

Should I trade or should I go (to war)?
Lessons from the Second Intifada

Sami Miaari

Tel-Aviv University

(joint work with Massimiliano Cali)

Conflict diplomacy in the digital world
at the link campus university, Rome

September 18th-20th, 2019

Motivation

- Do trade shocks affect conflict?
- The relation between economic conditions and involvement in political violence is controversial;
 - Poor economic conditions \longrightarrow lower the opportunity cost of involvement in violent Conflict.
 - Improving economic conditions \longrightarrow raises the political awareness.

Motivation

- The evidence on the relation between trade shocks and conflict has so far focused mainly on commodity price shocks.
- Providing two different channels through which the trade shocks affect conflict:
 - **Opportunity cost:** Increases in exports may raise the incomes for certain sections of the population, thereby raising their opportunity cost of engaging in political violence.
 - **State capacity:** exports may also raise the fiscal revenues, which the state can eventually use to quell ongoing violence.
- The effect of trade policy on the intensity of Israeli-Palestinian conflict has never been examined;

Hypothesis

- **Target:** Examine whether exogenous changes in Palestinian trade in the second half of the 1990s affected the intensity of the subsequent Palestinian uprising ('second Intifada').
- **Our Hypothesis:** Increases in Palestinian exports reduce the intensity and even the probability of the subsequent conflict by increasing employment opportunities.

The Israeli-Palestinian conflict has three features that make it suitable to isolate the opportunity cost mechanism.

- **First**, Palestinian exports do not include goods that would raise the gains from appropriation, such as oil or minerals.
- **Second**, the Palestinian Authority's (PA) limited ability to tax private earnings should minimize its possibility to use increased exports to curb violence against Israel, or alternatively to use the funds to increase violence against Israel.
- **Finally**, while having some limited degree of autonomy, the PA does not represent a state, as it does not control its own borders, its air space, it does not have an army, nor does it have full control over its territory.

Contribution to the Literature

- This study makes a contribution to the thin literature on the effect of economic policies measures on involvement in the conflict.
- To the best of our knowledge this is the first study that uses this type of approach to look at the relation between trade shocks and conflict.

Trade patterns prior to the second Intifada

**Figure1: Palestinian Export to the World and
Palestinian Export to Israel, 1996-2000**

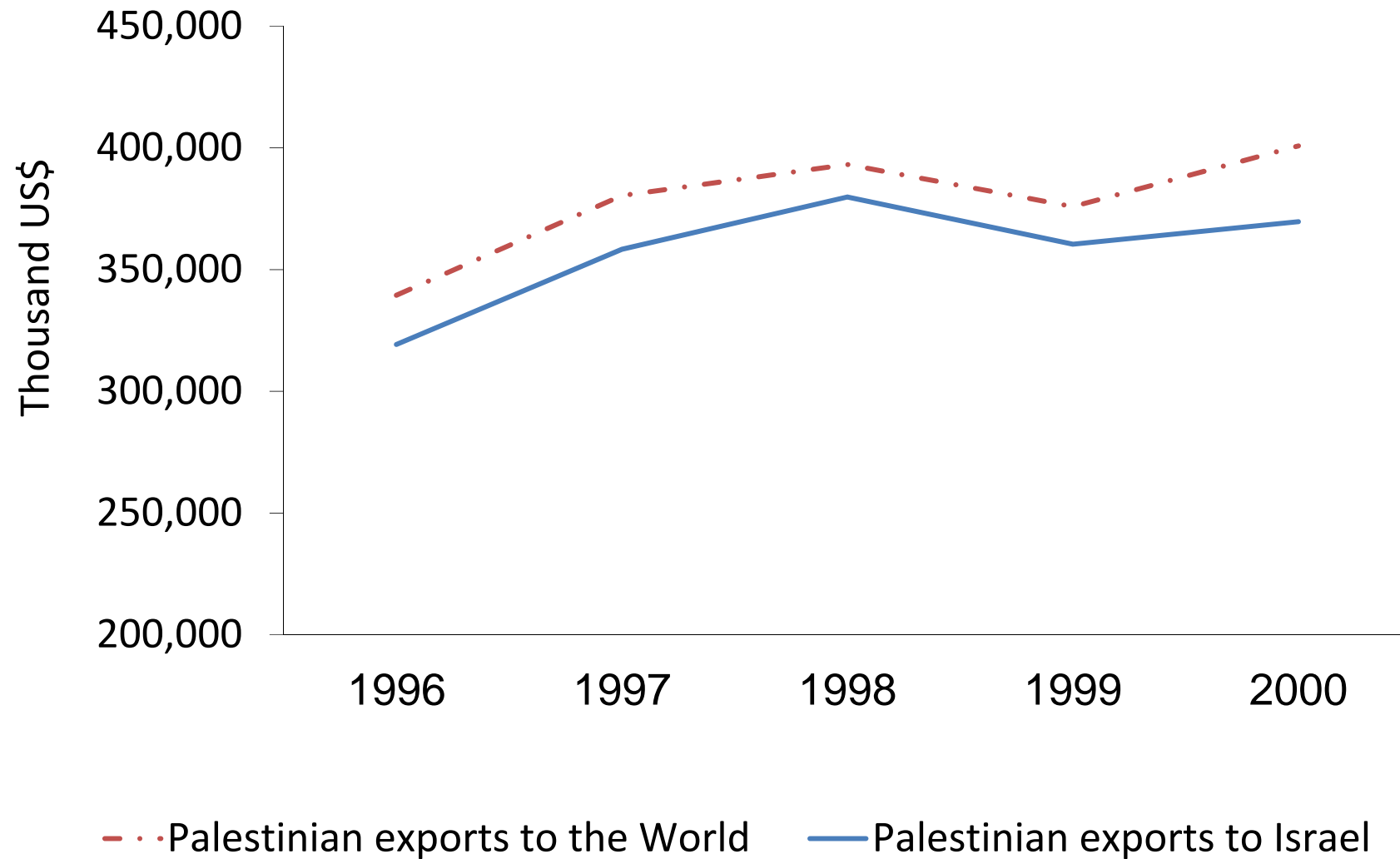


Figure 2: Distribution of changes in Palestinian exports (1996-99), USD '000

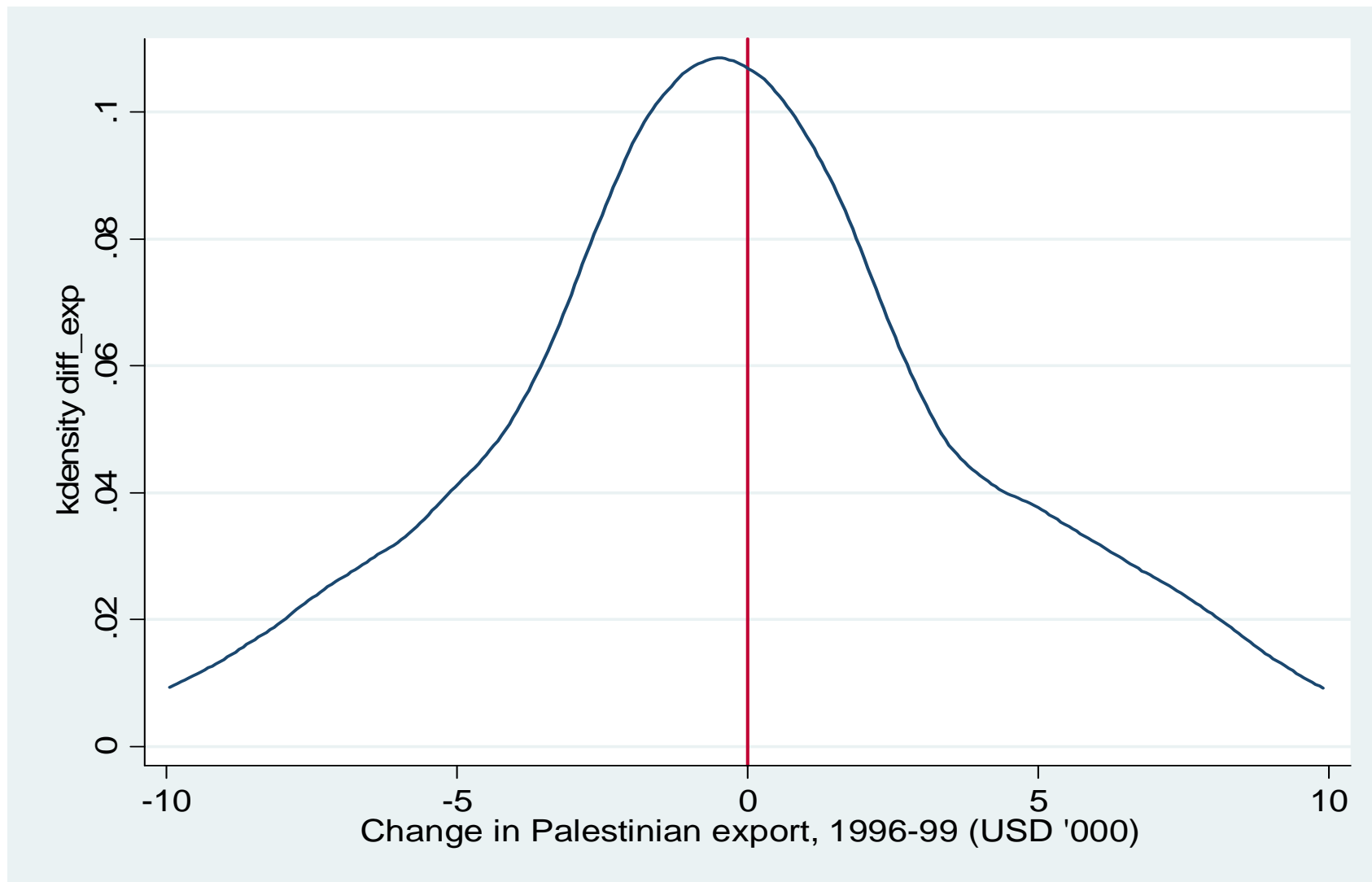
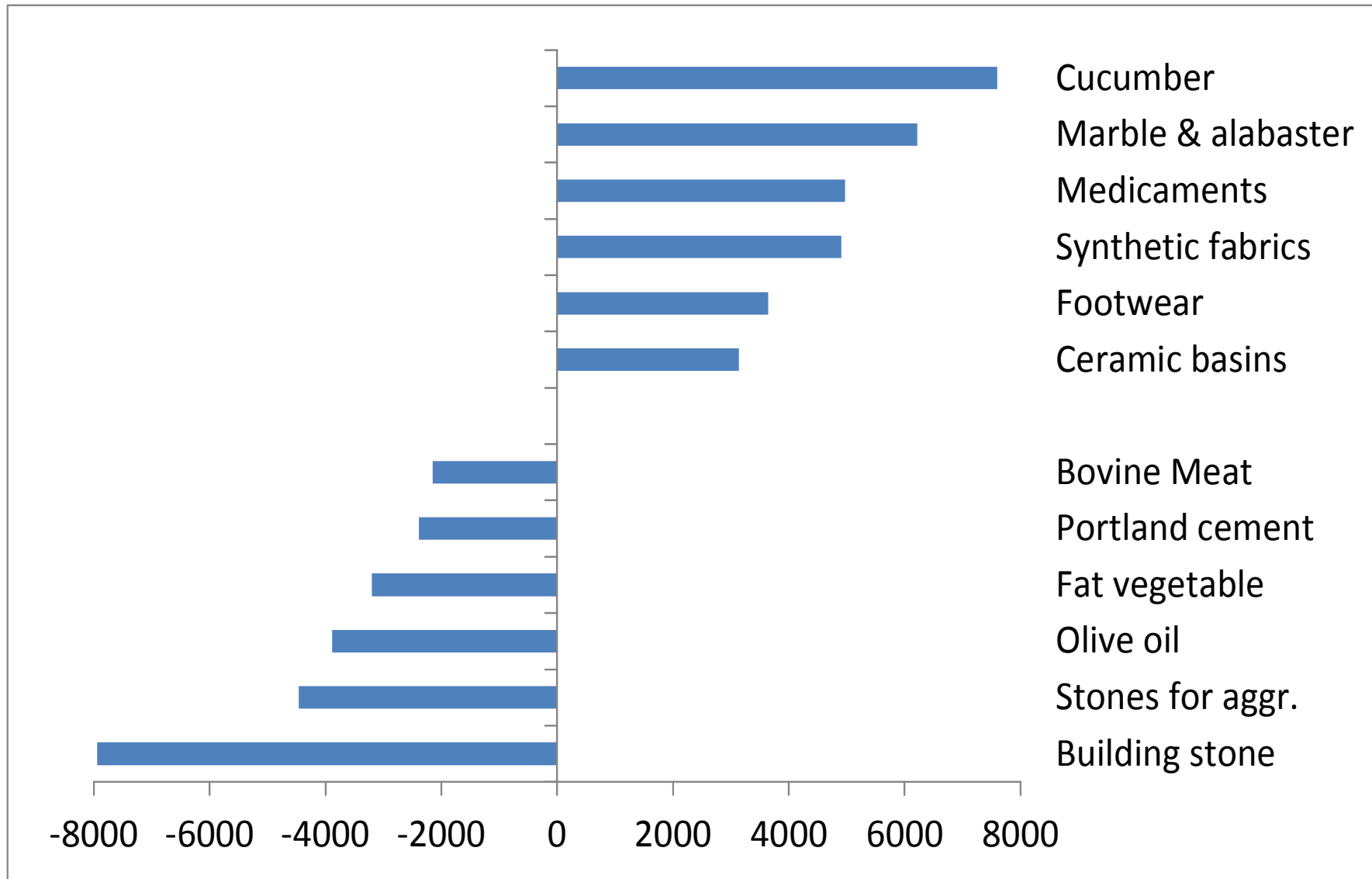


Figure 3: Best and worst performing Palestinian export sectors, (1996-99), USD '000)



Data and Empirical strategy

Data

We Combine data from several sources:

- **Violence:** measured by Palestinian fatalities by Israelis and Palestinian suicide attacks inside Israel.
- **Sectoral employment as well as Socio-demographic data:** Population census conducted by the PCBS at the end of 1997;
- **Trade Data:** Palestinian annual import and export data are taken from the Palestinian Central Bureau of Statistics. Israeli import and export data (at the 5-digit SITC level) come from the COMTRADE dataset in WITS.
- **labor market:** Labor force surveys conducted by the Palestinian Central Bureau;

Unit of Analysis

Palestinian localities in the West Bank and Gaza ;

- The data were aggregated to the level of the locality, which serves as the unit of analysis and represents the smallest spatial unit for which economic data is available in the West Bank and Gaza.
- Our sample consists of 532 localities in the West Bank, and 37 localities in the Gaza Strip.

Empirical strategy

We estimate the following model using a **Negative Binomial regression**:

$$F_{lr} = \gamma_r + \beta_1 \Delta EXP_l + BX_l + \varepsilon_l,$$

Where:

- ***F***: is the number of fatalities in each locality *l* in region *r* during the period of September 2000 and December 2004.
- ***ΔEXP***: The change in Palestinian exports in each locality, calculated as the sum of the change in exports in each sector *s* during the 1996-1999 period weighted by the share of employment in that sector in the locality's total private employment in 1997;

$$\Delta EXP_l = \sum_{s=1}^N \left(\Delta exp_s \times \frac{emp_{ls}^{1997}}{emp_l^{1997}} \right)$$

Empirical strategy

- **X**: Array of socio-demographic variables that can affect both the employment distribution and the probability of engaging into political violence. They include:
 - Total population,
 - share of males in the population,
 - share of the population aged 15-40,
 - share of population with elementary education or below,
 - share of households with more than 8 members,
 - share of married individuals.
 - availability of water, electricity, sewage and landline telephone infrastructure,
 - unemployment rate in 1997 and number of permits to work in Israel in 1999
 - number of Palestinian fatalities in each locality between January 1995 and August 2000.

Results

Table 3: The impact of Palestinian exports on conflict intensity

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Region	All	All	All	WB	Gaza	All	All
Period	2000-04	2000-04	2000-04	2000-04	2000-04	2000-01	2000-01
Δ Palestinian exports ₉₆₋₉₉	-0.441*** (0.044)	-0.128*** (0.029)	-0.163*** (0.061)	-0.087*** (0.030)	-1.085*** (0.310)	-0.101*** (0.036)	-0.191** (0.078)
Main controls	No	Yes	Yes	Yes	Yes	Yes	Yes
Labor market controls	No	No	Yes	No	No	No	Yes
Observations	576	569	199	532	37	569	199

Robustness Checks 1

Table 5: The impact of Palestinian exports on alternative conflict measures

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Pal. fatalities in demo	Pal. fatalities in demo	Israeli fatalities	Israeli fatalities	Pal. attacks in Israel	Pal. attacks in Israel	At least 1 Palestinian fatality	At least 1 Palestinian fatality
Δ Palestinian exports₉₆₋₉₉	-0.141*** (0.041)	-0.229*** (0.081)	-0.037 (0.045)	-0.250*** (0.073)	-0.040 (0.040)	-0.182* (0.101)	-0.056*** (0.017)	-0.088* (0.048)
Main controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Labor mkt controls	No	Yes	No	Yes	No	Yes	No	Yes
Observations	569	199	569	199	569	199	569	199

Mechanisms

Table 9: The impact of Palestinian exports on conflict intensity by destination

	(1)	(2)	(4)	(5)	(6)	(7)
	Palestinian fatalities		Pal. fatalities in demo		At least 1 Palestinian fatality	
Δ Palestinian exp. to Israel ₉₆₋₉₉ (a)	-0.138*** (0.039)	-0.187** (0.078)	-0.166*** (0.049)	-0.316*** (0.095)	-0.061** (0.025)	-0.106 (0.073)
Δ Palestinian exp. to RoW ₉₆₋₉₉ (b)	-0.182 (0.153)	-0.272 (0.314)	-0.279 (0.201)	-0.638* (0.373)	-0.087 (0.104)	-0.177 (0.276)
χ^2 test (a)=(b)	0.12	0.11	0.45	1.10	0.32	0.00
Main controls	Yes	Yes	Yes	Yes	Yes	Yes
Labor market controls	No	Yes	No	Yes	No	Yes
Observations	569	199	569	199	569	199

Mechanisms

Table 10: The relation between Palestinian exports and Palestinian attitudes towards Israel

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Δ support peace negotiations		Δ support attack vs. Israelis		Δ support peace negotiations		Δ support attack vs. Israelis	
Δ Palestinian exports ₉₆₋₉₉	0.016 (0.052)		0.107 (0.067)					
Δ Palestinian exports ₉₆₋₀₀		0.003 (0.020)		0.030 (0.023)				
Δ Palestinian exports to Israel ₉₆₋₉₉					0.040 (0.051)		0.134* (0.070)	
Δ Palestinian exports to RoW ₉₆₋₉₉					0.176 (0.127)		0.281 (0.251)	
Δ Palestinian exports to Israel ₉₆₋₀₀						0.009 (0.116)		0.058 (0.141)
Δ Palestinian exports to RoW ₉₆₋₀₀						-0.007 (0.194)		-0.019 (0.218)
Observations	15	15	15	15	15	15	15	15
R-squared	0.285	0.280	0.454	0.399	0.357	0.281	0.501	0.403

Summary

- Increases in Palestinian exports reduce the intensity and even the probability of Palestinians participating into political violence by increasing local employment opportunities.
- Our findings can be better explained by the opportunity cost mechanism than by the resentment of Palestinians towards Israel due to the loss of the Israeli market;
- Better economic conditions should raise the opportunity cost of involvement in the conflict thus lowering its intensity.
- **Facilitating Palestinian trade can be an important strategy to reduce the risk of conflict.**

Policy Implications

- Facilitating Palestinian trade can be an important strategy to reduce the risk of conflict.

Thank you