

# Regionomix

## Regionomix Initiative Overview

December 31, 2017

**A regional economic development initiative to stabilize and develop the Middle-East Region, as an integral element of a “Regional Package Deal” between Israel, the Palestinians and key Arab States (based on the two-states solution and regional agreements in the spirit of the Arab Peace Initiative) – through accelerated economic development, job creation, and improvement of the standard of living and the quality of life**

## About this Document

The idea behind the effort is to understand the economic components and benefits of a Regional Package Deal between Israel, the Palestinians and the key Arab states (based on the two-states solution and regional agreements in the spirit of the Arab Peace Initiative). The team developed an economic vision and a plan – called “Regionomix” – for its implementation within the context of a regional political process. The plan presented above was assembled and co-authored by **Dr. Karim Nashashibi and Mr. Yitzhak Gal**. The document was reviewed and approved by **Mr. Yarom Ariav and Mr. Yigal Tamir**.

The ideas and insights presented here were created thanks to contributions and observations made by the following people, **who were consulted throughout the process**:

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Please note that while recognizing their contribution, it does not imply their endorsement of any specific views or results presented in this paper. The authors and contributors share one motivation – to promote a regional package deal for 2-states and regional agreements in the spirit of the Arab Peace Initiative. All are keen to see true and genuine diplomatic progress towards a comprehensive peace in the region as outlined by the Arab Peace Initiative and the subsequent Israeli Peace Initiative.

**The Regionomix Project Team, December 2017**

## Acknowledgments

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**Thought 4 Action identifies and removes barriers that obstruct prosperity for all peoples across the globe.**

Thought for Action is an Action Tank established as a non-profit organization, and launched in 2013 by economist and policy innovator, Elena Panaritis. With operations in the U.S. and the European Union, its goal is to provide a platform to address these issues and engage stakeholders from every level of society. By doing so, Thought for Action takes a bottom-up approach to identify broken regulatory systems that prevent economic growth and then promotes reform that enables all members of society to prosper. Thought for Action is a non-partisan, network that gathers international policy and academic experts, with unique experiences in stabilizing countries under economic (structural) crisis. Drawing from specialized international, professional and on-the-ground experience with similar crises of the past, Thought for Action invests its efforts in opening dialogues, disseminating lessons learned, and creating necessary action policies and reforms that will address the needs of the poor and most marginalized members of society to promote growth in targeted countries (that have been hit by an economic crisis or are in the process of reforming).

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***The political scenarios presented here for the solution of the Israeli-Arab conflict, and the Regionomix plan – do not represent an official position and opinions of Chatham House or of Thought For Action, who remain objective and open platforms for geo-political and economic research, policy recommendations and debate.***

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## Part 1 – The Regionomix Vision and Economic Potential

### 1. Overview

Over the last decade, the Middle East region has been mired in conflict, political instability and economic stagnation in most of its countries. In addition to the human suffering which these conflicts have caused, they create great uncertainty, undermine investment and depress growth. High unemployment, income stagnation and rising inequality have exacerbated political risks in individual countries and worsened regional insecurity.

To address the economic stagnation and the political instability, there is a great need for regional economic development and security cooperation, that can only be achieved by resolving the Israeli-Palestinian and Israeli-Arab conflicts. At the same time, we believe that a two states solution to resolve the Israeli-Palestinian conflict can only be achieved as part of a comprehensive regional package deal, struck between Israel, the Palestinians and the Arab states. Such a deal would include parallel agreements on two states, regional normal relation, regional economic development and regional security cooperation. Accordingly, we believe that the geopolitical situation today is favorable for launching an economic and political initiative of this sort, with the aim of attaining a broadly based regional agreement.

In 2002, the Arab Peace Initiative (API) was put forward by Crown Prince Abdullah of Saudi Arabia and adopted by the Arab League and subsequently by the Organization for Islamic Cooperation. More recently, in March 2017, the Arab League reaffirmed API's offer to Israel to establish full diplomatic, trade and economic relations between Arab countries and Israel, when Palestine and Israel reach an agreement on establishing a sovereign Palestinian state.

The API has recently been gaining traction in Israeli public opinion, and offers a new opportunity to launch negotiations on the basis of the API, towards establishing a Palestinian State, and reap the benefits which a broad-based peace agreement with all Arab countries would entail.

In this context, we are advocating a new vision for the Middle East and North Africa region - "Regionomix". This vision, in the spirit of the API and a commitment to a two states solution

to the conflict, aims at breaking away from the “status quo” of political paralysis and economic stagnation and move towards new horizons of lasting peace, open trade relation and dynamic growth engines.

The political and economic tracks are closely intertwined and the Regionomix Group intends to pursue both vigorously. While only political progress can unlock the existing stalemate, and bring down the current level of hostility, economic incentives in a regional package deal, would unlock the potential prosperity, stability and enhancement in the well-being of the region’s population. Hence the economic and political tracks must work in tandem. A “regional package deal” combining political and security agreements towards the end of conflict together with the enormous economic benefits which a regional opening would provide, is the most promising path towards peace, security and prosperity.

The political and economic baselines in Arab countries in 2017 are untenable, yet their outlook leans towards further deterioration. Several key countries in the region are suffering from low growth, high unemployment and declining per capita incomes. Egypt and Jordan’s low growth, decline in exports and high fiscal deficits compelled them to seek financing from the IMF, with painful reform measures: devaluation in Egypt with resulting 30% inflation, and budget cuts in Jordan which is already hurting from an influx of 1.3 million refugees from the Syrian and Iraqi conflicts. North African countries and Lebanon are also suffering from both political turmoil and economic distress. Due to economic stagnation in Palestine, as a result of the lack of any political horizon and suffocating economic restrictions, unemployment has risen dramatically over the last few quarters: 21% in the West Bank and 44% in Gaza in Q2 of 2017. Youth unemployment is over 50%. That is clearly a socially and politically unsustainable situation. The combination of economic distress and political conflict has resulted in high volatility and explosive situations in a number of countries.

Oil countries have been experiencing low growth and low oil prices which are inconsistent with the high pattern of public expenditures and entitlements which have been layered during the oil boom era.

While, over the last decade, Israel has been benefiting from sound macroeconomic management- low fiscal deficits and inflation, strong exports and foreign direct investment -

it has also generated rising poverty, higher income inequality, and social tensions which need to be addressed. Additionally, the Israeli economy is placed under an exceptionally high defense expenditure burden, broadly estimated at about 13% of GDP<sup>1</sup>. As a mature OECD country, its long-term growth prospects are estimated at around 2.5% annually which would be inadequate in generating the fiscal resources needed for lowering the poverty rate and for implementing more inclusive social policies. A regional political agreement for two-states and regional in the spirit of the API would capitalize on the shared interests between Israel and the Arab states, and would enable over time considerable reduction of defense expenditure burden; it would also unlock an economic potential for Israel, through regional agreements on security, joint infrastructure development and reaching normal relations between Israel and Arab states.

This broad regional agreement would open up the region to trade and travel, promote joint infrastructure projects in transportation, water management and energy and stimulate innovation and creative solutions, thereby extracting large value-added chains. Trucks would travel seamlessly through open borders from Haifa and Nablus through Jordan to Riyadh and Bahrain or from Cairo through Israel and Syria to Istanbul and Europe. High tension electricity lines would crisscross the region and desalination projects supported by a network of regional water pipelines would fundamentally alleviate water scarcity.

The Regionomix group fleshed out the economic growth potential for the region over a ten-year period. Government to government partnerships, as in the Red Sea/Dead Sea project which brought together Israel, Jordan and Palestine, private/public joint investments across countries, the huge potential of private investment and transfer of technology and a wealth of financial resources in the region are the underlying assumptions and mechanisms for our projections.

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<sup>1</sup> While defense expenditures in Israel are about 6% of GDP, other costs such as deferred employment and income due to conscription and other security measures bring the total cost to about 13% of GDP. See Economics and Politics in the Israeli Palestinian Conflict, Arie Arnon and Saeb Bamyia editors, Aix Group 2015 pp 80-83

**2. Highlights - the economic benefits of the Regionomix Initiative**

The key results of the regional package deal in 10 years can be summarized as follows, with details provided in Appendix 2, Tables 1 & 2:

1. Addition of approximately 1 trillion dollars to the regional GDP
2. Average regional GDP per capita will be, in 10 years, 30% higher, in comparison to the projected GDP per capita under current status-quo trends
3. Another 1 trillion dollars would be added to the GDP of the rest of the world (as a result of increased exports to the Middle East)
4. Creation of over 20 million additional jobs across the region.
5. Dramatic reduction of unemployment – from over 20% in 10 years under status quo projections, to single digit rates of unemployment, under the package deal
6. Sustainable solution of water scarcity problems across the Middle East
7. Regional networks of railroads, highways, power transmission lines, water, gas and other infrastructures
8. Improving health services across the region, and raising life expectancy towards the level of developed countries
9. Improving education to provide the skills required by the private sector and creation of training academies as well as higher and complementary public education systems in all countries of the region
10. Higher government revenue stemming from higher economic growth would provide resources for public investment and a more inclusive growth process
11. Redirection of public expenditure from defense and security to social safety nets and marginalized segments of the population
12. Integration of the region in the global “new economy” – innovation, information technology etc....

## Part 2 – The Regionomix Plan

### 3. Investment program and complementary measures

The large gains in intra-regional trade and investment mentioned above would be reaped as the combined result of political stabilization in the region and a well-targeted investment program under the suggested initiative. This investment program will focus on certain key countries and cross-country investments in critical fields, where the challenges are most acute and the impact would be strongest. The focus will be on the most labor-intensive sectors such as tourism, construction, and housing as to maximize new job creation.

- An internationally supported "Regionomix Financing Mechanism" will be established. That mechanism will be based on revitalization and expanded contributions of: (a) regional funds and financing institutions, such as the Arab Fund for Social and Economic Development; (b) development funds of the Gulf countries, such as the Kuwait Fund for Arab Economic Development; and (c) sovereign funds of Gulf countries, such as the Abu Dhabi sovereign wealth fund ADIA (Abu Dhabi investment Authority). In addition, special purpose funds will be initiated for certain key regional projects, which will be financed jointly by international and regional institutions and the private sector.
- The Regionomix Financing Mechanism will raise 120 billion dollars a year for five years. Most of this sum will be coming as aid and soft loans from the sources mentioned above, as well as international donors; and part of it will be provided in loan guarantees.
  - Most of the required aid funds will be raised from the regional sources mentioned above. The share of the international donor community is expected to be 40 – 50 billion dollars a year.
  - The loan guarantees will be used to reduce risk and costs of funding project; and lure private sector investments in infrastructures, industry, agriculture, etc.
- Additionally, enhanced GDP growth will enable governments to increase annual public sector investments at a magnitude of 2 -3 percentage points of GDP. Namely, additional public investments of 60-90 billion dollars a year across the region.

**These funds, loan guarantees and additional public and private investments will be directed towards wide range of fields and projects, such as the following:**

- Large-scale regional water desalination and water sanitation projects, to provide comprehensive solution of water shortage across the region. Water, which has always been a focus of wars and conflicts in the region, will become a focal point of cooperation
- Construction of regional networks of railways, highways and other land, sea and air transportation infrastructures; as well as energy and water transmission networks, etc. These regional networks of joint infrastructures will enhance trade, closer economic cooperation, and common economic interests; and, in turn, significantly contribute to the stabilization of the region.
- Investment in advanced health systems, community preventive healthcare networks across the region to improve residents' health, and creating regional health service market.
- Large scale ecological projects – waste water and solid waste treatment, rehabilitation of polluted rivers and regions, etc.; as well as renewable energy - solar energy systems, large-scale biomass and other cutting-edge renewable energy technologies.
- Large scale agricultural projects, using advanced irrigation and cropping methods.
- Extensive housing construction to solve the region's severe housing shortage, provide new jobs and, improve living conditions and streamline urbanization processes
- Upgrading universities and research institutes, in cooperation with leading universities and research institutes.
- Massive investment in upgrading public education systems, covering the different countries of the region, at all stages – from pre-kindergarten to the University.
- Advancing tourism through a coordinated regional tourism development vision, investment in tourism infrastructure (hotels, airports, tourist sites), and joint marketing effort. The tourism sector will be one of the major beneficiaries of open borders and a lasting peace.

**These investment programs will be accompanied by various development-promoting agreements and activities, in cooperation with international organizations and the international business and financial communities; including:**

- Upgrading free trade agreements within the region (the GAFTA agreement, etc.), as well as agreements with other trade areas.
- Implementation of the large-scale investment programs in cooperation with international and local companies and contractors.
- Funding and execution of the regional large-scale projects, will be through international financial institutions, in coordination with the governments that will provide funding.

**All the above will be reflected in significant increase in total investment rate (as percentage of GDP) in all key countries.**

The following are the estimates of total additional investment for key countries, under the Initiative (private and public investments, from all sources - per year, over 5 years):

- Egypt: \$ 20 – 25 billion (6% - 8% of GDP)
- Jordan: \$ 5 billion (10% - 12% of GDP)
- Saudi Arabia: \$ 35 – 40 billion (5% of GDP)
- Palestinian Authority (West Bank and Gaza): \$ 5 billion (25% of GDP)

**In addition to focused investments in the key poorer countries - Egypt, Jordan and Palestine, aid-financed investments under the Initiative will focus on:**

- Cross-country investments in critical fields, where regional challenges are most acute and the impact would be strongest - water, energy, health-care, food security, etc.: \$ 50-60 billion a year
- Rehabilitation of post-conflict countries (Syria, Iraq, Yemen and Libya), and refugees: \$30-40 billion a year

**4. Funding and required international contribution to the investment program**

The strong economies of the region, oil exporting countries and Israel, do not need international support under the Initiative:

- Investments in these countries will be self-financed. The GDP and employment growth engines in these countries will be their own public and private investments, FDI (foreign direct investment), regional economic cooperation (trade, transportation, tourism, etc.), and the fruits of political stabilization and diplomatic breakthroughs.
- Moreover, these countries will be asked to take a major part in financing investments in the poorer countries. These countries will be able to cover significant part of their share by saving on the huge costs caused by active wars (current costs are tens of billions of dollars a year).
- Hence, the burden which will fall on the international community is expected to be of the magnitude of \$40-50 billion a year, for 5 years.
- Furthermore, there are large international aid programs on the ground; under which many billions of dollars have already been committed (for example: Gaza reconstruction program; support for Syrian refugees in Jordan; aid packages to Egypt; various World Bank, USAID programs, and many more). Many of these existing aid programs will be integrated into the proposed large comprehensive regional aid initiative.
- After 5 years, the required annual investments of the international community are expected to be considerably lower.

## 5. Specific projects

Selection and prioritization of the specific projects, under the Regionomix Initiative, will be based on the following key criteria: (a) significant and fast macro-economic effect, especially on employment; (b) high visibility – addressing severe and well-recognized problems; and (c) strong demonstration effect of the benefits of regional economic cooperation

The following is a selection of projects that meet these criteria – presented as pilot projects. All the projects suggested below would include Israeli participation, usually with more than one Arab party. Most projects also involve significant aspects of technological cooperation and transfer of technology. Implementation of these projects will be enabled only after reaching political agreements, based on the principles of the API.

### **Water and Energy:**

- Large-scale regional water desalination projects:
  - Widening the desalination element of the Red Sea – Dead Sea joint Israeli – Jordanian – Palestinian project, by expanding the capacity of the planned desalinated plant in Aqaba. That would enable enlargement of the water swap of water from Israel to Jordan and Palestine on the north (from the Lake of Tiberias)
  - Construction of two large desalination plants on the Mediterranean – one on the Israeli shores for water to the West Bank, and another on Gazan shores for Gaza.
- Large-scale wastewater treatment projects across the region, and use of the treated water as a major source of irrigation water for agriculture. The investment program in this field will take advantage of the Israeli experience, whereas close to three quarters of all wastewater generated in Israel are treated; and have become the major source of water for agriculture. Suggested pilot projects:
  - A network of decentralized wastewater treatment plants across the West Bank and Gaza. These wastewater treatment projects will be accompanied by Israeli – Palestinian cooperation in developing advanced, export-oriented agricultural projects, whereas the new large source of water will enable generation of many tens of thousands of new jobs in advanced agriculture.
  - A similar project in Jordan, focusing on the Jordan Valley and other agricultural areas.

- Cooperation in the field of natural gas:
  - Development of Gaza Marine off shore gas field as well as exploration and development of more gas fields in Palestinian waters. Connection of the Palestinian Gaza Marine gas field to the Israeli gas pipeline system, through the hub in Ashkelon; That system will include the following main elements: the Israeli (and Palestinian) gas fields in the Mediterranean; gas pipeline from Ashkelon into Gaza and across Gaza (north to south); gas pipelines to the new Palestinian power plant in Jenin, and from there across the West Bank (north to south) – for supply of gas to industrial and other users all over the West Bank and Gaza; connection of the Israeli gas pipeline system to the Jordanian Arab Gas Pipeline (AGP), for expanded supply of Palestinian and Israeli gas to various users in Jordan. Later on, when conditions in Syria allows, use of the AGP for export of Israeli and Palestinian gas further north up to Turkey.
  - A new offshore Gaza Sea Port, which will be built on an artificial island, on the western boundary of the new North Gaza Industrial Zone along the lines of “Global Palestine, Connected Gaza” (CCC and Portland Trust 2016)
- Cooperation in the field of renewable energy:
  - Cooperation in construction of large scale advanced solar power stations in Sinai, where land area is ample and radiation is excellent. These large solar powers will serve as a key element in solving one of Egypt's most severe economic problems – shortage in electricity. It will also serve as a major source of electricity for Gaza.
  - Similar project in the desert parts of the West Bank and Jordan, which will serve as an important source of electricity for Jordan, Israel and the West Bank

#### **Transportation and other Infrastructures:**

- Cooperation in the construction of regional networks of railways and new land-bridges - connecting the large industrial zones and business centers of the Gulf, as well as the Iraqi market, to the Mediterranean, through Jordan and Israel:
  - Israeli – Jordanian cooperation in the construction and operation of heavy railway line from the Mafraq – Zarqa area in Jordan to Haifa port on the Mediterranean. This line will be a part of the regional heavy railway network that includes also the Saudi and GCC railway systems, and the Iraq – Jordan line. The Jordan – Haifa line will be

constructed simultaneously with the regional railway hub in Jordan. The operation of the Gulf – Jordan - Haifa land bridge trade route will become a new growth engine for Jordan, Palestine and Israel.

- Connection of Palestine into the Israeli and Jordanian railway system, and through it to the regional system as well. Railway connection to Gaza with a hub at the Erez Crossing, a westwards line to the North Gaza Industrial zone and the Gaza sea port, and a future north – south line.
- Hi-Speed Internet Connection of the GCC countries and Jordan through Israel.

#### **Employment Generation:**

- Israeli – Jordanian – Palestinian cooperation in advancing Christian and Muslim religious tourism, through joint development of the uniquely strong Holy Land tourism brand. Tourism is one of the most employment-intensive branches of the economy. It is estimated that this project alone can increase overall number of tourists by probably about 10 million a year (for the three countries); which would generate more than 1 million new jobs (direct and indirect) in these three countries.

#### **Health:**

- Collaboration between leading Israeli hospitals and community healthcare organizations and leading hospitals in Jordan, Palestine, Egypt and the GCC countries. That collaboration will center on implementation of the development plans of these countries.
- Collaboration between Israel, Jordan and Palestine in early response and medical support in cases of earthquake and other natural disasters.
- Regional cooperation in the field of preventive medicine.

#### **Education:**

- Collaboration in upgrading universities and research institutes, through exchange of knowledge and students, joint research programs, etc.
- Joint programs and exchange of knowhow aiming at upgrading labor force capabilities. Especially, targeting university graduates who are not prepared for the requirement of the labor market: development of digital and entrepreneurship capabilities, etc.

## Part 3 – Short-Term Implications

### 6. Immediate projects – focus on Palestinian urgent needs

Although there are still very significant political and other barriers that prevent an immediate implementation of the entire Regionomix plan, the team initiated a number of specific projects that could be implemented while relying on more limited cooperation among the partners. These projects should be seen both as local opportunities as well as test cases for the concept at large.

Thus, the Regionomix Group suggests not to wait for a Regional Agreement or for the signing of a peace agreement between Israel and Palestine. Rather, it suggests preparing the ground in both Israel and Palestine, by starting immediately a set of most urgent projects in Palestine. This would raise the level of confidence and improve the political climate for a resumption of negotiations on a two-state solution. The most urgently needed projects are in Gaza, where the imminent risks of human and environmental crises may allow regional cooperation, even under the present political conditions; in addition to some other "smaller" immediate projects, all of which relate to urgent Palestinian needs.

#### Gaza

The urgency of addressing the special economic, human and environmental challenges in Gaza seems to allow for regional cooperation, even now, under the present political conditions. These projects would signal Israel's clear intention to allow the economic development of Palestine, and would serve as pilots for regional cooperation on the ground. By that, it would contribute in preparing the ground in both Israel and Palestine for resumption of negotiations towards a two-states solution and end of conflict.

A credible process of negotiations between Israel and Palestine would bring forth renewed confidence, good will and a burst of private investment and financial support from donors. This has happened during previous negotiating episodes.

Moreover, Gaza is a most appropriate place for demonstrating the benefits of regional cooperation: (a) the projects suggested below will have significant and fast macro-economic

effects, especially on employment; (b) economic improvement in Gaza will be highly visible – to the Palestinian public as well as to the Arab public; (c) recent political developments (inter-Palestinian as well as vis-à-vis Egypt and Israel) enhance the political feasibility of these projects; (d) proper implementation of these projects would provide effective signals of the benefits of regional economic cooperation; and (e) most of the required funding for these projects, estimated at a total magnitude of \$ 5 billion, is available – either by shifting existing aid budgets from ineffective projects in Gaza, or by assigning other aid commitments (mainly from Gulf countries) to these projects. Additional funds will be provided by private sector investors, which will manage and operate the various industrial, logistical, infrastructure and transportation facilities in these projects.

Hence, we suggest allowing the Palestinian Authority, business community and the Palestinian Investment Fund (PIF) to implement the following projects:

- An Industrial Zone on the northern border of Gaza, which will include industrial and logistical compounds (traditional industries – mainly for export to the Israeli market and subcontracting, IT and advanced industries, and more), service and trade compounds, and also agricultural compound servicing farmers in surrounding areas. The North Gaza Industrial Zone will serve as a focal point of employment for the northern and central parts of the Gaza Strip. It will be given a free-trade status, and other wide-ranging investment and export benefits. The UAE's free trade and industrial zone system, and Jordan's ASEZA (Aqaba Special Economic Zone Authority), will be used as models, with necessary adaptations. The legal and administrative practices which have been developed in these two countries will serve as guidelines for the specific regulatory framework, and the enabling eco-system of this industrial zone.
- The North Gaza industrial zone would be expected to generate 200,000 jobs over 5 years.
- Extend a pipeline from the Gas distribution hub in Ashkelon to the Gaza electricity generating station. This could be readily implemented and have immediate results in raising electricity output in Gaza and improving the dire humanitarian conditions in the Strip
- Since establishing a port in Gaza will take time, small steps can be taken initially to bring in “roll on and roll off” vessels and operations. This can be followed by larger scale

construction of an off-shore port and associated facilities, as suggested above, and along the lines of “Global Palestine, Connected Gaza” (CCC and Portland Trust, 2016)

- Doubling the fishing limit in Gaza from 6 miles to 12 miles which was the original range under the Oslo agreements.

### **The West Bank**

Encourage the Israeli authorities to facilitate daily life in the West Bank through small good will measures such as: i) reducing the number of checkpoints in the West Bank and facilitating movement of people between Gaza and the West Bank; ii) allowing some private investment in area C, and iii) allowing the implementation of a tourist resort south of Jericho on the Dead Sea coast. This project has been fully designed by the PIF and financing has been mobilized. It is only a matter of getting Israeli approval.

All these projects would create an environment of good will and confidence which would be conducive to negotiations and provide incentives to the business community and the political leadership to move towards attaining a two-states solution to the conflict and reaching a broad regional peace agreement and end of conflict.

### **Short-Term Regional Projects**

Within the context of a looming economic crisis, it is crucial to begin the implementation of a number of key economic projects in the Middle East. These projects should be considered in a similar context of relatively small investment that will yield a very high gain. Thus, between Israel, the PA, Jordan and Egypt – the governments and the business communities should find “early models” that can be launched while the political issues are being negotiated. For example, if at the beginning of the diplomatic process there are firm commitments to reach a deal (through a statement of the “political horizon”, for example), then such projects can only serve as a boost to the negotiation process – without infringing the spirit of the basic idea behind the API.

## Summary

The Regionomix vision, potential and plan outlined above were shaped by both the need to present the long-term economic potential as a trigger for diplomatic negotiations, as well as identifying the steps that could sustain such negotiations and encourage progress towards the “full potential vision” – which can be realized only through the promise offered by the Arab Peace Initiative. The need to combine long-term vision and short-term realities will present a major challenge to the leaders, diplomats and the publics. Yet the business community in the region could help such a process in a dramatic way, by reminding the leaders and the public the potential benefits, and demonstrating in parallel how these benefits could be achieved.

We believe that this paper could serve as a base for a regional economic cooperation agreement which will be part of the Regional Package Deal. We hope that it will be adopted, if not exactly, but at least in spirit – by the leaders, the policy makers and the negotiators.

## Appendix 1 – Linkage to the Diplomatic Process

In June 2017, the Regionomix group decided to present its concepts and initial findings to the American White House Middle East team. The objective was to present the strong link between the emerging American diplomatic initiatives and the regional economic opportunities. The group believed that quantifying the economic potential of the regional package deal, in the spirit of the Arab Peace Initiative, would clearly show the benefits and motivate the relevant leaders to take courageous steps and support President Trump's initiative. Following is the letter written and signed by the members of the Regionomix group:

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June 7, 2017

The President of the United States of America  
Mr. Donald Trump  
The White House  
1600 Pennsylvania Ave.  
Washington DC

Dear Mr. President,

We welcome your commitment to a new “regional package deal” which we believe will bring an end to the Israeli-Arab conflict by leveraging the Arab Peace Initiative.

We are a group of approximately 20 economists, business people and strategists from the Middle-East – from Israel, Palestine, Jordan, Egypt, Saudi Arabia, Morocco, Iran and Algeria. We recently joined forces and met in order to map the economic benefits of a regional package deal – that includes the two-state solution, the formation of normal relations between Israel and the Arab states, a regional security agreement and a regional agreement for cooperation and economic development.

Our initial findings show that besides serving the ultimate “regional package deal” you have outlined, unleashing new inter-regional trade and inclusive development opportunities will save the region from a very uncertain economic future. Consequently, the revitalized regional economy will generate an increase of **\$5 Trillion to the GDP of America’s allies within the first 10 years, and more than \$1 Trillion every year after that.** Thanks to your initiative, **20m new jobs will be created.** This would reduce youth unemployment and in doing so, eliminate the socio-economic base for radicalization and terror.

Mr. President, we believe in your unparalleled influence in conveying this message to the region during your upcoming visit. We sincerely hope that you share our belief that setting out this vision of the regional economic benefits of peace will provide hope to the younger generations of the Middle East.

We will continue to work on ideas of how to develop and implement a new economic plan for the region, which we are calling “Regionomix”. We believe that it is only through full and multi-lateral cooperation at the regional level that the full benefits of expanding existing growth engines will be felt and where new areas of cooperation will emerge – in new technologies, trade, tourism, transportation, agriculture, e-commerce, energy and infrastructure.

We stand ready to assist you in our capacities as experienced practitioners and analysts of the economic potential of the Middle East, and will be happy to share the results as they progress throughout 2017. We look forward to hearing your new message of hope to all those who share your vision.

Respectfully,

(The undersigned)

<b>Name</b>	<b>Country</b>	<b>Title</b>
1. Mansour Abu Rashid	Jordan	Retired General; Chairman of ACPD
2. Mustafa Alami	Palestine	Businessman & Managing Director at Jerusalem Cigarette Co. - JCC Group one of Palestine Largest & Diversified Family Holding Group with Business interests in Palestine, Israel & Canada
3. Bashar Azzeq	Palestine	Entrepreneur and economic expert
4. Sara Bazoobandi	Iran	Economist; Lecturer at Regent's University, London
5. Saâd Bendidi	Morocco	Businessman and regional investor
6. Kahina Bouagache	Algeria	Corporate lawyer, Senior Legal Counsel, Maghreb Specialist and women right's activist. Women Lawyers Group Middle East
7. Dan Catarivas	Israel	Senior Economist; Former deputy director general at Israeli Ministry of Finance, member of the Aix group.
8. Sherif El Diwany	Egypt	Former Director and Head of Middle East and Arab Business Council, WEF; Founder & CEO Solutions by Design
9. Aharon Fogel	Israel	Chairman, IDB Holding Corporation Ltd
10. Yitzhak Gal	Israel	Senior economic and business consultant; Co-Chair, Middle East Economic Forum, the Dayan Center of Middle East Studies, Tel Aviv University
11. Koby Huberman	Israel	CEO, Strategic Landscapes Ltd. - Strategy Consulting; Co-Founder and Leader of the Israeli Regional Initiative (IRI)
12. Safi Kaskas	Lebanon	Strategy consultant, President Strategic Edge, Senior Researcher in Islam and Multi-Faith Reconciliation with George Mason University
13. Riad Al Khouri	Jordan	Director (Middle East) GeoEconomica GmbH, Amman & Geneva
14. Said Al Masri	Jordan	Former Minister of Agriculture; Agribusiness enterprises activist
15. Ashraf Mohamed Naguib	Egypt	Chief Executive Officer - Global Trade Matters (The Private Sector Think Tank for Economic and Political Reform Policies)
16. Karim Nashashibi	Palestine	IMF Country Director for the West Bank and Gaza (ret.); now, senior economic consultant on Palestinian and regional issues
17. Bader Rock	Israel	Senior Adviser, Tony Blair Institute for Global Change
18. Munther Shar'e	Jordan	Former Minister of Political Development; Former Minister of Water & Irrigation; Economist and Public Policy Consultant; Associate at Amman Center for Peace & Development (ACPD).
19. Mazen Sinokrot	Palestine	Former Minister of Economy
20. Yigal Tamir	Israel	Businessman and entrepreneur
21. Tally Zingher	Israel, US	Entrepreneur, Attorney and Economic Development Expert, Tel Aviv University
22. Yarom Ariav	Israel	Former Director General of the Israeli Ministry of Finance, Executive Chairman Lavi Capital Ltd.

## Appendix 2 – GDP and Unemployment Projections

Table 1

**Ten-year GDP projections for Arab countries and Israel under the Initiative**  
(GDP in constant 2016 US dollar billions; real growth rates in annual percentage)

Country / Groups of Countries	GDP Present	GDP Growth Present Trajectory	GDP Growth under the Initiative	GDP 2027 Under the Initiative	GDP 2027 Contribution of the Initiative	Annual Growth Contribution
Egypt	307	3.9%	6.0%	550		2.1%
Jordan	38	3.0%	6.0%	81	28	3.0%
Palestine	18	2.0%	10.0%	47	25	8.0%
Israel	302	3.0%	5.0%	492	86	2.0%
Iraq	93	5.0%	8.0%	201	49	3.0%
Lebanon	50	1.5%	4.0%	74	16	2.5%
<b>Sub Total 1</b>	<b>808</b>			<b>1,444</b>	<b>300</b>	
Morocco	98	3.0%				
Tunisia	37	1.5%				
Algeria	150	4.0%				
<b>Sub Total 2</b>	<b>285</b>	<b>3.0%</b>	5.0%	<b>464</b>	<b>81</b>	2.0%
UAE	370	3.0%				
Kuwait	114	2.0%				
Qatar	164	3.5%				
Oman	70	3.5%				
Bahrain	32	3.5%				
<b>Sub Total 3</b>	<b>750</b>	<b>3.0%</b>	5.5%	<b>1,281</b>	<b>273</b>	2.5%
<b>Saudi Arabia</b>	<b>646</b>	<b>3.0%</b>	5.0%	<b>1,052</b>	<b>184</b>	2.0%
Other Arab countries	120	3.0%	10.0%	311		7.0%
<b>Grand total</b>	<b>2,609</b>			<b>4,553</b>	<b>988</b>	
<b>CAGR</b>		<b>3.2%</b>	<b>5.7%</b>			

**Table 2**  
**Unemployment rate and GDP per Capita projections for Selected Countries**

(GDP per capita in constant 2016 US dollar; real growth rates in annual percentage)

Country	GDP per Capita Present	GDP p/c growth Present Trajectory	GDP p/c Growth under Initiative	GDP p/c 2027 Present Trajectory	GDP p/c 2027 under Initiative
Egypt (3)	3,700	0.5%	3.0%	3,885	4,891
Jordan	5,100	0.5%	3.5%	5,355	7,196
Palestine - West Bank	3,700	-1.0%	6.0%	3,348	6,623
Palestine – Gaza	1,700	-2.0%	8.0%	1,393	3,672
Saudi Arabia	21,000	0.5%	2.5%	22,050	26,880

Country	Unemployment rate present	Unemployment 2027present Trajectory	Unemployment 2027 under Initiative
Egypt	13%	20%	9%
Jordan	13%	17%	8%
Palestine - West Bank (5)	18%	25%	8%
Palestine – Gaza	43%	55%	8%
Saudi Arabia	12%	22%	7%

### Notes on job creation estimates

Our estimates in this regard are based on indicative analysis and projections available or previously prepared by us regarding Saudi Arabia, Egypt and Palestine. These indications are presented below.

- According to the McKinsey report on Saudi Arabia, the difference between the two trajectories for 2030 is cumulative addition of 1.8 million Saudi jobs. The equivalent for 10-year period is roughly 1.2 million.
- For Palestine, the difference between the "Continuation" and "FTA" trajectories in our detailed research (2015) was computed to be 1.5 million jobs by the 10<sup>th</sup> year.
- For Egypt:
  - Total annual addition to the workforce – about 1 million persons a year (Egyptian statistics). Average difference in the number of new jobs generated, between the "Status Quo" and the initiative scenarios – roughly 400 thousand per year.
  - Total cumulative addition in ten years: 4 million new jobs.

### Conclusion:

- Egyptian population makes about 23 percent of total Arab population; and Saudi nationals about 6 percent.
- Given these ratios, and assuming Egyptian and Saudi figures can provide rough indication for the Arab world as a whole; the equivalent figures for the Arab world are close to 20 million.
- **Considering also extreme cases of unemployment under the "Status quo" trajectory (such as Palestine, mainly because of Gaza, and the ruined countries such as Syria) – the total number of additional jobs created by the Initiative would be above 20 million.**

It should be noted that **an incremental contribution of such a size is of tremendous importance**. In Saudi Arabia, for example, it would make the difference between unemployment rate of above 20%, and 7%. The effect on youth unemployment would be even more dramatic.

Another indication to the magnitude of that contribution is by comparison to the US. The incremental number of 2 million new jobs per year (20 million over 10 years) **is the equivalent of the total number of jobs created per year by the US economy** (with a GDP 6 times the cumulative ME regional GDP - Arab countries and Israel).