

**Does peace with your enemy affects trade with  
your friends?**

*The Effects of the Israeli-Palestinian Conflict on Israeli  
Exports to the EU*

**Adrian Filut - 317865244**

Faculty of Social Science

The Federman School of Public Policy and Government

The Honors Graduate Program in Public Policy

Abstract

The relationship between trade and conflict has been fascinating politicians as well as economists, philosophers and civil servants for a long time. Almost all the researches had concentrated in the pacifying effects of trade but only a few focuses on the influence of conflict on trade. This investigation attempts to verify the existing hypotheses in one of the main, oldest, most unpredictable and violent cases that Modern history provided: The Israeli-Palestinian Conflict. Since the insignificance of the Palestinian economy to the Israeli one, we study the influence of the conflict on Israel's exports to the European Union, its main trade partner. Using an adaptation of the gravity model of trade, events dataset and alternative variables that describe conflict, we find a significant and considerable influence of the conflict on Israeli-EU trade relationship. The main key finding in this work is that not only conflictive events reduce trade, but also cooperative events, such as consultations, promises or even simple approvals, significantly augment Israeli exports to its main partners in Europe. The empirical results suggest that Israeli policy towards the Palestinian question is an inherent part of its trade policy.