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Economic Peace: An Alternative or An Illusion A Political Solution with Economic Prosperity

Introduction

The concept of 'Economic Peace' was initiated by Prime Minister Benjamin Netanyahu prior to his election, as a major political and economic plan with respect to the Israeli-Palestinian peace process.

Many questions have been raised concerning this vague concept. Can economic peace be an alternative to peace? Is it possible to separate economics from politics? Is talking about economic peace an attempt to ignore, avoid or escape from the need for real peace? And if not, what is the strategic role of the Economic Peace from a 'big picture' perspective and where will it be incorporated to facilitate achieving peace within the frame of bilateral peace process?

The Position Papers

In light of the above questions, the Peres Center for Peace and Palestine Center for Strategic Studies, compiled two position papers that elaborate on the Economic Peace from both the Israeli and Palestinian perspectives. Each paper is separate and independent and focuses on the responsibilities incurred by each side respectively.

The two papers explore the concept of Economic Peace and its role in the Palestinian-Israeli relations and peace process. The Israeli paper was written by Mr. Adi Ashkenazi and Mr. Barak Greenapple of the Peres Center for Peace's Business and Economics Department. The Palestinian paper was written by Professor Hisham Awartani, Director of the Center for Private Sector Development and former Professor of Economics at An-Najah University in Nablus. The two position papers were presented in a panel discussion at Tel Aviv University on July 29, 2009, entitled "Economic Peace and the Two State Solution: What Comes First?"

Both papers begin their analysis by highlighting the public proclamations made by Mr. Benjamin Netanyahu that brought Economic Peace to the forefront of political attention. It is important to note that the two papers both emphasize that Economic Peace cannot stand alone as an alternative to a political solution, but it should be a significant component in achieving and strengthening the political solution. Moreover, there is a consensus that a strong economic relationship creates a win-win situation for both sides.

The two papers conclude that every economic plan supportive and conducive to a real peace should be designed with consideration of the following guidelines:

- Incorporation of integrative / multi-dimensional projects – the selected projects should create a cross-sector affect in more than one economic field;
- Focus on high visibility projects with special emphasis on creating ‘success stories’ in the short-term;
- Widespread implementation for all economic sectors;
- Stress on increasing Palestinian employment, recognizing that unemployment is a major issue in the Palestinian economy;
- Establishment of transparent and clearly defined milestones for the public and the international community for following up the implementation of the Economic plan (especially the long-term projects).

We welcome all comments or responses regarding the two position papers.

We would like to take this opportunity to express our special gratitude to the Embassy of Denmark in Tel Aviv for their crucial support in this important endeavor.

Sincerely,

Dr. Ron Pundak
Director General
The Peres Center for Peace

Ziad Abu Zayyad
Director General
Palestine Center for Strategic Studies

מרכז פרס לשלום
مركز بيرس للسلام
The Peres Center For Peace



Economic Peace: An Alternative or An Illusion A Political Solution with Economic Prosperity

- Position Paper -

**The Peres Center for Peace &
Palestine Center for Strategic Studies**

Israeli Paper by:

**Adi Ashkenazi
Barak Greenapple**

Palestinian Paper by:

Prof. Hisham Awartani

**The papers were submitted in the workshop:
“Economic Peace and the Two State Solution: What Comes First?”**

**University Institute for Diplomacy and Regional Cooperation
Tel Aviv, July 29, 2009**

Economic Peace?

A Political Solution with Economic Prosperity

By Adi Ashkenazi and Barak Greenapple

From Israeli Prime Minister Binyamin Netanyahu's speech at Bar Ilan, June 14, 2009:

"I call all Arab States to cooperate with both the Palestinians and us in order to promote economic peace.

Economic peace is not an alternative to a political solution, but is an imperative component in achieving it.

Together, we can develop projects that overcome the drawbacks of our region, such as water desalination, and use our advantages, such as using solar energy, deploying gas and oil pumps and transportation lines that connect Asia, Europe and Africa"

Promoting the Israeli-Palestinian peace process has recently been associated with the concept of "economic peace" introduced by Israeli Prime Minister Binyamin Netanyahu.

We believe that promoting the economy is only an accompanying aspect to a political process that will constitute the main path, one that without it no actual change will occur in the relations between Israel and the Palestinians.

Improving the Palestinian economy cannot act as an alternative to a political arrangement and cannot exist in a political vacuum, despite being a key and vital layer in the process, one which allows the nations to taste the "fruits of peace" whilst still in the negotiations stage and also creates a positive outlook.

Since all signs point to the conclusion that we are entering a new round of negotiations between Israel and the Palestinians, we believe that this document should focus on analyzing the economic environment that forms the basis for embarking on a program to advance Palestinian economics and turn it into a more modern economy. Our basic assumption is that Israel is interested in creating a strong Palestinian economy, capable of offering employment possibilities, developing infrastructures and promotes trade and tourism, all in cooperation with the Israeli economy and support from the Israeli system, perceiving this as a win-win situation.

We have reviewed the main topics and projects that we believe are capable of significantly impacting the Palestinian economic development, focusing unilaterally on Israel's role in the process in the operative matters, in order to reach and execute decisions.

Focusing on Israel's role in the Palestinian economic development does not derogate from the Palestinian Authority's value and decisive role in the matter, since any progress in the Palestinian economy is primarily conditioned by the Palestinians desire to receive Israeli and international assistance in order to implement this process.

In reviewing the relative operative matters, we have chosen to focus on projects that are already in various execution stages and matters under discussion in the numerous frameworks and forums that have been around for years. However, until now these matters have been discussed in a limited manner and not as a multidimensional program.

In our opinion, a multidimensional program, that will affect key parameters of the Palestinian economy, will be effective in a manner that can essentially impact the political atmosphere and the populations themselves in everyday life, something which has not been done in years.

Our main recommendations as specified in this document are:

- Implementing programs, in a widespread and comprehensive manner, in order to create maximal effectiveness, without any preliminary conditions.
- Defining milestones for the economic projects that will be transparent to Israelis, Palestinians and the international community
- Selecting subjects or projects to promote, which will immediately turn into success stories in order to improve the atmosphere and create trust
- Focusing on the issue of employment as a main issue.

This document is the result of the Peres Center for Peace's Business and Economics Department, which gathered the information based on recent research papers in various subjects as well as consulting and gathering details from dozens of experts and discussing these issues with businessmen and both Israeli and Palestinian officials.

I'd like to personally thank Prof. Hisham Awartani for his professional and insightful work and the Embassy of Denmark in Tel-Aviv for their support in preparing this document.

Sincerely,

Dr. Ron Pundak
Director General
Peres Center for Peace

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1. Perception of Economic Peace

The concept economic peace, in its Israeli-Palestinian context, has become extremely significant in recent years, since Mr. Binyamin Netanyahu, prior to his election as prime minister, presented it as a solution to the Israeli-Palestinian conflict. Economic peace as he understands it will form a corridor to the future possibility of a political solution, based on creating conditions for maturing the climate for peace, and as an alternative to the radical Islam's growing power, being the horizon of hope for the Palestinian people.¹

After electing Netanyahu as Israel's Prime Minister, the relatively vague concept is of added validity and has generated a great interest regarding the contents behind it, as well as what are the operative steps to be taken, if any, in order to turn the concept into a realizable operative plan.

Before we begin a discussion about the content of economic peace, we would like to discuss the questions of the principle perception of the axiom behind the solution of economic peace, which claims that economic welfare among the Palestinians will create hope, calm hostilities, weaken the tendency towards violence and create the "price of loss" – meaning decreasing the profitability of a confrontation, based on the fear of possibly losing economic assets already achieved, including an increase in revenues, increasing export, drawing investors and generally expanding investments in the area.

The "economic peace" gets credit from Prime Minister Netanyahu, who describes it as one that decreases the power of radical Islam, by decreasing the number of new members, in the absence of a political end and lack of hope to improve their lives.

This assumption was common among Israeli decision makers and security forces for many years and to a certain extent, it is still the approach that motivates thinking in Israel, hoping to improve economy and upgrade the economic relations between the Palestinian Authority and Israel and its economy.

¹ Netanyahu's speech at the 8th Herzliya Convention (Jan. 2008)

In order to review to the force of the assumptions behind this perception, we suggest reading Professor (Emeritus) Efraim Klieman's words, published in December 2008, in which he refers to the matter²: "as far as the Palestinians' are concerned, their past experience completely refutes this assumption. The First Intifada, a national uprising by all accounts, broke out after more or less two decades of economic prosperity, which the Palestinian economy never experienced before" – **an annual GNP average growth of 9.3% over 18 years.** The GNP also grew at a similar rate in the three-four years that preceded the Second Intifada. Perhaps deterioration in the economic state, increases violence, but an improvement in the economic state, doesn't necessarily reduce it.

In addition, we recommend reading the document formulated at the Peres Center for Peace by the undersigned, which also discusses the same assumption, based on a model built at the center and even further explores the question of the limits of the effect of "economic power" as a single impacting factor for restraining violence.³

The main conclusion in this document is that economic power has many limitations when faced with a nation's national aspirations. Under certain conditions of a political reality, economic growth has tremendous power in its ability to calm the tendency towards violence and under different conditions; the economy's power continuously decreases. There are extreme conditions where the economy has no impact at all and the more we invest in promoting it, the less impact it will have on the Palestinian people, in terms of raising hope and restraining violent tendencies.

Another key conclusion is that the initial economic state, prior to violence, has no impact on the force of violence and therefore, it would be wrong to assume that once violence breaks out, a relatively good economic state will ease the "intensity" or impact it has and as a result, one cannot predict the extent or duration of violence in such circumstances.

² Haaretz Newspaper – December 9, 2008, Efraim Klieman/Is there any truth to "economic peace"?

³ Peres Center for Peace Business and Economics Department-June 2008: "Violence and the Impact of Perceived Economic Wealth and Political Atmosphere"

Clearly "economic peace" as a leading or single tool cannot work and political tools are needed in order to lead the process, with the economic improvement accompanying and supporting the promotion of the political process.

A noteworthy response that Mr. Netanyahu gained, came from former Prime Minister Ehud Olmert (while still in office) during the convention held by the Institute for National Security Studies in December 2008. Olmert attacked the concept and mentioned that "pairing the words economic peace can be an elections slogan, but not a realistic option that Israel can offer as an alternative to a political process."⁴

It is important to stress that recently in every reference to the matter, Netanyahu tends to also mention the political issue and adds that economic development is not an alternative to negotiations, as he said in the Jewish Agency's assembly in November 2008: "Economic Peace combined with political negotiations will lead us towards peace, distance terrorism, which will cause regional stability".⁵ Despite the above and other statements, it seems that according to Netanyahu, the medium for gaining peace with our neighbors always begins with economy and not necessarily correspondingly to the political issue – "economic peace will promote a political solution" and never the other way around.

This document will present what we know about the Prime Minister's perception of "Economic Peace" from various publications, will specify the main points of the current economic situation in the West Bank as well as specify the key projects in the core economic fields under advisement, which we believe should be included in any economic plan with the Palestinians as part of the plan for economic peace.

We will not discuss the Palestinian Authority's responsibility to promote the execution of projects in this document; rather we will focus on issues under the responsibility of Israel, without eliminating the Palestinian Authority's responsibility to cooperate and promote these projects.

⁴ Haaretz newspaper – December 19, 2008, quote from the Institute for National Security Studies Convention – Tel Aviv

⁵ Haaretz newspaper – November 16 – "Economic Peace will promote political peace"

What is economic peace?

As said, the issue is more vague than clear and most of the Prime Minister's statements on the matter were not accompanied by detailed information.

Nonetheless, we will organize what little information was published on the matter in various occasions and different contexts, in an attempt to create an optimal picture that can teach us about the intentions of the economic peace plan.

In terms of administrative structure – the Prime Minister plans to establish an administration to manage joint economic projects with the Palestinians, which will be responsible for organizing the activity before the international community with an emphasis on the Quartet special envoy, Mr. Tony Blair as well as the Palestinian Authority.

Establishing the administration is one recommendation from the 100 Days Committee, headed by Knesset Member, Dr. Yuval Steinitz, proposing that a special minister be appointed to head the committee supported by a team with extensive experience in the economic field and the Palestinian issue.

The matter was generally presented during Mr. Netanyahu's meeting with Mr. Tony Blair as well as his meeting with American envoy, Mr. George Mitchell, who mentioned that in his opinion this plan is insufficient and should be included as part of negotiations.

It seems that the idea to incorporate foreign agents into the economic matter is not a new one, and the government secretary during Olmert's cadency, stated in December 2006⁶ that "an advisory committee composed from various leaders from around the world will be established to focus and ensure the success of initiatives for an economic corridor. The parties involved in the project, will establish work teams and pool all their political, economic and professional resources in order to promote the projects and follow their progress."

⁶ Statement by the Government Secretary, Advocate Yisrael Maymon upon the conclusion of the government meeting on December 17, 2006

Note that the same statement made it clear that the economic corridor initiative is composed from a number of economic enterprises and large projects such as the "Valley of Peace", joint Aqaba-Eilat airport, developing joint copper mines, tourism projects, railway connections and a Palestinian industrial zone.

In reviewing the things presented by Netanyahu in his speeches and election campaign regarding the economic peace components, the following picture appears:

- Establishing and executing 25 economic projects in the territories, with foreign financing and support from Israel, including agricultural, industrial and tourism projects.
- Promoting collaboration projects
- Establishing "employment centers" near large cities in the territories, which will release Palestinians from the need to work in Israel⁷
- Establishing a unique corridor for Christian pilgrims visiting tourism sites on the Jordan River and along the Dead Sea, to be constructed by Palestinians in coordination with Israel – "Israel will bring tourists from the Galilee and the Palestinian Authority will bring tourists from Bethlehem and Jericho. We will create a security sleeve, build hotels and the wages will go up ..."⁸
- Easements at crossings and attempts to find investments from abroad⁹

As we can understand, the economic peace issue requires a presentation of concrete ideas as will be presented in this document.

⁷ Haaretz newspaper, Danny Rubenstein – 16.2009

⁸ Herzliya Convention – TheMarker

⁹ As said by Mr. Zaif, introduced as an advisor to Mr. Netanyahu and a member in the 100 Days Committee, during a convention organized by the IPCRI under the heading "What is Economic Peace" – Haaretz newspaper March 30, 2009

The present economic situation – main indicators

(The figures are based on data from the Palestinian Central Bureau of Statistics and data from official Israeli bodies.)

Before we present projects in various fields, it is important to look at the economic situation on the eve of Netanyahu's ascend to government.

In general, we can see that in 2008 the West Bank's economy continued on a path of growth that began in 2007, since the establishment of Fayyad's government and receiving legitimization from international countries, as opposed to the condition in Gaza Strip at the time.

The macro details of the Palestinian economy indicate that the GDP grew from USD 4.01 billion in 2007 to USD 4.04 billion in 2008.

This fact stands out against the global conditions of a universal economic crisis and severe damage to all the world's economies.

A budgetary balance was achieved in 2008, salaries of public service workers were paid in full and the development budget was doubled to half a billion USD.

The budgetary balance was mainly a result of international assistance that amounted to USD 1.7 billion, but also from the increase in incomes from tax that totaled USD 0.75 billion.

Passages and trade

According to the Tax Authority's estimate, the scope of trade between Israel and the Palestinian Authority increased from NIS 12.4 billion in 2007 to NIS 15 billion in 2008, which forms a significant growth of 21 percent.

Such increase is based on limiting trade with Gaza, which according to competent authorities in Israel, means that **the realistic growth in trade with the West Bank is estimated at approx. 30-34 percent. Note that in 2007 the trade with Gaza was already extremely low.**

In terms of the overall Palestinian import and export, there seems to be a constant increase of these two components between the years 2001 to 2007, in which there was a leap of dozens of percent compared to 2006.

In total the export in 2007 amounted to approx. USD 513 million and the import approx. USD 3.14 billion, including trade with Israel¹⁰ (details of 2008 have yet to be published).

In terms of trade movement at crossings, apparently there has been an increase in the number of trucks, estimated at approx. 40 percent in land checkpoints and approx. 45 percent through the Allenby Bridge, mainly due to the establishment of the checkpoints and blocking the illegal movements, which were not included in previous surveys.

Employment

The Palestinian employment of West Bank residents in Israel and in the Israeli economy continues and the number of employees has even grown. In 2007, approx. 46,000 Palestinians received work permits.

About half of these workers are employed in Israeli settlements beyond the green line and the assumption is that there are others who are employed in Israel without work permits.

According to estimates, the total intakes for the Palestinian economy from employment totaled approx. NIS 2 billion in the year 2008.

The unemployment in the West Bank increased by an average of approx. 1% compared to 2007 (to approx. 19%) and in Gaza the rate of unemployment is more than 40%. In terms of the payroll cost, there has been an increase in the daily salary both in the West Bank and in Israel, probably due to blocking illegal employment in Israel and the demand surplus for foreign workers in Israel.

¹⁰ <http://www.paltade.org/en/about-palestine/forign-trade.php>

Tourism

A branch that significantly recovered in 2008, with the number of visitors in Bethlehem almost doubling itself and reaching approx. 990 thousand tourists, compared to only approx. 510 thousand tourists in 2007.

In conclusion, in the following chapters of this document, we will present a number of core issues for developing the Palestinian economy. Israeli assistance and openness is required in order to promote many of the issues presented, as well as a sense of good will which is currently lacking. Clearly most of the steps required from Israel, involve a certain extent of risk that Israel needs to take, but this is probably inevitable in the short term (due to expected activity by radicals) and in the long term we expect the risk to decrease together with an improvement in the general atmosphere and a constant economic improvement.

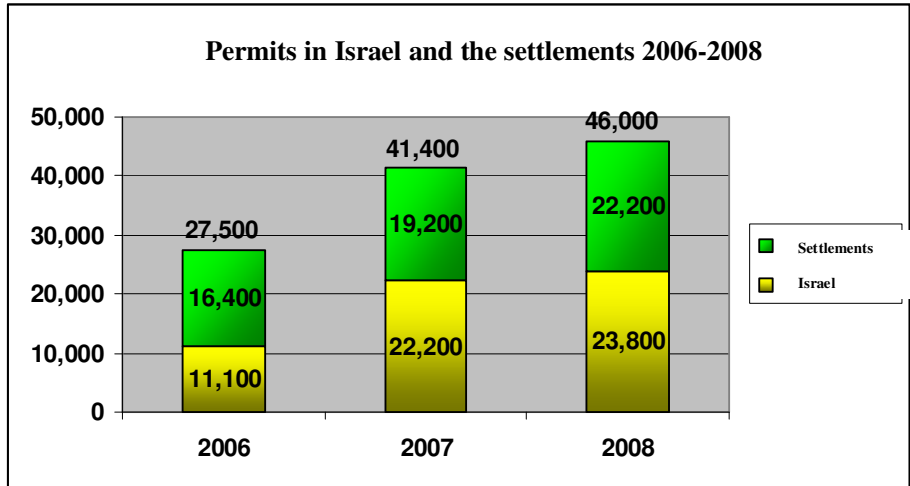
2. Employing Palestinian Workers in Israel

Since the year 2000, during which the Second Intifada broke out, the results of the Palestinian economy went down by dozens of percents in terms of the overall GNP and GNP per capita, and only recently there have been numbers and indicators signaling some sort of economic recovery in the West Bank, whilst in the Gaza Strip the situation continuously deteriorates. The issue of Palestinian employment was the first and most important issue that expressed the severe economic blow that the Palestinian economy sustained, since the rate of unemployment instantly went up after denying entrance to approx. 120,000 Palestinian workers who were employed in Israel. Details from one quarter revealed an increase in the West Bank's unemployment rate from 7.5% in the third quarter of 2000 to 33.5% in the fourth quarter of the same year.

As said, currently more or less 50,000 Palestinian workers are employed in the Israeli market, approx. 25,000 are employed in the settlements beyond the green line and a few thousand more are employed without permits in the Jordan Valley.

The implication of employment in the Israeli economy is critical for the Palestinian economy, for various reasons including the immense gaps in salaries, since every worker that works in Israel or within the Israeli economy earns NIS 142 on average per working day, compared to local employment in the West Bank, where the average wages are approx. NIS 84 or NIS 62 in the Gaza Strip.

Employment in Israel continues despite the decision made by the government in 2005, stating that by the year 2008, no more Palestinian workers will be employed in Israel. We emphasize that the government's decision in recent years to limit the number of foreign workers in Israel, is expected to create enormous demands for Palestinian workers in the fields of agriculture, construction and services, where most of them are already employed today.



- Data from the Ministry of Defense

For a number of years now, there has been no clear policy in Israel as to the number of Palestinian workers that the Israeli market absorbs and/or is capable of absorbing. If the government intends to help improve the employment issue in the Palestinian Authority, it needs to determine a declared policy regarding the employment of Palestinian workers in Israel, which includes limits for the short, medium and long terms, including growth expectancy, based on macro-economic tendencies in the Israeli economy.

A policy that specifies the work quota in Israel, will serve as a significant exogenous variable for the Palestinian planning and economy ministries, as well as development programs and initiatives for decreasing poverty, which are prepared and implemented by the governments, UN agencies and international organizations such as USAID, the World Bank, International Monetary Fund, UNRWA, UNESCO, UNIDO and UNDP as well as other bodies.

As said, from an Israeli point of view, employing Palestinians in Israel is not an independent policy issue, but part of an overall policy for employing foreign workers in Israel in construction, agriculture and services. Therefore, such policy is expected to have a direct impact on the policy of employing foreign workers from Asia, Eastern Europe and other countries, which basically form an alternative for Palestinian workers in the said industries. According to publications by the Ministry of Industry,

Trade and Labor, the number of foreign workers in Israel at the end of 2008 was 225 thousand compared to 200 thousand in 2007, of whom only 52% had a work permit.

In our view, it would be in Israel's profound best interest, to prefer employing Palestinians over foreign workers, mainly due to the following reasons:

- Israel is obligated and interested in helping solve the unemployment problem in the Palestinian economy, both considering that within a short period it closed its gates to Palestinian workers who worked in Israel for dozens of years and by that evaded the need to develop work places within the West Bank and Gaza and also since unemployment leads to a severe social-economic price which eventually has an adverse affect on the stability of the Palestinian government and the tendency towards radicalism. Therefore, Israel's contribution to deducting the demand in the Palestinian labor market is essential. All the above is said despite the fact that in more than a few cases, the Palestinians themselves hindered the development of employment projects and together with the Israeli system, they created an unsafe atmosphere that has driven away investors.
- The most significant advantage that Palestinian workers have is embedded in the fact that they enter Israel only for work purposes and usually return to the Palestinian Authority every evening, thus their employment does not entail any complex social-economic aspects and there is no danger of them immigrating to Israel. This creates a fundamental difference between employing Palestinians and employing workers from other countries.
- Palestinian workers are better skilled, with an emphasis on the construction industry, and cannot be replaced in specific construction specialties, as compared to most foreign workers.
- Palestinian workers have been employed in Israel for several decades. Except for few cases - which also seem to be based on criminal or personal reasons and not nationalistic motives - there have been no terrorism acts by Palestinian workers with work permits, intending to harm their Israeli employers

(according to the General Security Services' details from the beginning of the Second Intifada, no terrorism acts were performed by individuals with a work permit in Israel). On the contrary, in most cases strong and long lasting friendships have formed, with most workers working for the same employer for dozens of years.

- Finally, employing Palestinian workers is an essential step to building good neighborly relations and laying down the foundations for promoting peace between the parties.

In conclusion, declaring Israel's long-term policy to employ Palestinians is extremely essential and imperative for planning the Palestinian economy, both by the Palestinian Authority and other international agents and at the same time, is also an Israeli interest.

We estimate, taking into consideration the number of foreign workers in the Israeli market, that Israel can and must commit to a number of 100,000 to 150,000 Palestinian workers in the short term of 5 to 10 years. By doing so, it will at least provide a 3-4 year solution for the increase in the number of demands for new job positions created every year in the Palestinian economy, which will allow a minimal breathing space for creating employment in the Palestinian economy.

Such policy alone is insufficient to offer a long term improvement in the Palestinian economy, but can be a fast and extremely significant incentive. Therefore, it should be combined with **promoting internal employment and be used as a condition for promoting projects offering an abundance of employment opportunities** within the Palestinian Authority, such as industrial zones. That is in order to prevent preservation of the convenience of working in Israel without having to motivate any Palestinian development towards economic independence. We will elaborate this discussion in the industrial zones chapter.

3. Developing Industrial Zones in the West Bank

As we emphasized earlier, the "Al-Aqsa" Intifada that broke out in September 2000, critically impaired the Palestinian economy and all parameters of the economic relations with Israel, including severe and extensive damage to the employment field. As said, the work of approx. 120,000 Palestinians who worked in Israel was terminated within a short period and the percent of unemployed individuals in the Authority sharply ascended by more or less 25% within one quarter (the fourth quarter of 2000).

The importance of employment and the Israeli- Palestinian desire to create internal work places in the West Bank, in order to decrease the employment dependency on Israel, has gained tremendous recognition from the Palestinian Authority, even before the Second Intifada broke out. In 2000, an authority for developing industrial zones (PIEFZA) was established and two key laws on the issue were legislated:

- The Law for Industrial Estates and Industrial Free Zones¹¹
- The Law for Encouragement of Investments in Palestine¹²

In addition, by the year 2000, the Palestinian program for deploying new, modern industrial zones in the West Bank and Gaza was completed and an industrial zone was established near the Karni Crossing, in which Israeli investors also invested.

When reviewing Israel's reference to this issue it seems that on the one hand, it neither expressed any objection nor placed intentional obstacles, but on the other hand there was no active and initiated collaboration across the entire sector, that we believe should have been apparent, based on a profound long term Israeli interest.

There are those who claimed that an exception was the initiative to change the status of the area of the industrial zone in Jalame (Jenin) from area C to area B, but this was initiated after years of international efforts and Israel's repeated refusal, without a

¹¹ Law No. 10/1998 – Regarding Industrial Estates and Industrial Free Zones

¹² Law No. 1/1998- Encouragement Of Investment in Palestine

concrete, visible, reason. On the other hand, in the Karni area it seemed that Israel made an overall effort in the security field, in order to create a proper form of cooperation. However, the security reality on the one hand and excessive Israeli security measures on the other hand, destroyed the positive reality that began to form. In such context, we need to emphasize that if the Israeli system will allow the security institutes to be the sole deciding authority in all issues in this area, then the chances for any development in this area are close to none. The security limits that are constantly raised, without necessarily being based on any real threats, completely contradict the dynamics and flexibility required for business development and initiating projects. This applies to industrial parks, but is also accurate in other economic areas such as trade and labor.

The concept behind the plan is a regional deployment of industrial zones across the West Bank and Gaza, whilst attempting to cover areas with high rates of unemployment and includes grasping industrial areas adjacent to the security fence but not only.

After freezing such plan for 8 years, in the past year there has been a reawakening in the matter and there seem to be initial flourishing buds with the first indications of a genuine progress: in the industrial zone in Jenin; initiating an industrial zone in Bethlehem (which was not part of the program prepared in 2000); the Turkish initiative to establish an industrial zone in Tarqumia (Hebron area); the Japanese initiative to build an industrial zone in Jericho; as well as the economic activity near Nablus.

One reason for the awakening results from the formation of a new "formula" which offers a certain solution to Israel's security apprehensions - establishing industrial parks with participation of foreign countries, which conveys a sense of added security and that country also acts as a catalyst for promoting the issue with Israel.

Beyond funding infrastructures, these countries are also highly motivated to invest in employment enriched projects in the Palestinian Authority, through private investors from such countries; a desire that is compatible with Israel's national interests. Israel also needs to perceive these areas as the future key growth engine for developing the

Palestinian economy and promoting a solution for the problem of unemployment in the Palestinian Authority.

Following is a summary of the current situation in the main industrial zones that are in the midst of the planning and establishment:

- **Tarqumia (Hebron)** – a result of the Ankara Initiative in 2007 and Hamas's rise to power in Gaza, which led to canceling the Turkish initiative to reestablish the Erez industrial zone. The Turks promised financial investment, recruiting industrialists from Turkey and the rest of the world and Israel promised to facilitate bringing in raw materials and taking out finished merchandise from the nearest passage, without difficulty. Israel even outdid itself when it positively reviewed the devolution of civilian authorities (from area C – completely controlled by Israel, to area B – civilian authority of the P.A) for a geographically convenient area (part of the entire area demanded by the Palestinians for assigning authorities) designated for the construction of an industrial zone, something which has not been done since the last devolution in 1999. The area of the industrial zone in Tarqumia is expected to be spread across 1,000-3,000 dunam, and estimated to provide employment to approx. 20,000 workers.

At the moment the matter is suspended until resolving the land issue with Israel.

- **Bethlehem** – a French-Palestinian initiative for establishing an industrial park in the Bethlehem area at an initial cost of approx. Euro 15 million, in which the French government undertook to fund the transfer of off-site infrastructures into the area and the Palestinian Authority, will ensure the required land with long term leasing.

Developing the area will be supervised by a private French-Palestinian company that was recently established and will fund the rest of the investment. This industrial park is expected to be built over an area of 510 duman and estimated to provide employment to 10,000-15,000 workers.

Works on the site are planned to begin by the end of 2009.

- **Jenin** – the initiative to build an industrial park in the Jenin area – which began many years ago - is in advanced planning stages and nearing establishment. The investor is "Al Shimal", a Palestinian-Jordanian company. The German government will fund the off-site infrastructures at the amount of Euro 10.5 million. The expected size of the area is 890 dunam and it is estimated to provide employment to 15,000-20,000 workers.

The main investor is waiting for final conclusion of the sewerage issue as well as arranging visas for investors from Jordan, in order to avoid any possibility of detainment.

In May 2009, Prime Minister Netanyahu met with the Quartet's envoy, Mr. Tony Blair and they agreed that they will both visit the industrial zone together with Minister Shalom – the Minister of Regional Cooperation, in order to promote the venture.

- **Jericho** – the Japanese government's initiative to establish an agricultural industrial park in the Jericho area as part of the Japanese "Peace Corridor" project in the Jordan Valley. The area is designated to serve for planned agricultural development in the Jordan Valley and as a solution to the marketing and export needs of Palestinian products, through the Allenby Bridge, into the Gulf emirates and other markets.

The planned size of the area is approx. 500 dunam and it is expected to provide employment to approx. 15,000 workers.

The Japanese entrepreneurs have recently completed their feasibility study, with the current discussion focusing on arranging an access road that passes through area C.

In addition to the above, there are Palestinian plans for establishing other industrial parks in the area of the Kaduri School in Tul Karm and the Nablus area, but investors have not been located for these infrastructures, and in fact they are available as open

opportunities for investment. Another raw concept formulated in the Palestinian Authority, is establishing a high-tech industrial park in Jericho. In the past, there was a master plan to establish this park in the Khaduri School in Tul Karm.

Despite the multitude of initiatives to erect industrial zones in the West Bank, the question of employment remains open as well as how this substantial issue is expected to be resolved in the future as part of the existing plan. We will present a theoretic calculation for this purpose.

When calculating all the jobs expected to be formed as a result of fully realizing the industrial zones plan, we receive an estimated 80,000 jobs according to an optimal scenario, assuming that the plan will be fully realized within more or less 5 years, which with an objective outlook seems highly unlikely or even impossible. Even if we assume that considering the direct and partially direct jobs, 50-60 thousand more jobs will be available in the second and third circles (mainly in services), the optimal number of jobs will amount to approx. 130-140 thousand jobs.

Considering this availability of work positions, based on details of the Palestinian Central Bureau of Statistics, it seems that the current demand in the West Bank is approx. 180-200 thousand unemployed job seekers and in 5 years this number is expected to double, which easily leads us to the conclusion of an anticipated crisis in the employment field.

In light of the profound importance of the employment issue, and particularly expectations for a massive admission of 10-14 year olds to the employment market in the next 5 years, we **recommend effectively pushing and helping Palestinians and other contributing countries to consider the establishment of industrial zones in the West Bank as a matter of top priority, in order to create new, essential growth engines in the Palestinian market and create new job positions in the Palestinian industry.** Encouraging the establishment of industrial zones must, as we mentioned earlier, occur together with a clear and fast announcement as well as action by the Israeli government of a long term policy to employ Palestinians in Israel.

Plan for establishing industrial parks in the West Bank



4. Passages and Trade

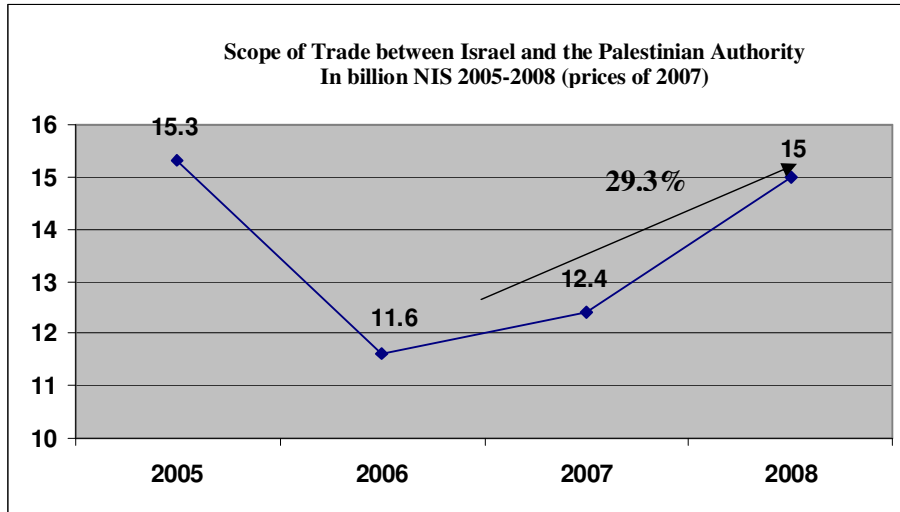
Trade between the State of Israel and the Palestinian Authority, contrary to what it appears, is an economically extensive activity that is also highly significant to the Israeli market. The Palestinian Authority is actually Israel's 2nd export destination after the USA.¹³ Last year, trade with the Palestinian Authority totaled approx. NIS 15 billion, according to the Israeli Tax Authorities. Such trade includes all areas of consumption, including raw materials for industry, products such as fuels and construction materials, agricultural input, various agricultural products, textile products and basic products such as dairy, pharmaceuticals and more.

The division of trade into import and export has been almost stable over the years, with the rate of Palestinian export out of all trade with Israel, estimated at an average of 15%-20% between the years 2000-2007.

The following chart represents the development of trade between Israel and the Palestinian Authority between the years 2005-2008. Particularly noticeable is the increase in the volume of trade of approx. 30%, which occurred in the past two years. Bear in mind that such increase occurred despite the apparent political tension in the past two years and the drastic decline in bringing in goods into the Gaza Strip as a result of the Hamas victory in the elections and its ascend to government in the Gaza Strip. The volume of trade between Israel and the West Bank has substantially increased from NIS 9.5 billion in 2007 to NIS 13 billion in 2008, whilst compensating (and more) for the decrease in the volume of trade with the Gaza Strip that went down from NIS 3 billion in 2007 to only approx. NIS 2 billion in 2008.¹⁴

¹³ According to details of the Israeli Ministry of Trade, if looking at Europe according to countries and not as one block

¹⁴ Details from the Coordinator of Government Activities in the Territories HQ



Recommendations for improving trade

As part of previous work conducted by the Peres Center for Peace, two comprehensive papers for reviewing ways to improve trade were published. The first dealt with the impact of internal checkpoints in the West Bank and the second, dealt with new passages built along the West Bank and their impact on the Palestinian economy and trade between Israel and the Palestinian Authority.¹⁵ The first paper examined internal checkpoints in the West Bank that are a significant obstacle hindering economic growth and developing trade between Israel and the West Bank, whilst reviewing all aspects associated with the internal checkpoints, including the security aspect. The second paper reviewed the four main passages on the 'green line', where most of the trade movement between Israel and the Palestinian Authority is concentrated, including various elements that need to improve in such passages as an important measure for improving the bilateral trade.

The main internal checkpoints located and reviewed were – Dir Sharaf (Shavei Shomron), Beit Ibba, Anabta, Kalkilya, Huwwara and Awarta, El-Hamra, Jalazon, Wadi Nar, Hebron (road 35), Hebron (Hakvasim junction). The main recommendation was and remains to remove these checkpoints, since the economic damage they create is ten times greater than their security advantages (which are substantially lower since the West Bank Barrier was constructed). The

¹⁵ The Peres Center for Peace, "Peace through Prosperity: Examining the Impact of Movement Restrictions on the Palestinian Economy", April 2008

recommendations mentioned in this paper have already been implemented on site and internal checkpoints have been removed or movement through them has become much easier. However, the main message is that continuous work is needed in order to reexamine the internal checkpoints in the West Bank due to changing conditions, both in terms of the security aspects and the political aspects, and mainly due to progress in the construction of the West Bank Barrier.

Other recommendations on the matter of passages and trade focus on issues of "external" trade crossings, meaning those located on the Barrier that are actually the main economic 'life artery' of Palestinian economy, which was severely impaired since the beginning of the Second Intifada in September 2000. The trade movement that passes through these passages has significantly grown in recent years; just for demonstration purposes, in 2008 the movement increased by 42% compared to 2007 and exceeded 230,000 trucks, which was also a result of blocking illegal passages.

The recommendations refer to the main trade passages, which are:

Jalame – Gilboa passage (opened in June 2006)

Bardale – 'Yellow Block' passage (opened in August 2007)

Taybe – Shaar Efraim passage (opened in January 2006)

Tarqumia passage (opened in October 2007)

The main recommendations for improving the transportation of goods are:

Establishing logistic centers near the passages – the logistic center has many advantages, such as: bridging the gap between the existing opening hours and the hours required by users; improving the efficiency of the registration procedures, possibility of consolidating goods (small shipments); packing goods according to transport needs and security requirements.

Offering a services package to users of passages – including a business center, banking and money changing services, road services and car maintenance, public transportation and medical emergency services and more. We recommend that this infrastructure project be executed through private initiatives on both sides of the passages.

Separating goods that need special handling from the main crossing line, such as: products with a short shelf life; products that require special permits (health, industry, and others); high risk products such as chemical products; bulk packed products (various grains, light aggregates); products with an irregular volume, length or weight.

This project also requires separate infrastructures at the passage, which we recommend be established by private entrepreneurs as an alternative to governmental allocation.

The use of containers as a policy (increasing the use of "open containers" – a security preference); as well as using digital radiography devices for containers in all checkpoints (solves the need for open spaces by loading up, solves the problem of depreciation when transporting back to back, which saves a third of the transportation time compared to transporting pallets). The use of containers will allow future transportation by train, whilst saving time and tremendous costs and resulting in high operational efficiency.

Expanding the infrastructures at passages between Israel and the West Bank – requires that two small passages for goods be added around Bethlehem (in the direction of Beit Shemesh/Jerusalem), a small crossing for goods from Hebron in the direction of Beer Sheva (around Yatir) and a small crossing near the Shu'fat refugee camp (as long as the Bitunia passage has not been resolved with the Palestinians). In addition, the future required capacity at the passages should be reviewed (whilst internalizing the expected growth in the Palestinian economy and expanding trade relations with Israel) and expanded accordingly. Such expansion should be done on the Israeli side with an Israeli budget and on the Palestinian side with Palestinian funding, with international assistance.

Improvements in the security aspect – allowing Palestinian dealers to pass in a fast lane, while their merchandise is examined upon entrance to Israel; expanding the implementation of an innovative perception, based on the work recommendations prepared by the USAID for remote inspection of merchandise, manufactured by a 'Known Trader' (inspection at the manufacturing factory's gates); secured transportation to the passage while reducing the inspection at the passage accordingly;

expanding the security and customs inspection at the designated passages for Israelis, in order to stop the security breaches that allow passing Palestinian goods without any supervision at these passages.

Expanding the Palestinian involvement at the passages – expanding the cooperation between the Israeli government and the Palestinian Authority; establishing joint situation rooms for immediate response to any problem at the passages; creating meeting points (business rooms) for Israeli and Palestinian traders and businessmen; increasing the Palestinian involvement in authorizing and issuing crossing and trade permits; encouraging the presence of Palestinian customs agents at the passages and creating a joint supervision mechanisms for shipping and transporting goods.

There is no doubt that as part of the plan to promote the economy as part of promoting peace, the trade issue, which is sensitive to shipping restrictions when transporting goods through the passages, is extremely important and demands that the bottlenecks at the passages be handled quickly and professionally. Note, that a substantial part of the recommendations on this issue can be implemented at a significantly low cost and in a short term, whilst generating extreme economic benefits, as well as considerably improving the general atmosphere on both sides.

5. Infrastructures

This is an extremely extensive topic, which requires many financial and other resources, but in this document we will focus primarily on the main issues concerning transportation, water and electricity.

Transportation – connecting the railway infrastructure

At the moment, there are no railway connections between Israel and the areas of the Palestinian Authority; even more so – there is no railway infrastructure at all in the territories of the Palestinian Authority.

The idea of connecting railway tracks from Israel to the trade passages along the West Bank, which is not a new idea at all, may generate enormous economic and social benefits, by improving trade, substantially lowering costs and improving the efficiency of transporting goods, supporting future industrial zones to be established in the West Bank and more.

There are three possible connection points for transporting goods to the West Bank, which are at a relatively short distance from Israel Railways' existing infrastructure:

Hebron (Tarqumia) – a connection can be established between Tarqumia and the Helets track, which currently reaches as far as Kiryat Gat from the west. Such step requires extending the track by approx. 25 km to the east. This track can connect Tarqumia to the Israel Railways company and the Ashdod port, resulting in quick, efficient and cheap transportation of goods that arrived at the port, whilst lowering the traffic strain on movement axes from east to west.

Tul Karm (through Shaar Efraim) – this is another location for easily connecting the Shaar Efraim passage to the Israel Railways by laying a track of a few kilometers, that will connect to an existing track in the Netanya area. This connection is also expected to lead to a substantial improvement in trade in the short term, as well as support the planned future industrial park in Khaduri (near Tul Karm).

Jenin (Jalame) – only a few kilometers are required to connect this location to the future path of the "valley train" between Afula and Beit She'an, which is planned for construction in the next couple of years as part of the Israel Railways' "Netivey Israel" [Routes of Israel] program.¹⁶ This connection is also expected to be extremely beneficial in transporting goods to and from the West Bank to ports and other places in the country and at a low cost.

In the future, subject to the required political changes, using a relatively small investment and an extensive economic benefit, the Gaza Strip can also be connected to the railway track. The Israel Railways' tracks currently reach as far as Moshav Mavki'im and the Yad Mordekhay junction, only a short distance from the Gaza Strip. Such connection will ease, cheapen and improve the efficiency of transporting goods and containers from the Ashdod port to the Gaza Strip and back, and will provide many economic benefits, similarly to the connection with the West Bank.

In addition, the Karni Crossing can be connected to the planned route between Sderot and Beer Sheva, whilst exhausting tremendous economic advantages to Gaza's economy, but clearly this matter is subject to developments in the relations between Israel and the Gaza government.

It is important to note that railway transportation (approx. 40 containers per train) is significantly cheaper compared to truck transportation (including saving time in traffic jams, reducing damage to the environment, eliminating long lines at the passages and fines for containers). It also allows releasing goods at the port, without leaking in goods against the Israeli law, and also provides a high level of security which will help establish another export and import platform in the future, in the form of a land port within the West Bank (see later in the chapter). The economic potential is tremendous and includes transporting goods, agricultural products and finished industrial products, construction materials as well as raw materials to industrial parks that will be established in the West Bank.

¹⁶ <http://www.globes.co.il/news/article.aspx?did=1000446681&fid=2>, "Israel Katz presented a plan for establishing a network of railway tracks from Eilat in the South to Kiryat Shmona in the north", Lior Baron and Dubi Ben Gdalyahu, May 4, 2009

Connecting the Israel Railways to the passages may even form a basis for laying a railway infrastructure within the areas of the Palestinian Authority and a future connection between the railway tracks on both ends. In the future, this plan can be combined with other regional fast transportation infrastructure projects, as discussed in multilateral deliberations that have been going on between Israel and the Arab world since 1991.

Territorial Link

The territorial link between the Gaza Strip and the West Bank is strategic and extremely essential to the Palestinian state to be established in these areas. In the Declaration of Principles ("Oslo") in 1993, Israel accepted the principle whereby the Gaza Strip and the West Bank form one territorial unit, which later led to an agreed arrangement for transportation between the areas, meaning the Safe Passage Protocol, in the interim agreement of 1995.

Furthermore, the territorial link has significant implications which are of extreme importance – they turn the Gaza Strip and the West Bank into one unit, in economic, social, political, governmental and demographic terms and basically in all of life's spheres. The impact of the territorial link on the Palestinian economy is expected to be far reaching – it will create a united market, will allow movement of employees and merchandise between the areas, open the West Bank to export through the sea (through the future port to be established at the Gaza Strip) and will allow agricultural and other export from the Gaza Strip to the Gulf and Europe, through Jordan.

This is a large and complicated infrastructure project that entails economic, planning, environmental, security and other aspects. Therefore, planning and execution is expected to continue for more or less 8-10 years and perhaps even more, if there will not be any unpredictable delays.

A comprehensive study regarding the territorial link is currently being formulated by the Aix Group¹⁷, in which the Peres Center for Peace is also a partner, and includes the following recommendations:

- Since this is a long term project and since **only completing the project will allow using the territorial link** (partial implementation of the project has no significance), **planning the connection and execution thereof should start from today.**
- **Concurrently, in the short and even immediate term, we need to renew the activity of the Safe Passage, in order to offer a solution for the next decade, until the territorial link is completed.**
- **Israel needs to choose the land path** (passing through its territory) **today** in order to start planning and construction procedures.

Land port – transferring Palestinian goods from Israeli ports to the Authority territories

Most of the Palestinian import and export activity – to destinations other than Israel – is done through the Israeli ports (mainly the Ashdod Port), and a small portion passes through the Ben Gurion Airport, Allenby Bridge and Rafah Crossing. This fact creates a strategic dependence of the Palestinian economy on the Israeli ports, which according to international standards, are not considered efficient.

The main reason for this lack of efficiency (as presented in the annual convention of the Shippers Council, December 2007), are disruptions in the ports' work which causes delays, long waits, shortage in proper pier infrastructures, binding wage agreements, unpleasant work relations, old container terminals that are only suitable for small vessels and **severe shortage of logistic warehouse system, which halts the efficient flow of the port's logistic operations.**

The idea of the land port has been discussed for a number of years by the Israel Port Authority, Israeli and Palestinian businessmen and Palestinian officials, as an option

¹⁷ A group of Israeli-Palestinian-international economists, who study the issue of a permanent arrangement between Israel and the Palestinians, whilst focusing on the economic dimensions and implications of this issue.

for Palestinian independence in collecting import taxes and disconnecting the Palestinian economy from the inner-work problems that exist in Israel and cause many strikes at ports, thereby damaging Palestinian importers.

The concept of the land port was also mentioned in 2005 by Mrs. Iris Stark, Ashdod Port Chairperson, as a major project that will allow significantly extending the trade relations between Israel and the Palestinian Authority. In 2007, the matter was thoroughly reviewed by a joint inter-office team assembled by the Israel Port Authority and the Israel Railways, based on Israel's need to solve the problem of storage space at ports (mainly the Haifa Port) in order to allow storage of containers near importers and exporters' businesses, ease the traffic load at the port gates and divert truck movement from the coastal highways.¹⁸

There is a plan nowadays to establish a land port near the Shaar Efraim crossing (C area), but the location and the concept are not completely coordinated with the Palestinian Authority, since it does not offer the Palestinians the desired independence and the intention is that only Israel will maintain control of the port.

We recommend implementing this concept on Palestinian goods, which will lead to a demand for a defined site, to be agreed with the Palestinian Authority, where a facility will be established for concentrating Palestinian goods, thereby offering a solution to both the Israeli needs and the Palestinian needs.

This is a long term investment that will form another measure for economic development, both to the Palestinian Authority and Israel, by improving the efficiency and lowering the cost of transporting, recording and releasing export/import goods, creating opportunities for regional cooperation in the shipping sector and more. Therefore, our recommendation is to proceed with this project with top priority.

¹⁸<http://www.haaretz.co.il/hasite/pages/ShArt.jhtml?more=1&itemNo=865336&contrassID=2&subContrassID=6&sbSubContrassID=0> "Israel Port Authority and Israel Railways are examining the possibility of establishing a land port in the central region" Avi Bar-Eli

Water

The water topic is extremely important and sensitive and that is why it is mentioned and specified in all the understandings signed with the Palestinians as part of the Oslo Agreement. During the declaration of principles ("Oslo Agreement", 1993) there was a general and individual reference to the water issue, and suggestions were raised for studies and plans. As part of the Cairo Agreements ("Agreement of Gaza Strip and Jericho Area", 1994), control of the water supply system in the Gaza Strip was conveyed to the Palestinians, including management, development and maintenance of the water and sewage systems.¹⁹ A more detailed reference to the matter can be found in the Interim Agreement ("Oslo II", 1995), which includes an extensive chapter on water and sewage. In this agreement, Israel acknowledged the Palestinians' water rights in the West Bank and committed to devolve water and sewage related authorities and responsibilities in the West Bank to the Palestinians, as well as supply a defined quantity of water (28.6 million cubic meters per year) during the interim period, out of an addition of 70-80 million cubic meters per year for "future needs"²⁰.

Both parties acknowledged the shortage of water and the need to develop and generate additional water sources (mainly from the eastern aquifer, sewage purification and water desalination).

The urgent need to coordinate and cooperate in water matters, became much more critical over the past years, due to the low amounts of rain water in recent winters and a drastic decline in the water level of the Kinneret, which reached an all time low that Israel has not seen for many years and in our opinion, such cooperation is a successful example – throughout the years – that professional systems with a joint interest, work well together.

The potential for cooperation in this area is enormous, but it requires support and budgeting from the international community. In addition to the desalination facilities that are currently established in Israel (and are expected to increase the water supply to both sides), there is another idea for a main joint water project, which is to **establish a desalination facility on the Israeli coast, using international funding,**

¹⁹ Except Gush Katif and other Israeli settlements

²⁰ State of Israel – Water Authority, The Water Issue between Israel and the Palestinians, March 2009

that will transport the desalinated water directly to the West Bank. This project can be an example for possible cooperation platforms in the matter and requires willingness on Israel's behalf as well as the assistance of foreign governments and international organizations that would be willing to offer the necessary funds for establishing and operating desalination facilities.

Electricity

At the moment, Israel is almost the exclusive source of electricity to Palestinian residents in the West Bank, except for the electricity supply to the city of Jericho by Jordan at a relatively low scope. The Israel Electric Corp. currently sells approx. 6% of the electricity it produces to the Palestinian Authority. Approx. 40% of such quantity is transferred to the East-Jerusalem Electric Company²¹, 30% goes to the remaining areas of the West Bank and the remaining 30% goes to the Gaza Strip (in addition to electricity manufactured by the power plant in the Gaza Strip and the electricity transferred from Egypt).

Prior to the Second Intifada (September 2000) the demand for electricity in the Palestinian Authority went up by an average of approx. 15% per year, when in the first few years after the Intifada, the increase in demand slowed down to an average of 3% per year only. Nevertheless, **the Palestinian Authority currently lacks the suitable infrastructures to support the increasing demand for electricity.**

Cooperating in the matter of electricity is imperative to both parties, both Israel that has a commercial, political and security interest in such cooperation (including preventing an economic and humanitarian crisis in the Palestinian Authority) as well as the Palestinians, who have a clear interest in developing their energy production abilities and offering a solution to the growing demands. Therefore, **the parties have an understanding, which sustained even the toughest days of mutual violence, that the matter of electricity needs to remain out of the dispute and that it is important to promote mutual cooperation in this issue.**

²¹ This company, which is responsible for supplying electricity to the residents of East Jerusalem and the central West Bank, suffered a tremendous blow since March 2002 as a result of difficulty collecting payments from its Palestinian clients

A process that began in Athens in May 2003, between the Israeli Ministry of National Infrastructures and the Palestinian Ministry of Energy, led to signing a Memorandum of Understanding²² on the matter in October 2003, between the Israel Electric Corporation and the Palestinian Ministry of Energy, which includes the following principles:

- Establishing five distribution companies in East Jerusalem and the central West Bank (JDECo), Northern West Bank (NELCo), Southern West Bank (SELCo), Hebron (HEBCo) and the Gaza Strip (GDECo). **The process of establishing these companies has yet to be completed.**
- The need for a long term commercial agreement between the Israel Electric Corp. and the Palestinian distribution companies. Amongst other things, the agreements will give priority to developing infrastructures, including high voltage lines (161 Kilowatt) from Netivot to the Gaza Strip. The role of the European Union in creating the necessary conditions for implementing urgent and other projects was also specified in the agreement (JUPE). This section has also yet to gain any true progress.

With the current infrastructures' situations in Israel and the Palestinian Authority, we expect substantial difficulties in responding to the future demands for electricity in the Palestinian Authority, with an emphasis on certain areas such as Khan Yunis and the northern West Bank.

The power station that exists in the Gaza Strip manufactures much less than its potential (approx. 40 out of a potential 140 megawatt) and lacks distribution infrastructures, sub-stations and high voltage lines.

The European Investment Bank, Israel and the Palestinian Ministry of Energy recently agreed to establish four sub-stations in the West Bank near the cities of Jenin, Nablus, Ramallah and Hebron (Tarqumia) in order to allow increasing the electricity supply to the West Bank and thereby offering a solution to the planned industrial parks, with

²² "The Joint Understanding on the Principles of Electricity Agreement (JUPE)", October 2003

funding from the European Investment Bank, and both Israeli and Palestinian involvement. **These sub-stations have yet to be established.**

Therefore, we recommend **giving top priority to promoting the establishment of a network for leading and distributing electricity in the Palestinian Authority, including construction of sub-stations in the Palestinian Authority's territories, connecting and erecting high voltage lines between Israel and the Palestinian Authority's territories by ending a long term agreement for electricity supply with the Israel Electric Corp. that will complete the systemic solution for all issues.**

There are still pending issues that need to be addressed and decided, which we recommend be promoted and these include the **development of natural gas near the Gaza coast, which requires a supply agreement with Israel, as well as the solar energy farm that can possibly be a joint project, after the location issue is resolved.**

6. Tourism

Tourism is a vital growth engine for the Palestinian economy and has immense potential for future expansion, which also contributes to production and employment. This field has improved in recent years in the Palestinian Authority, in light of the relative security calm.

The tourism figures for the Palestinian Authority in 2008 were quite encouraging. The tourism to Bethlehem increased by approx. 93% compared to 2007 and totaled a number of almost a million tourists. The tourism to Jericho also grew by approx. 31% compared to 2007 and in 2008, amounted to about half a million tourists.

As said, the potential is much greater. Israel and the Palestinian Authority is actually one tourism product, which cannot truly be separated. The most profound example for uniting this tourism product is Jerusalem and Bethlehem, which together form an attractive tourism destination for tourists, especially Christian tourists from Europe, USA and other countries.

Statistics of incoming tourism to Israel and the Palestinian Authority between 2005-2008²³ (as we can clearly see in the next chart), explicitly indicate an increase in the number of tourists visiting Israel and the Palestinian Authority, as well as a high correlation in the data of the incoming tourism:



²³ According to data of the Israeli Central Bureau of Statistics and the Palestinian Central Bureau of Statistics

The data (and precise calculations) clearly show us that there is an extremely high correlation of almost 100 percent between the changes in entries of tourists to Israel and the changes in the entries of tourists to Bethlehem and Jericho. Nonetheless, today we can see (after a substantial improvement in the rate of visitors to Bethlehem out of the total visitors to Israel – see next chart), that only a third of the incoming tourists to Israel, also visit Bethlehem.²⁴



Recommendations for Israeli involvement in order to improve tourism in the Palestinian Authority:

- **Launching a joint marketing campaign for Jerusalem and Bethlehem** – as mentioned, Jerusalem and Bethlehem together, form one unique tourism product and a magnet for the Christian population, mainly from Europe and the USA, visiting Israel, Jordan and even Egypt. For demonstration purposes, we can look at tourism in the year 2008, with more than 400,000 day visitors, most from Eastern Europe – who came into Israel²⁵ from Egypt for a daily visit (without overnight stay in Israel), visited Jerusalem and Bethlehem, despite the long drive from Sharem-a-Sheikh to Jerusalem and back.

Our recommendation is to launch a joint project for both the Israeli and the Palestinian Ministries of Tourism, in order to market Jerusalem and Bethlehem together, which will include producing joint promotional materials, mentioning

²⁴ Processing for data from the Israeli and Palestinian Central Bureaus of Statistics

²⁵ Before canceling the requirement for visa for tourists from Russia, cancelled in the beginning of 2009

prominent sites in both cities in the materials produced independently by each side, coordinated marketing in international fairs etc.

Establishing a unit for coordinating and cooperating in the field of tourism – at the moment the Israeli Ministry of Tourism, or alternatively the Civil Administration, has no body (except for a single employee), specifically designated for tourism related cooperation with the Palestinian Authority.

In light of the importance of tourism, both for Israel and the Palestinian Authority, **we recommend establishing a special unit to be in charge for all coordination and cooperation in this matter, both with the Palestinian Ministry of Tourism and the business sector, in order to handle current problems and promote joint tourism projects.**

In January 2009, the Peres Center for Peace published a study as part of the Tourism4Peace project, about the movement of tourists between Israel and its neighbors²⁶, which also focused on Rachel Crossing at Bethlehem and other recommendations for developing the tourism sector.

²⁶ "A Review of Border Crossings with Arab States", January 2009, Peres Center for Peace (through Mertens-Hoffman Co.)

7. Summary and Recommendations

This document was prepared after consulting with dozens of experts in the field and is also based on thorough discussions with Palestinian and Israeli official representatives as well as non-officials, businessmen and various organizations engaged in promoting the economic relations between Israel and the Palestinian Authority. It also concentrates specific, comprehensive studies published on the matter.

As mentioned, part of the field work for this document was performed by the Peres Center for Peace as part of specific projects quoted in this document. The main objective of this document is to offer a variety of concepts in essential issues, in order to promote the political solution between Israel and the Palestinians and develop the Palestinian economy and the economy of the entire region.

We believe that handling such issue will generate a genuine change and will create a parallel platform for true reconciliation, combined with a political solution.

Nonetheless, in this document, we did not discuss projects associated with the Gaza Strip, due to the problematic nature of the government in Gaza and the lack of ability to implement dozens of already planned projects, which are extremely needed.

Throughout the document, we made no reference to the Palestinians commitment to promote the activity and projects, and rather concentrated on things that we believe Israel can and should do, in order to change the atmosphere and promote Palestinian economy.

Note that there are additional issues that are not purely economic, which were not discussed in detail in this document, such as telecommunication (careful review of cellular frequencies) and mail, existing ventures concerning the environment, water and sewerage projects, waste issues, cellular electricity, incorporating Palestinians in the electric car project and more.

In addition to the aforementioned, there are projects in the field of health (building hospitals and upgrading existing ones), agricultural cooperation with an emphasis on knowledge, coordinating and exchanging information regarding standardization and the Standards Institute, encouraging foreign investments by the Israeli government in the territories, whilst ensuring investors and investments in terms of freedom of movement for people and goods (an Israeli plan still needs to be formed for this matter), qualifying manpower, cooperation and projects in the IT and high-tech fields and more. Nonetheless, these are only examples for things that can be done in the various fields. Everything needs and should be elaborated.

As said, our recommendations in this document were specified according to essential economic issues, which are supposedly separate issues, **but the lateral implementation thereof is the foundation for maximizing the benefits** and creating the needed effect, for Palestinians, Israel and the rest of the world.

Most recommendations require a lateral and synergetic approach, as for example; clearly helping to establish an industrial zone will surely require reference to the matter of people movement and transportation of goods within the West Bank as well as infrastructure solutions, safety solutions and yet is also expected to encourage local and international investments. Such project will also handle employment issues and demand attention and improving the matter of trade activity in the passages, in order to maintain competitiveness and long term sustainability of businesses to be established in the industrial zones.

In light of the aforesaid, we recommend presenting an Israeli plan referring to Israeli activity in order to promote economic cooperation combined with political progress that will include activity along the entire economic front concurrently and not in a sporadic or columnar manner, without any precondition.

Furthermore, we recommend that the program include defined milestones for the Palestinian and Israeli sides, so that long term projects are exposed to supervision and to ensure that short term issues that were resolved will be immediately visible.

As part of our above specified recommendations, on the one hand, there are matters of various implementation levels and an assortment of massive infrastructure issues that require extensive resources. There are also issues that need a long implementation period, whilst on the other hand, there are projects with a cheap, quick execution process or ones that only require a final decision.

Due to the atmosphere of lack of trust and doubts regarding any chances of moving ahead, which are also felt on the Palestinian side but mostly among the Israeli public, we recommend ranking the projects for execution so that in the short term, the activity will have high visibility and the quick success stories will "fuel" the patience we need until long term projects are implemented.

As we can see by analyzing the main parameters of the Palestinian economy's condition, it is clear that the employment issue is the most difficult and painful topic and therefore, we repeat our **recommendation to give the issue of employment the utmost priority, considering that this issue has many other effects as well as economic benefits.**

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Palestinian – Israeli Economic Relations Towards a Revived Positive Role

By: Hisham Awartani ²⁷

I- Background

This paper was originally envisioned in the wake of the public proclamations made by Mr. Netanyahu upon assuming his portfolio as Prime Minister of Israel, in which he talked about economic cooperation as a potential kickoff for peace between Israel and its Palestinian neighbors. Given the well-known hawkish stand of Netanyahu on all major political components of the Palestinian-Israeli conflict, it was widely suspected that his economic approach to peace was intended to divert attention from the real causes of the ongoing conflict, while at the same time pushing forward in settlement activities and usurpation of the remaining Arab parts of Jerusalem. It was not surprising, therefore, that Netanyahu's initiative of "economic peace" was met with rejection and mistrust, not only on the Palestinian and Arab sides, but even among many former friends of Israel in Europe and north America.

But while using economics as a substitute to a real political process is unacceptable to a majority of international public opinion, yet it is important to note that promoting healthy economic relations should occupy a very high position on the agendas of both sides. This is rationalized on account of numerous profound motives, not the least of which is deep concern for the appalling levels of poverty and soaring unemployment in the Palestinian territories, especially in Gaza. No one can claim that the predicament of the Palestinians will serve his interests. Certainly, Israel's security will not be better when millions of Palestinians living next door suffer of famine and inhuman living conditions, while those whom they blame for their misery enjoy one of the highest living standards in the world. This kind of asymmetry should give Israelis and all others, including the Palestinians, a lot to worry about.

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II- The underpinnings of Israel's economic policies in the occupied territories

The economy of the West Bank and Gaza Strip has undergone far-reaching transformations since the onset of Israeli occupation in June 1967. Although there had been no officially defined Israeli policy relative to the economy of both occupied territories, yet it was clear that the Israeli authorities have used their uncontested sovereignty on economic issues in order to serve the following strategic objectives:

- Usurpation of maximum proportion of land and water resources.
- Safeguarding the occupied territories as a backyard market for Israeli goods.
- Pre-empting the potential of the occupied territories for a viable indigenous economic base or independent infrastructure, in an effort to push them towards greater dependency on Israel.
- Exploiting “surplus” labor reserves.

But parallel with these objectives, Israeli occupation authorities have also tried to avail local residents with fairly high living standards, mainly through subordination with the Israeli economy and labor market. The perils of this kind of false “prosperity” have been tangibly demonstrated during the past nine years, when Israel decided to use its sovereignty on the Palestinian economy in its war against the *intifada*. It is clear that the measures taken for this purpose have resulted in devastating socio-economic consequences on the Palestinian side.

III- Objectives

This paper assumes that poverty, famine, massive unemployment and deprivation have precipitated so much human suffering and bitterness that all stakeholders, including the Netanyahu government, would be prompted to give a high priority to improving economic and living conditions in the Palestinian territories. Of course, the underlying basic contentious issues should continue to rank high on the agendas of both sides, since addressing them is an imperative condition to attaining a peaceful conclusion to the conflict. But most of us know by now that attaining this historic objective is a formidable undertaking which may take a very long time to achieve. In the meantime, we all should display tangible concern to the basic needs of millions of people on both sides of the line, irrespective of their political views and ideological convictions.

This paper argues that a lot could be done in this direction even before reaching a final solution to the major issues on the agendas of both sides. In addition to meeting the humanitarian needs of their peoples, this approach will also help create a more positive setting for addressing their fundamental differences. Building on the extensive field experience of the author, the paper provides examples on areas of potential economic cooperation which are believed to be somewhat insensitive to divergent political and ideological convictions of main stakeholders.

IV- Labor flows

Shortly following the onset of occupation in 1967, access of Palestinian workers to employment opportunities in Israel has rapidly developed into a major economic relation between Israel and the occupied Palestinian territories. At the peak of this phenomenon (1996 – 2000), the aggregate number of Palestinian workers employed in Israel amounted to around 200,000 workers, i.e. around 30 percent of the total employed labor force. Remittances from workers in Israel contributed around 35 percent of Palestinian gross national income (GNI).

The regulatory framework governing labor flow across the “green line” was subject to considerable changes during the past two decades, i.e since the onset of the first *intifada* in 1987. Seven years later, the Paris Economic Protocol was concluded between the PLO and the Government of Israel, which remained since then the official benchmark in relation to economic relations between the two sides.

With regard to labor, the Paris Protocol allowed, in principle, free entry of Palestinian workers to Israel, but it left the security implications relative to this relation under the total discretion of Israel. And as no conditions were attached to the way Israeli authorities might assess security issues, these was extensively exploited later as means of exercising pressure on the Palestinian leadership and on workers themselves. This was most explicit when Israeli authorities imposed a total ban on the entry of workers from the Palestinian territories, only few days after the outset of the second *intifada* in late 2000. This draconian measure continued since then for around six years, and it resulted in nearly total stop in the number of legal workers commuting to Israel.

Rationalizing the Israeli ban imposed on the entry of Palestinian workers on security grounds is a highly contentious issue. Even many Israeli security officials have often admitted that such a measure was not instituted only on security grounds. On the contrary, it is easy to argue that the devastating consequences of this policy on the livelihood of the middle and low income social strata are likely to entail serious security risks on the Israeli side, in addition to chaos and severe political and social unrest on the Palestinian side. In fact it was mainly because of such concerns that the restrictions on the flow of workers from the Palestinian territories to Israel were gradually eased during the past three years.

It is difficult to provide reliable estimates on the current size of labor flows across the “green line”, as still many workers manage to get through without permits, although this is now a lot more difficult because of the Wall. According to the data published by the Palestinian Central Bureau of Statistics (see Table 1), the number of workers employed in Israeli firms, both in Israel and in West Bank settlements, was estimated during Quarter II of 2009 at 45,000 workers (none in Gaza Strip). This indicates a pronounced rise in comparison to earlier years during the period of the *intifada*.

Table (1)
Distribution of Palestinian Workers by Place of Work

	Israel & settlements		West Bank & Gaza		Total	
	(000)	%	(000)	%	(000)	%
<u>2009 (Quarter I)</u>						
West Bank	69.9	14.0	429.7	86.0	499.6	100.0
Gaza Strip	00.0	0.0	197.5	100.0	197.5	100.0
Total	69.9		627.2		697.1	
<u>2003 (Quarter III)</u>						
West Bank	59.0	13.6	377.0	86.4	436.0	100.0
Gaza	8.0	4.4	180.0	95.6	188.0	100.0
Total	67.0		557.0		624.0	

Source: Palestinian Central Bureau of Statistics

It is important to note that the above data is based on visits to sampled households; hence it includes “illegal” workers, whose ratio is estimated at around 15-20 percent of all Palestinian workers in Israel. By contrast, no “illegal” workers can get into Israeli settlements due to tighter security measures.

Despite its substantial economic rationale on stakeholders on both sides, employment in Israel was rarely viewed positively by senior officials or political leaders, whether on the Palestinian or Israeli sides. In fact there were often conscious efforts exerted in order to scale down the size of this phenomenon, or even stop it completely. But despite strong and deep rooted unease on both sides, this relation has continued, even under the most adverse restrictions. Table (1) shows, for instance, that the number of workers in Israel was 67,000 in Quarter III of 2003, most of whom were illegal workers. This provides a strong empirical indication that labor flows serve both sides, irrespective of their inner feelings or political views.

For Israeli firms, hiring Palestinian workers avails them with significant advantages. Most importantly, they are a lot cheaper than Israeli workers, whether in wages or fringe benefits. Furthermore, firms enjoy nearly total flexibility in terms of firing and hiring workers, and in moving them from one work site to another. Compared with Asian workers, communication with Palestinian workers is much easier, which could reflect positively on efficiency and productivity. All such “advantages” bear tangibly on the competitiveness of employing firms. One other advantage of a more pervasive nature is that Palestinian workers go back home at the end of the day, whereas imported Asians tend to huddle in slums around urban centers.

Admittedly, when viewed from the Palestinian side, the motives for employment in Israel are even more compelling. Wages earned from work in Israel constitute the most effective and the fastest means of alleviating poverty in rural areas and refugee camps. This is especially true in view of the fact that the absorptive capacity of indigenous economic sectors, such as industry and agriculture, is rigidly constrained

by many limiting factors which are difficult to address in the near future. The problem is further compounded by the steady growth in the size of labor force, estimated at around 3 percent per annum, i.e. around 50,000 workers. Creating new real jobs at this pace is far beyond the means of the Palestinian Authority, more so that a sizeable proportion (probably over one third) of public sector employees suffer of disguised unemployment. This means that the PA cannot and should not be viewed as the residual employer of surplus workers.

Conclusions and recommended policies

The above argument provides evidence to suggest that Palestinian/Israeli relations in the area of labor should be perceived as an important win-win relation. So instead of using it as an arena of political rhetoric or means of sanctioning the other partner, both sides are urged to display a much more proactive attitude towards this phenomenon. Such a shift in perception should be transformed into tangible policies, especially in the following directions:

1. Restrictions on issuing work permits should be continuously reviewed and tangibly relaxed. This may bear on such regulatory restrictions as those relating to age, marital status, and even security records of applicants and their relatives. It is difficult to understand, for instance, why someone is denied a permit to enter Israel, only if one of his close relatives was once in jail.
2. The process of issuing work permits, including its financial details, should also be radically reviewed and continuously monitored. It is widely reported that workers are being subject to extensive extortion by middlemen acting on both sides of the line. Furthermore, it is frequently reported that workers, including those with permits, are often grossly abused financially by their employers. A very effective tool is used for this purpose, namely, threatening to report workers to the police, whether on account of real or faked legal violations, such as staying overnight in Israel or not having a valid permit.

In order to address such problems, it is very important that an official Complaints Office be set up so that it pursues cases of abuse referred to it by workers or employers. It is strongly recommended that such an office be set up as a joint infrastructure involving representatives from the Ministries of Labor and National Labor Unions on both sides.

Addressing the security implications relative to the flow of thousands of workers across the green line constitutes a serious challenge, especially on the Israeli side. But it is important to note that the security aspects of this phenomenon are also of great importance on the Palestinian side, at least for their devastating consequences on the thousands of innocent workers whose jobs are at stake. It is fair to conclude, therefore, that the whole range of security issues relating to labor flows should be constantly reviewed and managed jointly by Palestinian and Israeli task forces, and not decided unilaterally by the Israeli security organizations.

V- Commodity trade

Like in the case of labor relations, bi-lateral trade between the occupied Palestinian territories and Israel started only following the onset of occupation in 1967, and it grew rapidly since then. Israel has become the largest trading partner for the Palestinian territories all through the 1967-1993 period, accounting for a share of around 90 percent of all Palestinian imports. Israel's share of Palestinian exports during the same period was also high, on average in the range of 70-75 percent. In quantitative terms, and based on the data of 1993 (the last before the establishment of the Palestinian Authority), Palestinian imports from Israel were estimated at \$1.3 billion, whereas exports to Israel amounted to \$256 million. Trade data indicate that there has been a huge imbalance in the commodity trade between the two sides all through the 1967-1993 period, which was financed mainly by remittances from wage earnings.

Table (2)
External Commodity Trade – By Major Partners
(US \$ million)

	2007	2006	2002	1999	1996	1993
Total value of imports	3,141	2,759	1,516	3,007	2016	1800
Israel	2,308	2,002	1,117	1,854	1,743	1310
Jordan	45	33	22	60	7	
United States	24	22	0.2	87	25	
EU countries	246	226	161	485	149	
Total Value of exports	513	367	241	372	339	280
Israel	455	327	216	360	319	256
Jordan	28	23	12	8	15	
United States	4	2	0.2	0.3	0.7	
EU countries	18	3	9	1.5	0.2	
Net deficit in trade	2,628	2,392	1,275	2,635	1677	1520

Source: Palestinian Central Bureau of Statistics 2009.

The dramatic re-orientation of Palestinian external trade since 1967 was precipitated by the drastic changes imposed by Israeli occupation authorities on over-riding regulatory frameworks. The main underlying premise for Israeli policy in this connection was that the flow of Israeli goods to Palestinian markets should remain completely free, whereas trade in the opposite direction was subject to arbitrary restrictions. While such transformations were routinely rationalized on account of vague security prerogatives, yet most of those restrictions were intended to serve as non-tariff trade barriers. Israel was clearly keen on maintaining the Palestinian territories as its own backyard market. And in an effort to achieve this objective, occupation authorities promulgated an elaborate package of restrictions and impediments bearing on the various facets of external trade.

Notwithstanding the grossly biased regulatory framework, however, the structure of Palestinian commodity trade with Israel has witnessed significant developments during the past 15 years, especially with regard to exports. It is important to note, for instance, that major Palestinian exports, especially stones and agricultural commodities, have enjoyed important cost advantages in the Israeli markets, due mainly to significant differences in wage levels. Transportation costs from production sites to destined markets in Israel are also far lower than those encountered by other potential competitors in the same markets. On top of all of that, Palestinians enjoy easier communication and personal contacts with their Israeli partners, which also helps facilitate trade.

The ultimate impact of the comparative advantages enjoyed by the Palestinian exporters in their adjacent and relatively big Israeli market has been fairly significant. Not surprisingly, this has reflected on the share of the Israeli market in Palestinian exports, which soared to around 90 percent after 1994, despite greater openness on the rest of the world following the establishment of the Palestinian Authority. Export potential to alternative markets, on the other hand, has so far proved to be very limited, despite the lucrative incentives provided in the trade agreements which have been concluded with several countries. This is a clear indication on the relative importance of the Israeli market for Palestinian exports, at least under the present realities.

Bilateral commodity trade with the Palestinians is also very important to the Israeli side. It is true that exports to the Palestinian Territories account to around 10 percent of Israel's civilian exports, yet Israel enjoys with its Palestinian neighbors a huge and steadily soaring surplus (\$1.8 billion in 2007). It should be further noted that the relative importance of the Palestinian market is in reality far greater for some specific firms and products. All of this explains the overly protective attitude taken by the Israeli government and trade organizations relative to the Palestinian market all through the past 40 years.

Conclusions and recommended policies

There is overwhelming evidence to suggest that commodity trade between the Palestinian territories and Israel has provided both sides with lucrative opportunities. Yet, this relation has been characterized by gross distortions and imbalances all through the period since 1967, which has entailed adverse consequences on the interests of the Palestinian side. Redressing trade relations between the two sides on positive and equitable grounds should therefore be viewed as a high priority, regardless of the politics of the ruling governments on either side. The following guidelines provide a proposed basis for this restructuring process:

1. Despite the lop-sided nature of trade relations between the two sides, it is strongly recommended that Palestine and Israel adhere to the customs union arrangement they concluded in Paris 15 years ago. Any other formula will most likely result in a severe drop in Palestinian exports to Israel, regardless of what might be concluded in a potential agreement on free trade between the two sides. It should be further noted that because of some tangible realities, the flow of Israeli goods into Palestinian markets will not be vulnerable to regulatory restrictions, should that be decided by the Palestinian Authority. A free trade agreement is therefore likely to pave the way for further distortions in favor of the Israeli side.
2. Like in the case of labor relations, commodity trade between Palestine and Israel bears heavily on a wide range of other fundamental interests for both sides in the areas of security, health and taxation. Again, such details were addressed in the Paris Protocol, but tangible experience during the past 15 years has clearly indicated that Israel has in effect exercised unilateral control on all trade-related issues with the Palestinians. It is therefore recommended that the Joint Economic Committee envisioned in the Paris Protocol be revived, and that it is placed under the umbrella of a neutral third party. The most eligible side for this purpose is the Quartet.

VI- Entry of Israeli Arabs to West Bank Towns

Ever since the early years of occupation, the flow of Israeli Arabs (also called 1948 Palestinians) into neighboring towns in the West Bank and Gaza has involved far-reaching trade implications. Under normal circumstances, a fairly large number of them flood the local markets for shopping purposes, mainly on weekends. Because of important reasons, the prices of consumer goods, even those of Israeli origin, are in most cases a lot cheaper than in Israel. Such a phenomenon has assumed great significance in towns close to the Green Line, such as Jenin, Tulkarm and Qalqilia. In later years, Nablus has also become a prime target for shoppers from among 1948 Palestinians. Not surprisingly, the local economy in all of these towns experienced a noticeable boom for many years until October 2000.

After a long period of phenomenal growth in scope and magnitude, this major economic link was severely disrupted after the outbreak of the second *intifada* in late 2000. To the first time since June 1967, Israeli authorities imposed a tight closure on the entry of the 1948 Arabs into the West Bank and Gaza. Expectedly, this measure was explained then on account of undefined security grounds, but the punitive motives behind it were also abundantly clear. Irrespective of its causes, denying the 1948 Arabs access to the Palestinian territories was one of the main predisposing factors for the severe economic recession during the 2001–2007 period, especially in the north West Bank.

After many years of total ban, Israeli authorities started during the past two years (2007-2009) to ease restrictions on the entry of 1948 Arabs to some West Bank towns, such as Hebron and Tulkarm. Their re-entry to some other major towns, such as Jenin, Qalqilia and Nablus is also being considered on a gradual basis. This change of attitude on the Israeli side is primarily prompted by strong concerns for the security implications to soaring poverty in the Palestinians society.

Recommended policy options

Resuming and even expanding trade relations between Arabs on both sides of the “green line” should be viewed as another form of economic complementarity between Israel and its neighboring Palestinian entity. In addition to its immediate positive impact on both sides, this phenomenon is likely to expand into new directions, both inside and outside Palestine. But if this relation is to develop properly, then numerous measures should be taken to rectify over-riding deformations and obstacles. The following recommendations should be seriously considered for this purpose:

1. While there could be some important security implications to the commuting of 1948 Arabs to the West Bank and Gaza, yet it is imperative that all such issues be addressed objectively and jointly with the Palestinian Authority. By contrast, resort to using this phenomenon for political extortion should be discouraged by either side.
2. There are numerous logistical issues which have to be effectively addressed for the purpose of promoting this phenomenon. The following is only a partial list:
 - 2-1 Permitting the entry of visitors together with their vehicles is a crucial practical necessity, as it makes shopping a lot easier.
 - 2-2 The present distortions in travel routes which are open to incoming visitors should be reconsidered. This applies, for instance, to banning direct access to Tulkarm through the adjacent entry border points with Taybeh, Netania, and Baqa-Elgharbieh, and requiring them instead to go through long detours, hence adding a travel distance of around 40-70 kilometers to the cost of the trip.

- 2-3 Israeli authorities impose certain restrictions on the kinds of goods and services which shoppers can buy in the Palestinian markets. Such restrictions include, for instance, banning the purchase of meat and other livestock products (e.g. eggs and dairy). Furthermore, repairing vehicles in Palestinian workshops is also strictly forbidden. Such measures are contrary to the provisions of Paris Protocol, and they are routinely explained on account of unidentified security or hygienic reasons. Clearly, they conceal strong protectionist motives.
 - 2-4 Inadequate parking and other basic public services (e.g. public toilettes) poses big problems to incoming visitors. Such deficiencies have to be effectively addressed by local authorities in host towns.
 - 2-5 Chambers of commerce in respective towns should assume a much more proactive role in addressing the business implications connected with such extensive forms of interaction with 1948 Arabs. This should include, among other things, fostering effective oversight on the compliance of local firms with business ethics.
3. In order to address the wide range of issues bearing on this area of economic cooperation, and in order to explore the prospects of expanding it into other sectors, such as tourism and industrial joint ventures, it is proposed that one or more workshop (or conferences) be convened for this purpose. Such meetings should involve representatives of various stakeholders on both sides of the line.

VII- Tourism

Unlike most of its neighbors, historical Palestine is not endowed with oil or other natural resources, but it is certainly endowed with a unique religious heritage, probably more so than any country in the world. This is precisely why Palestine has become a prime target for billions of the followers of all three monotheist religions, Christianity, Judaism and Islam. The economic implications to this comparative advantage are already big, but certainly they could be developed into much higher horizons. This is of course true with regard to external tourism, but it is also true to some forms of internal tourism.

Tourism in Israel has clearly witnessed a sharp growth over the past four decades, mainly due to the sudden openness on the historical sites in the occupied Palestinian territories, especially those in East Jerusalem, Bethlehem and Hebron. Growth in this sector has reflected most tangibly on the number of incoming tourists and number of hotel rooms, especially in West Jerusalem.

Contrary to growth patterns on the Israeli side, tourism on the Palestinian side has been confronted with a wide range of problems and obstacles, most importantly, those related to insecurity perceptions. The rich influx of news about road blocks and violent confrontations between Israelis and Palestinians, as well as widespread chaos

during the two *intifadas*, have all dealt devastating blows to the prospects of expanding tourism on the Palestinian side. This depressing setting was further reinforced by the alarming gestures coming from some Israeli sides, where tourists were “advised” to avoid or minimize physical presence or contacts with the Palestinians, presumably to safeguard their own “personal security”.

Notwithstanding the erratic growth of tourism on the Palestinian side, however, this sector has witnessed tangible growth during the past three years. This might have been precipitated by several factors, most importantly, the pronounced improvement in internal security, after many years of total chaos.

There are numerous indicators on growth in the tourism industry on the Palestinian side, most importantly those relating to noticeably high occupancy rates in East Jerusalem hotels, and to a lesser extent in Bethlehem. Some improvement in occupancy has also been noted in Ramallah and Jericho hotels, but mostly for different reasons.

It is of course gratifying to see that tourism is back again on a growth track, but there is still a huge untapped potential, most of it is contingent on structuring equitable and effective modalities of cooperation between the Palestinian and Israeli sides. The following are some thoughts in this connection.

1. Discriminatory Israeli policies relative to East Jerusalem hotels and other tourism facilities should be fundamentally reconsidered. This includes, for instance, unfair taxation policies and inferior level of municipal services provided. Similarly, the whole propaganda about personal insecurity on the Palestinian side of Jerusalem and in the West Bank should be completely stopped, because it is simply not true.
2. Joint promotion of tourism involving relevant Palestinian and Israeli institutions should be considered, as soon as this is viewed permissible from a political perspective. Launching joint promotional campaigns will send a particularly strong message to the international tourism market, which ultimately serves the interests of both sides.
3. Palestinian tourism institutions should launch efforts aimed at attracting tourists from Arab and Islamic countries. It is of course understandable that most of these countries prohibit travel to Palestine through Israeli controlled border points, but this poses no problem for the Qataris, the Jordanians and the Turks. Tourists coming from those countries can make a big difference to the Palestinian economy. Again, the success of this effort requires that relevant Israeli authorities take a positive stand on numerous logistical and regulatory issues.
4. Apart from external forms of tourism, this sector can tap the enormous potential of local forms of tourism. The following are prominent examples:

4-1 After many years of extremely restricted out-of-town mobility, local residents are eager to reach out to tourist sites in their own country, such as those in Jerusalem, Bethlehem, Hebron, Jericho and Nablus.

4-2 A very large number of West Bank and Gaza citizens will also be willing to go in package tours into Israeli sites, especially those on the sealine, like Haifa and Akko. This form of tourism proceeded at a massive scale since 1968 and until 2000, evidently, without adverse security ramifications. And after an extended ban of nearly nine years, Israeli authorities seem to take now a more flexible stand on this form of “tourism”, whereby they consider permitting the entry of Palestinians in groups. Expanding this kind of tourism entails a lot more than economic gains (in this case to the Israeli side).

VIII- Cooperation in joint ventures

Despite rapid growth in several forms of economic interaction between Palestinian and Israeli business firms, such as in the areas of trade and labor, yet there has been a very limited level of interaction in the area of capital-sharing joint ventures. It should of course be noted that there have been many examples on some sort of joint ventures in the textile industry, which went as far as leasing modern sewing machines to Palestinian sub-contractors, and probably availing them with working capital resources, mainly in the form of raw materials. But clearly, such forms of cooperation do not constitute typical examples of full-fledged joint ventures.

Lack of progress in the area of joint ventures is attributed mainly to deep-rooted political (and possibly psychological) inhibitions, especially on the Palestinian side. Most West Bank and Gaza Palestinian businessmen view joint ventures with Israelis as an advanced form of normalization which they feel is premature, given the appalling injustices inflicted by Israeli occupation authorities. Furthermore, many Palestinians feel that joint ventures will undermine their political bargaining power. Another potentially significant outcome is that joint ventures may pave the way for a massive Israeli economic invasion of the Arab world, hence deny the Palestinians and other Arab countries, particularly Syria, of one of their main bargaining chips.

It is interesting to note that the Palestinian public stand on joint ventures has not softened, even during the euphoria of post-Oslo, when at the time there was a lot of talk about joint ventures in many areas, especially in infrastructure. The public stand in this connection was in fact noticeably tougher than that of the political leadership. This could have aborted the implementation of some joint venture projects, which were advocated at the time by some key political figures on both sides. Given the enormous escalation in Israeli settlement activities and regulatory sanctions, especially those restricting the mobility of goods and persons, as well as denying workers access to Israel, the stand of the Palestinian public on joint ventures might have hardened further during the past few years.

Notwithstanding the politics of joint ventures, however, it should still be emphasized that their economics could be very tempting, whether in manufacturing, agriculture, IT and, most importantly, in the area of tourism. In addition to their economic gains, joint ventures might also serve as catalysts for peace by promoting understanding and trust, and by raising the cost of dissociation, should that be considered by either side.

IX- Addressing restrictions on mobility

Achieving progress along the directions outlined earlier in this paper, especially with regard to trade and tourism, is heavily contingent on a fundamental revision of the restrictions imposed by Israeli military authorities on mobility of goods and persons.

Restrictions on mobility inside the Palestinian territories are imposed through a complex network of roadblocks which surround all local communities. In addition to “fixed” roadblocks, military authorities resort sometimes to setting temporary road blocks which may cause considerable delay in traffic. In both cases, roadblocks have dealt the most damaging blow to the Palestinian economy, in addition to their impact on the quality of life for local inhabitants. Cost of transportation, both of goods and persons, has witnessed a sharp rise, and delay on checkpoints often entails serious damage on perishable goods. Punctual delivery of consignments is also seriously disrupted. All of these consequences have led to weaker competitiveness of Palestinian products, and they added considerably to the cost of doing business in Palestine.

In addition to restrictions on internal roads, Israeli authorities have also instituted drastic measures on mobility of persons and goods passing through border points with Arab countries, i.e. Allenby and Rafah. Such measures are contrary to the provisions of the Oslo Agreement in regard to the management of both terminals. Again, such policies have undermined trading prospects with other countries.

The flow of goods and persons from the Palestinian territories to Israel across border points was also subject to considerably stiffer restrictions. In addition to going through elaborate re-loading procedures, transported cargos are subject to prolonged delays, which are particularly damaging to perishable products. The inflow of goods from Israel, on the other hand, has remained completely free, even during the toughest years of the *intifada*.

Another particularly damaging restriction is that imposed on the mobility of goods and persons between the West Bank and Gaza Strip, which almost came to a complete halt during the past two years and a half. This has dealt a severe blow to the economies of both territories, especially that each of them is in effect the second most important trading partner (after Israel).

Conclusions and recommended policies

Relaxing restrictions on the mobility of goods and persons is certainly the most important prerequisite to stimulating economic recovery and improving living conditions in the Palestinian territories. It is true that significant improvements have been successively introduced in this connection during the past three years, but there is still a lot more to be done. It is difficult to identify in this paper all necessary changes, but it is abundantly clear that relaxing the siege on Gaza should occupy a top priority. In any case, it is proposed that all issues relating to mobility be entrusted to a joint task force involving Palestinian and Israeli officials, in addition to a representative of the Quartet.

X- Cooperation in infrastructure

Given their geographic proximity, and in view of the great sensitivity of infrastructure services to the economies of scale, Palestine and Israel cannot overlook the benefits of cooperation in certain forms of infrastructure. But the track record of the past four decades provides a discouraging picture, as could be assessed from the following examples:

- “Palestinian” roads have been almost totally ignored in terms of maintenance, after they were destroyed by Israeli tanks during the *intifada*. By contrast, a modern road network has been installed to serve Israeli settlements. It is also noted that maintenance of Palestinian roads remains contingent on obtaining prior Israeli approval, which is very difficult to get, and often subject to hard bargaining.
- Practically all West Bank towns are now connected with the Israeli grid, which also provides nearly 80 percent of the power supply in Gaza Strip. This has been an imposed form of “cooperation”, since connecting with the Israeli grid may not be always the optimal choice for the Palestinians. Other potential sources include Egypt and Jordan, in addition to expanding the productive capacity of the Gaza electric plant.
- Establishing local airports in Gaza and the West Bank is clearly a high priority, especially that free access to Ben Gurion Airport is not likely to be allowed in the foreseeable future. Such airports can establish effective links with the international airports in neighboring countries. But the Israeli stand on this has been very discouraging, at least with regard to Gaza Airport. Although it was built with Israeli approval, and in effect managed jointly with the Israelis, yet the Gaza airport was demolished during the early years of the second *intifada*.

Conclusions and recommended policies

Cooperation in infrastructure is strongly justified on pure economic grounds, yet past experience provides ample evidence on the high risks entailed as a consequence of excessive dependence on Israelis for basic infrastructural services. It is therefore difficult at this stage to draw conclusions on the desired level of cooperation with Israel in this area, as each case has to be assessed on its own, taking into consideration a wide range of economic and non-economic attributes. Nonetheless, it is strongly recommended that all forms of cooperation in the area of infrastructure be entrusted to a special joint committee representing both sides. Again, the active participation of the Quartet can be immensely helpful.