certainly respond and will try to damage their interests.”<sup>318</sup> Egyptian officials said that they did everything they could in accordance with the Memorandum of Understanding (MOU) with Israel. As about one-third out of 750 personnel is off-duty or on leave, there are fewer personnel left

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<sup>316</sup> Sharp, Jeremy. CRS Report for Congress. The Egypt-Gaza Border and its Effect on Israeli-Egyptian Relations. February 1, 2008. <http://www.fas.org/sgp/crs/mideast/RL34346.pdf> Retrieved on 14<sup>th</sup> December, 2014

<sup>317</sup> Israel Urges Egypt to Act Against Hamas. By Steven Erlanger. The New York Times. 9 November, 2007. [http://www.nytimes.com/2007/11/09/world/middleeast/09mideast.html?\\_r=0](http://www.nytimes.com/2007/11/09/world/middleeast/09mideast.html?_r=0) Retrieved on 14<sup>th</sup> December, 2014

<sup>318</sup> Egypt warns Israel of diplomatic reprisals. Reuters. 31 December, 2007. <http://uk.reuters.com/article/2007/12/31/uk-egypt-israel-aboulgheit-idUKL3140665320071231> Retrieved on 14<sup>th</sup> December, 2014

to protect the crossing. In addition, heavy armor is prohibited, leaving Egypt a very small room to maneuver. As it can be seen, though Egypt did all possible efforts to stop the smuggling, it was unable to do so. Egypt is first under pressure by the Israelis, and second, which is more important, under the pressure of the United States.<sup>319</sup>

So, it can be said that outside pressure from America and Israel persuaded Egypt to keep the border closed. For this purpose, the US thus allocated 100 million US dollars of aid on detecting and destroying the smuggling tunnels. The checkpoint was opened and closed several times during the past years, though Egypt tends to keep it closed. On October 24, 2014, there was a double bombing in the north-east of the Sinai Peninsula. Jihadists' militants killed 33 Egyptian soldiers.<sup>320</sup> Shortly thereafter, a state of emergency was declared on the north of the peninsula and a buffer zone with about a kilometer width began to be constructed on the border with Gaza. Hundreds of homes were demolished, while thousands of people became refugees. Residents lost access to health services in Egypt, while the Gazan students studying in Egyptian universities were unable to return home.<sup>321</sup> The UN called on the Egyptian authorities to open a checkpoint on a permanent

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<sup>319</sup> Sharp, Jeremy. CRS Report for Congress. The Egypt-Gaza Border and its Effect on Israeli-Egyptian Relations. February 1, 2008. <http://www.fas.org/sgp/crs/mideast/RL34346.pdf> Retrieved on 14<sup>th</sup> December, 2014

<sup>320</sup> Egypt to deepen buffer zone with Gaza after finding longer tunnels. Reuters. 17 November, 2014. <http://www.reuters.com/article/2014/11/17/us-egypt-sinai-buffer-idUSKCN0J11M920141117> Retrieved on 7<sup>th</sup> December, 2014

<sup>321</sup> Closing of Egypt's Rafah crossing leaves thousands of Gazans stranded. Reuters. 20 November, 2014. <http://www.reuters.com/article/2014/11/20/us-mideast-palestinians-egypt-idUSKCN0J415J20141120> Retrieved on 7<sup>th</sup> December, 2014

basis, which was done for only two days – from 27 to 28 November. At present, the border is closed.<sup>322</sup>

It is important to note that the US also cares a lot about political situation in Egypt. So, in 2013, a democratically elected President Mohamed Morsi was asked by the military to step down. The American saw it as a danger to democracy in the country and the region itself. Thus, American military aid was frozen. Only a year after, in December of 2014, the US resumed the aid. Human rights requirements for Egypt were met. Also, the US suspended the frozen state of provision of ten Apache attack helicopters for the Egyptian Air Force.<sup>323</sup>

On 30 October, 2014, the US State Department Spokeswoman Jen Psaki said that the United States will continue to support Egypt's efforts to take steps to defend their own borders. Regarding the buffer zone the Egyptian authorities are creating on the country's eastern border in Sinai, Psaki declared that, "We believe that Egypt has the right to take steps to maintain their own security." She also added that the US understands the threat Egypt is facing from Sinai.<sup>324</sup>

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<sup>322</sup> Egypt opens Rafah crossing to stranded Palestinians bound for Gaza. Reuters. 26 November, 2014. <http://www.reuters.com/article/2014/11/26/us-egypt-rafah-open-idUSKCN0JA0WG20141126> Retrieved on 7<sup>th</sup> December, 2014

<sup>323</sup> U.S. grants reprieve on aid to Egypt after lobbying from Saudis, Israel, Jordan, UAE. World Tribune. <http://www.worldtribune.com/2014/12/16/u-s-grants-reprieve-aid-egypt-lobbying-saudis-israel-jordan-uae/> Retrieved on 20<sup>th</sup> December, 2014

<sup>324</sup> Egypt - Gaza Border. GlobalSecurity.org. <http://www.globalsecurity.org/military/world/egypt/gaza-border.htm> Retrieved on 8<sup>th</sup> December, 2014

## **8.6 Conclusion**

Egypt and Israel has a long history of rivalry following Egypt's defeat. At the same time, Egypt not only improved its relations with Israel and signed a peace treaty, but also started to receive financial aid from abroad. One of fundamental decisions of Egyptian foreign policy at the time was the shift from cooperation with the Soviet Union to rapprochement with the United States. It was a hard decision for Egypt, because Israel is the key ally of the US in the Middle East, and the rivalry had to be overcome.

Notwithstanding, to cut a long story short, Egypt did a great work in order to become an ally of the US. Of course, it was a great victory for the US at the time, but Egypt started to receive lots of economic and military aid from the United States. Apparently, the coalition implies some rules – Israel threatened to cut or even cancel the US assistance to Egypt if Egypt will not maintain the security of the Rafah crossing. One time the Israeli were successful – there was a cut of one-fifth of a billion US dollars of aid. Also, the US is very interested in democratic developments in Egypt, and the Congress can freeze military or economic aid when it deems right. Thus, there is a direct effect of the Israeli-Palestinian conflict on the economy of Egypt with regards to American aid to and cross-border trade with Gaza.

## **CHAPTER NINE**

### **CONCLUSION**

The Israeli-Palestinian conflict is the most complicated and the most unresolvable conflict in contemporary history. Throughout the time, people always needed land as the place where they can live freely separated from other tribes. Land is de-facto the most valuable asset on earth, so there is no doubt people fight, suffer, and die for it. This rivalry between the Arabs and the Jews is a longstanding one, and the confrontation is fueled by its duration. There are such outstanding losses that each side had witnessed, which do not permit both of them just quit and stop the fighting. It is a very complex conflict which involves many different players with various positions on the world scene. It is important to mention that the conflict gave rise to different Islamic organizations over the globe, many of which are terrorist organizations that threaten security and peace all over the world.

Different countries, important political figures, international organizations, and other powerful entities tried to implement a resolution for the conflict by different means for many years. Unfortunately, peace was not an option. However, there were several successful ceasefires, which had a positive impact on the course of the conflict. One of such actively involved countries is Egypt, which had tried to impact the conflict and finish it. Several times Egypt was a mediator between the parties, and it brought visible results. The very last ceasefire was also the merit of Egypt. Egypt itself wishes this

conflict to be over, as it threatens not only the security, but also the economy of the country. Thus, it can be said that Egypt is an excellent example of peacemaker. Egypt's role in resolving the conflict is unambiguous and irreplaceable.

Because this research focuses on economic aspects, it can be said that economies in the region are very diverse. While the Israelis have a developed and flourishing economy, economies of the Gaza Strip and the West Bank are undeveloped and require a lot of attention. Israel is a very powerful country; it produces lots of different goods – from food products to advanced weapons. The Palestinians, on the other hand, do their best to survive and build the infrastructure. Inevitably, both economies are diverse, but they have one similarity – the conflict itself. Neither party wants to surrender, but each of the two developing security for their citizens.

Egypt has borders with both sides of the conflict, so it is influenced by them. While the economy of Egypt is strongly related to its geographical position and presence of natural resources, it was not stable in the years before the 1980s. Egypt's economic growth was limited due to scarce amounts of arable land and rapidly growing population. After the end of the Second World War, a large proportion of funds and energy were devoted to prepare the country for the war with Israel and later to rebuild it after the destruction incurred in the Arab-Israeli Wars. The country's industrial base increased considerably in the 20<sup>th</sup> century, especially after the 1950s. The state owns a lot of the economy and plays a decisive role in its planning; however, in recent years Egypt has moved towards a more decentralized and market-oriented economy.

After the defeat of Egypt in the war with Israel, the country had to change objectives of its foreign policy. Thus, there was a gradual shift from partnership with the Soviet Union to collaboration with the United States. The Soviets, who supplied Egypt with weapons for many years, were left without an important strategic partner. For the US, this shift was a great victory in the Cold War era. For Egypt, it was the beginning of a new economic and military cooperation with the superpower, and it is a very valuable friendship. Though Israel was an ally of the US for a long time, Egypt was able to overcome this fact and continue to develop the country. Since the 1970s, billions of dollars of aid were injected into Egyptian economy from the United States. However, the country's inefficient state-run industries, swollen public sector, and large military investments resulted in inflation, unemployment, severe trade deficit, and a heavy public debt.

Notwithstanding this, it is important to present one significant outcome of the research – the conflict had impacted the economy of Egypt in the case with American aid and cross-border trade with Gaza. As Egypt was receiving (and still receives) a lot of financial aid from the US (amounting to billions of US dollars), it has to abide by some unwritten rules. In this case, such rules are posed by Israel. As all of the crossings from the Gaza Strip to Egypt are controlled by the Israelis, they tend to press Egypt in the case of the Rafah crossing. It is unique in its nature because it is the only crossing that is not controlled by Israel. Only Egypt carries out control and security of this crossing. Though the crossing itself is not long, many militant groups smuggle weapons, ammunition, and drugs from Egypt to Gaza. The Israelis say that Egypt is unable to secure the border

while there are underground tunnels. Thus, Israel pressed the US Congress to cut or even freeze financial assistance to Egypt if the border will not be secured. The Congress cut the aid once, making the Egyptians take stricter control of the border. At present, the border is closed, and many citizens cannot cross to return to their homes. At the same time, the US welcomes only democratic developments in Egypt, so the aid can be suspended if the Congress decides that it is a right decision. In these cases, there is a direct impact of the conflict on the country's economy.

It can be pointed out that there are two arguments regarding Israel in this case – one argument is against, another is in favor. The Israelis can be clearly understood in their strive for security in order to protect their population, while the smugglers support attacks on Israel. On the other hand, taking into account previous war and rivalry with Egypt, it is not very wise to impact it with the support of a more powerful player. The rivalry can be continued and unseen consequences can happen.

The Arab-Israeli conflict is a longstanding conflict with a very sophisticated history. However, I think that nowadays peace in the region should be the priority for the whole world. It is necessary to put an end to the suffering of the Palestinian people. Let us hope that in the near future the confrontation will be stopped and both parties return to clear-minded objectives without the use of force. The fewer conflicts there are on the earth, the stronger the mankind is.



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