

# World Risk Review™

Palestine Statehood: The Issues and Implications

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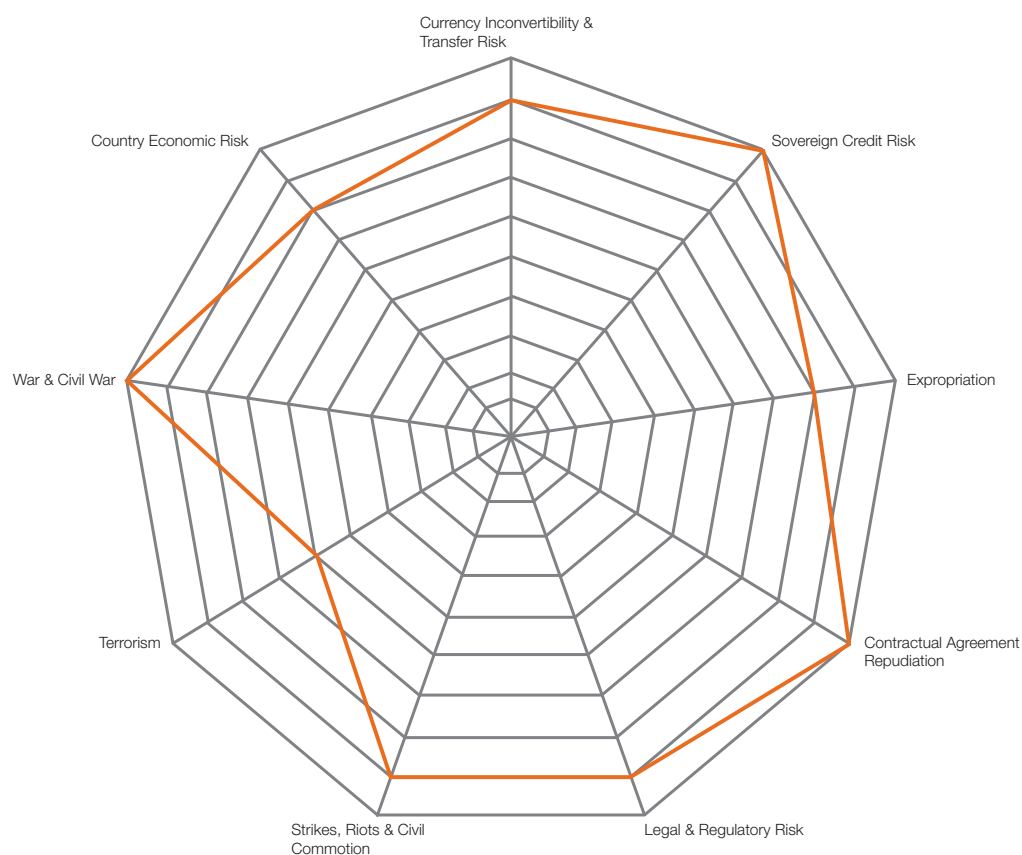
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# 1. Palestine Risk Ratings for October 2011



Strikes, Riots & Civil Commotion	9
Terrorism	6
War and Civil War	10
Country Economic Risk	8
Currency Inconvertibility & Transfer Risk	9
Sovereign Credit Risk	10
Expropriation	8
Contractual Agreement Repudiation	10
Legal & Regulatory Risk	9

▲ Lower risk rating ▼ Higher risk rating ■ Under review

## 2. The Palestinian Authority's Bid for Palestinian Statehood



On 23 September, Palestinian President Mahmoud Abbas, went ahead with the long-awaited petition for statehood at the United Nations. Predictably, the Obama administration pledged to veto the move in the Security Council, while the Israelis downplayed the significance. What are the implications?

For six years, the PA has been building a coalition of states that would be willing to back its bid for a membership upgrade in the General Assembly. Of the 193 members of the General Assembly it is estimated that 125 are willing to vote in favour of Palestinian sovereignty; in excess of the two-thirds majority required to pass the proposal. If passed, the Palestinian territories of the West Bank and the Gaza Strip would be granted non-member status, similar to the position held by the Vatican.

If the Palestinians were to win recognition, even by the General Assembly, Israel's assertion that it is occupying territory it claims is in dispute, would be undermined. It would be occupying another state and this would undermine the legitimacy of its actions.

A win would also give the PA greater leverage in pressing their case against Israel's violations of Palestinian human rights. An elevation of the status of the Palestinian Territories will give the PA greater recourse to press its claims against Israel's occupation of Palestinian land at the International Criminal Court (ICC). This will create tension between international law on human rights and UN resolutions which have determined the framework for relations between Israel and the Palestinians. International human rights law states that every state should treat its citizens equally and that every refugee should return to his or her homeland. Israel and the US would vociferously oppose the application of this law to the Israel-Palestinian dispute. As such, an elevation in the status of the Palestinian Territories at the UN will enable the Palestinians to keep Israel embroiled in actions at the ICC for alleged human rights violations which will be a continual public relations nightmare for Tel Aviv. The PA argues that the creation of a Palestinian state will act as a deterrent and reduce the frequency with which human rights violations occur.

### 2.1 Palestinian Position

The PA's arguments for pursuing UN recognition of statehood have some merit. Israeli Prime Minister Netanyahu's recent inflexibility has led to a negotiation stalemate despite President Abbas' apparent willingness to advance the dialogue. Frustrated by the lack of progress, and the way negotiations themselves became a tool to maintain the status quo, the PA has moved to change the diplomatic landscape. In political terms, the question of a Palestinian state has been moved up the international agenda.

Mahmoud Abbas set the stakes high by applying to the Security Council for full membership. He called for a cessation of settlement building and rejected recognition of Israel as a Jewish state, describing this as a new condition. His declaration that peace talks cannot proceed while Israel continues to expand settlements on Palestinian land is the same as Obama's demand, outlined in his 4 June 2009 speech in Cairo, as a pre-requisite for successful negotiations. Obama subsequently backed down on a settlement freeze when confronted with Netanyahu's intransigence.

Abbas has staked his political future and that of the PA on the two-state solution. If efforts to secure this through the UN fail, the legitimacy of the PA and his role as President will be eroded. This reflects the prevailing mood of the Arab world where the longevity of leaders who fail to heed calls for freedom is under threat.

## 2. The Palestinian Authority's Bid for Palestinian Statehood contd.

### 2.2 The United States

The US response to the PA's UN application is unequivocal: a move to statehood cannot be supported without first achieving successful conclusion of Israeli-Palestinian negotiations. The Obama administration's assertion that the PA's direct appeal to the UN was a mistake is hard to justify when considered in the context of facts on the ground and the international response. For the first time, the Palestinians have seized the diplomatic initiative and it has sent the Americans reeling. Empty promises of a resumption of peace talks, which Obama has blatantly failed to progress in the past three years, were rejected as hollow. Obama had tied himself so closely to the position of Israeli Prime Minister, Benjamin Netanyahu, he was left with no diplomatic space for manoeuvre when the Palestinians forced the issue. Unceremoniously, he attempted to reignite the moribund peace process and lobbied other members of the Security Council to veto the Palestinian's petition.

In February 2011, the US stood alone in the Security Council to veto a resolution freezing settlement construction and it will veto the Palestinian's application for recognition if required. Such a move would erode Obama's little remaining credibility in the Muslim and Arab worlds and Washington is working feverishly to secure a vote against or abstention from non-permanent members of the Council, to avert this scenario.

Against this backdrop, Washington has tried to kick-start the peace process with the Quartet – the European Union, United States, United Nations and Russia – who are divided among themselves on the Palestinian application. Russia, and several European countries, are strongly against any Jewish presence in all of Jerusalem, Judea and Samaria and are unenthusiastic about recognising Israel as a "Jewish state."

Simultaneously with this, Washington is seeking to re-engage its still reliable regional ally; Saudi Arabia. During the first Bush administration, King Abdullah put forward a peace plan the US has now shown interest in reviving. All this shows the Obama administration is desperately searching for options as it reacts to events rather than controlling the process.

### 2.3 Israel's Position

Israel has reiterated the requirement that an Israel-Palestine peace agreement be signed prior to the Palestinians being recognised as a state and has successfully lobbied the US to veto a UN Security Council Resolution. Yet the Palestinian petition for statehood has occurred against a backdrop of regional turmoil that has proved fortuitous in creating a regional environment more conducive to Palestinian aspirations and that poses a direct challenge to Israel's security environment.

The rise of populist movements has changed the regional security dynamic and revealed the weakness of Israel's security structure; one based on alignments with the ruling elites, military commanders and intelligence communities of neighbouring states; not the Arab public who remain broadly hostile to the existence of a Jewish state in their midst.

Egyptian President Hosni Mubarak is gone, while President Bashar Assad of Syria is gradually losing his grip. Both these leaders could be relied upon to prevent protestors and terrorists infiltrating Israeli territory, thereby ensuring stability along Israel's borders. Already Israel's efforts to isolate Gaza, which is controlled by Hamas, have been undermined by the opening the Rafah border crossing into Egypt. The Israeli embassy in Cairo has been attacked by protestors and the gas pipeline supplying Israel with Egyptian gas has been blown up several times. Israel's intelligence services are now placing greater emphasis on understanding domestic Arab affairs, which are hostile to Israel's occupation of Palestinian land.

Israel's efforts to have good relations with at least one Muslim state are failing. Relations with Turkey deteriorated dramatically even before the 'Arab Spring' and Ankara's regional influence is rising at a time when Israel is grappling with the implications of regional change. Turkey is wooing countries where there is domestic instability, while Israel is trying to enhance its relations with the traditional Gulf monarchies and the Egyptian military.

## 2.4 Economic Implications

In Washington, a House of Representatives Committee is pressing ahead with a bill to withhold funding to any UN agency that recognises Palestine. Criticism of Unesco, the UN's cultural arm for becoming the first agency to upgrade the Palestinians' status, has been fierce.

Efforts are being made by Republican lawmakers to cut off annual US aid payments of USD500 million to the PA. Such a move will impact on stability in the West Bank and undermine the standing of the PA and its ability and incentive to cooperate with Israel on security issues and institution building. Israel would be forced to fill the breach, with the cuts in funding potentially hurting Israel more than the Palestinian territories.

Obama's weak domestic standing in the midst of the presidential election cycle, make it politically difficult for his administration to sustain financial assistance to the PA. If funding continues, against the wishes of Congress, Obama will be charged with 'selling out' on Israeli policy. American politics is too polarised and populist to allow a reasoned demand of the complexities of the issue.

## 2.5 Palestinian Uprisings

While unrest has been contained in the territories for the time being, Abbas' assertive diplomatic stance at the UN has raised Palestinian expectations. These expectations are likely to be frustrated, as there is currently no indication that negotiations on key issues such as borders, Jerusalem or the status of Israel as a Jewish state, will resume imminently.

Lack of movement on the ground or a tangible outcome at the UN could reignite violence in the territories as Palestinian frustrations spill over. A harsh Israeli reaction and US support for a crackdown, at a time when Washington has condemned violence against civilians by neighbouring governments, would increase Israel's isolation and Washington's credibility, at a time when their traditional regional alliances are under pressure.

## 2.6 Conclusions

The PA's application to the UN for recognition as a state has further demonstrated Washington's limited ability to control regional events. While the US has the power to veto the PA's application in the Security Council, the cost of such a move will be high in terms of the impact on its credibility in the Arab and Muslim worlds.

Were the PA to secure recognition as a state through the General Assembly, its ability to refer matters of contention with Israel to international bodies for resolution would increase. At the same time, Israel's legitimacy in occupying Palestinian land and relations with neighbouring states will be undermined.

Across the region, aggressive posturing and action have been shown to bring down repressive governments. In the Palestinian territories, Abbas' seizure of the diplomatic initiative and intransigence in taking the Palestinians case to the UN, has elevated the issue of statehood on the international agenda. Quiescence and negotiation have been discredited by the rewards wrought by aggressive posturing. As a consequence, this approach is likely to continue, heightening tension between Israel and its Arab neighbours and exacerbating regional instability.

## 3. Key Insights for Palestine in 2011

### 3.1. Key Insight Summary for September 2011

#### Strikes, Riots & Civil Commotion

Palestinian Authority (PA) President Mahmoud Abbas requested UN Security Council approval for full statehood on 23 September. The move signals an attempt by the Palestinians to seize the diplomatic initiative at a time when the PA has given up on the peace process in its current form.

President Barak Obama has stated that the US will veto the Palestinian's application, a move that will likely trigger Palestinian unrest towards Israel and further undermine US influence at a time when Washington has recently lost, Hosni Mubarak, its leading regional ally. The 'spill-over' effect should not be discounted when Egypt and Turkey, the traditional forces of restraint, will be firmly in the Palestinian camp and regional governments grapple with the anti-Israel views of their newly empowered populations.

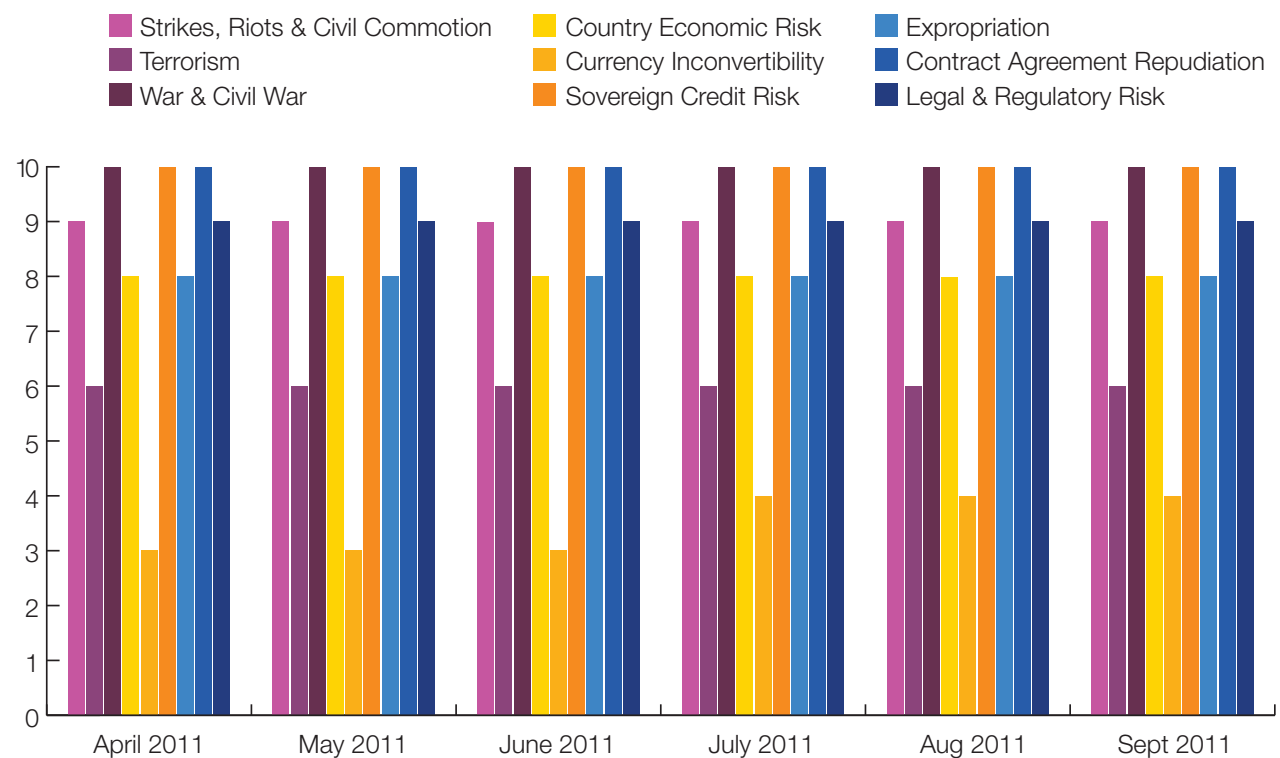


## 4. All peril ratings over previous 6 months

### 4.1 Table ratings from April 2011 to September 2011

	Political Violence			Trading Environment			Investment Environment		
	Strikes, Riots & Civil Commotion	Terrorism	War & Civil War	Country Economic Risk	Currency Inconvertibility	Sovereign Credit Risk	Expropriation	Contract Agreement Repudiation	Legal & Regulatory Risk
September 2011	9	6	10	8	9	10	8	10	9
August 2011	9	6	10	8	9	10	8	10	9
July 2011	9	6	10	8	9	10	8	10	9
June 2011	9	6	10	8	9	10	8	10	9
May 2011	9	6	10	8	9	10	8	10	9
April 2011	9	6	10	8	9	10	8	10	9

### 4.2. Chart ratings from April 2011 to September 2011



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