



The Role of Economic Initiatives in Peacemaking

Sir Ronald Cohen

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The Need for an Economic Approach

I am often asked why I am spending so much time and effort in trying to help resolve the Israeli-Palestinian conflict. I believe that given where we have got to, it is clear that politics alone will not bring peace. We need economic drivers to push the two sides towards peace. From my business career, I have seen the power of entrepreneurship and market forces and how they can be harnessed for the good of society. I am not alone in this belief. Many politicians, diplomats, academics and NGOs are beginning to understand the relevance of economics in conflict situations and are adopting economic approaches alongside their political and diplomatic efforts.

The importance of economics in conflict resolution is that it sets aside the question of motive, of grievance, of historical rights and wrongs, and focuses instead on the question of economic opportunity: what conditions – economic conditions in particular – have made the conflict possible? For if these conditions can be removed, progress to end the conflict might be made, just as surely as if the motives had been removed.

The Economic Lessons of Northern Ireland

My conviction that economic initiatives play an important role in conflict resolution has been strengthened by what we have learned in a study The Portland Trust will publish soon on the Northern Ireland peace process. One study has put the cost of the Northern Ireland conflict, including extraordinary security expenses, at £23.5 billion.

Firstly, according to conventional wisdom, the Northern Irish conflict was intractable; it was believed that there was no way out of the “painful stalemate” in which the two sides found themselves. But at the point of painful stalemate, both sides began to doubt they would ever achieve their aims through violence. This realization was the beginning of a sincere – and ultimately successful – peace process. David Trimble, who won the Nobel Peace Prize in 1998, told

me that everyone knew the outlines of the Good Friday Agreement – signed in April 1998 – 20 years earlier. It was the 1985 Anglo-Irish agreement that enshrined the “principle of consent,” the principle that there would be no change to the political status of Northern Ireland without the consent of the majority of its population. It was this principle that became the cornerstone of the final peace agreement.

The second lesson we learned from Northern Ireland was that economic measures mitigated political violence and advanced the cause of peace. Studies have established that levels of political violence were strongly correlated to disparities in Catholic and Protestant unemployment levels: in 1971, Catholic male unemployment was estimated at 17.7 percent, nearly three times the Protestant male unemployment rate. In 1990, 16 percent of Catholics were unemployed compared to 9 percent of Protestants. When this gap closed, violence fell – and rose when it widened. Legislators and politicians recognized this link and put in place equality legislation and best practices to reduce the gap. By 2004, the unemployment gap between Catholics and Protestants had fallen to 4 percent (7 percent Catholic, 3 percent Protestant). Moreover, as the economic and political situation improved, paramilitary organizations increasingly switched from political violence to criminal violence. This link between political violence and economic despair appears repeatedly in conflicts across the world, not just in Northern Ireland.¹

Thirdly, even when the outlines of a settlement are known, it is critical for world and regional leaders to stay engaged with the peace process over decades. Peacemaking takes time and long-term commitment. Northern Ireland benefited from the sustained involvement of Great Britain and the Republic of Ireland. And when it came to thrashing out the details of the final agreement in the 1990s, US involvement, especially in the person of Senator George Mitchell, was critical. Mitchell was initially appointed as President Clinton’s special economic adviser on Northern Ireland, after which he became, *de facto*, the President’s special envoy to the region.

Interestingly, the US might never have become engaged to the extent that it did had it not been for the initiative from the private sector. It was only when a couple of American business leaders, together with a newspaper editor and a former congressman, formed Americans for a New Irish Agenda – ANIA – in the midst of the 1992 presidential election campaign, that they succeeded in convincing President Clinton that he should take a risk and get heavily involved in the Northern Ireland conflict.

The fourth lesson is that initiatives from the private sector can make a critical difference. Indeed, sometimes it is precisely individuals and groups from the private sector that can take certain steps which political constraints make impossible for politicians. This was the case not just in North America with ANIA, but also in Northern Ireland, with an organization known as the Group

of Seven, the G7. It was born at a moment of crisis, when an Orange Order march at Drumcree threatened to set off an explosion of violence. Various business leaders, who were not distrusted by either side, intervened and helped defuse the crisis. The leaders included Sir George Quigley, then chairman of the Ulster Bank, and the leaders of other private sector organizations like the Chamber of Commerce and various unions. They went on to institutionalize this group in the form of the G7, which became a vehicle for giving voice to the moderate, pro-peace constituency of the business community. Without this kind of institutional vehicle, voices from this large and moderate constituency tended to be drowned out by the stridency of even small groups of hardliners on either side.

Finally, a fifth lesson we learned is that outside investment played a critical role in permanently securing a peace agreement. Economically, Northern Ireland reached its low point in about 1986, when unemployment peaked at nearly 17 percent – with even higher rates among Catholics. Between 1994 (after the ceasefire) and 2000, American companies invested just under \$1.5 billion in the region. Eight years after the 1998 Agreement, US investment accounts for about 10 percent of all jobs in Northern Ireland. In 2006, unemployment fell to 4.2 percent – considerably lower than the UK average (5.5 percent). This climb coincided with the peace process, and without this inexorable, powerful upward momentum, it is easy to imagine the peace process would have floundered on any number of crises along the way: the IRA bombings in London in 1996 that spectacularly broke their two-year-old ceasefire pledge; the Omagh bombing set off only months after the Good Friday Agreement; and the seemingly endless process of decommissioning IRA arms. Had the peace process not been rooted in a vigorous economy, any one of these incidents might have swept it away. A vigorous economy made the peace process resilient in the face of extremist acts. And what made the economy of Northern Ireland so vigorous at the very time the peace process required resilience was a flood of inward investment that started with the 1994 ceasefire and shot up in the wake of the 1998 agreement. The inward investment continues to this day: In January 2005 Citigroup chose to locate one of its IT centers in Belfast, promising an investment of \$100 million over five years and 375 new jobs.

The Way Forward

What does this mean for the Middle East peace process? After 100 years of Arab-Israeli conflict, we have reached a point of painful stalemate. Israel's foremost concern – with good reason – remains security, and the logic of this preoccupation requires that Israel respond robustly to terrorism. Palestinians, on the other hand, have perhaps felt they can endure present suffering, whatever the humanitarian cost, for the sake of satisfying absolute aspirations in the long term.

But the case of Northern Ireland shows this need not be a time of despair. It may even be a time of opportunity, with both sides increasingly questioning whether they can achieve their aims through violence, and looking for an alternative way forward instead of focusing on the injustices of the past.

In 2003, together with Sir Harry Solomon, I set up The Portland Trust. We are committed to promoting peace and stability between Palestinians and Israelis through economic development. The Portland Trust believes that the two sides should adopt a twin approach – progress on the political and the economic front simultaneously.

The present political situation has led to an economic crisis that affects not only the political classes but ordinary Palestinians. More than 160,000 Palestinians are employed in the public sector and have not been properly paid for nearly a year. This has affected not only their salaries but the incomes of their dependents, estimated at over one million people. Unemployment in the Palestinian territories has reached 22 percent and is still climbing. The Israeli government has recognized the financial crisis and transferred \$100 million of tax revenue to help alleviate the economic suffering.

A study published in 2004 by The Portland Trust demonstrated that small- and medium-sized enterprises (SMEs) in the Palestinian territories were one of the driving forces behind the Palestinian economy, and were more resilient in the face of the conflict and the political uncertainty than other sectors. But they faced enormous hurdles in accessing finance. The banks were reluctant to step in because of the risks involved. These risks translated into high collateral requirements on the part of the SMEs. We have been working closely with our US and EU counterparts on schemes to provide more than \$200 million of loan guarantees to Palestinian banks, which in turn will extend credit and boost the provision of affordable loan finance for Palestinian SMEs. The study also indicated that the Palestinian economy is a low-capital intense economy. Increasing the standard of living for the Palestinians will require relatively little capital in the short term.


The Portland Trust believes that we need to develop the economic infrastructure of the private sector to create employment, housing, savings and wealth for ordinary Palestinians and Israelis. Other efforts include supporting a microfinance program; developing a vehicle to deliver and coordinate major transport infrastructure in the region; promoting the design of a private pension system for Palestinians; examining the housing needs and the construction demands in the Palestinian territories; publishing a monthly economic bulletin on the Palestinian economy; and – in partnership with the Peres Center for Peace – looking to establish a joint Palestinian-Israeli Chamber of Commerce, when the time is right.

The conflict continues to have a profound economic impact on Israelis as well. For the past year, we have been working with the Koret Israel Economic Development Funds to establish a microfinance–loan guarantee scheme for the Galilee. The objective was to encourage and support entrepreneurship and business development in Northern Israel by providing credit to small businesses excluded from mainstream financial provision. The project hopes to generate income in Northern Israel and work towards reducing the high rate of unemployment. Following the war in the summer, the economic situation of many Israelis living in Northern Israel has severely deteriorated. The scheme launched in October has already attracted hundreds of applicants, and loans are beginning to be made.

With the resolution of deep historical grievances unlikely in the near future, it is time to turn our attention to the conditions, especially the economic conditions, that have allowed this conflict to continue. Northern Ireland has shown that the private sector has a major role to play. After the 1994 ceasefire in Northern Ireland, the private sector began predicting a “peace dividend.” Northern Ireland’s economic performance in the wake of the 1994 ceasefire bore out their predictions. The private sector can exercise influence, mobilize investment and promote moderation. In my view, the time has come to strengthen the voice of the Israeli and Palestinian private sectors. To achieve this, the international business community must give them encouragement and support.

Notes:

1. 2004 Labour Force Survey Religion Report, December 2006.



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