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Palestine Economic Policy Research Institute

## **The Economic Base of Israel's Colonial Settlements in the West Bank**

**Nu'man Kanafani  
Ziad Ghaith**

**2012**

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## **Foreword**

The Israeli colonization of the Palestinian territory, which started after 1976, is settler colonization; it extends control over Palestinian land and other natural resources and exploits them exclusively for the benefit of Israelis. It uproots the indigenous Palestinian inhabitants from their land and houses and substitutes them with new and old Jewish immigrants from Israel.

Most of the studies that deal with the Israeli colonial activities in the Palestinian Territory concentrate on providing information about the size of the confiscated areas, the number of housing units built in settlements and the number of settlers. The economics of the settlements, i.e the type of economic activities in the colonies, in the settlers' industrial parks, the number of workers in the productive units and the levels of productivity and wages remain without documentation or thorough analysis.

The present study deals with the economic base of the settlements and is the first of its kind in Arabic. It intends to fill this gap and to shed light on the economic dimensions of Israeli colonial activities. It comes at a time when there is a need to accelerate resistance to colonization, and to boycott settlements' products in both local and international markets, a colonization which violates the Fourth Geneva Convention and international law.

The present study makes an important contribution to our knowledge about the economic foundation of the settlements and provides detailed information on Israeli violations of international law and Palestinian rights.

I would like to thank all those who have contributed to this study starting with the research authors, those who provided the data and the reviewers from research institutions, private and public sectors, and civil society.

In the end I would like to express our gratitude to the Arab Bank for Economic Development in Africa (BADEA) and the Islamic Development Bank who sponsor the research program addressing the priorities of the Palestinian national authorities, which this study is part of.

**Dr. Samir Abdullah**  
**Director General**



## **Executive Summary**

Palestinians have access to relatively good information on the number, locations and land-areas of Israel's colonial settlements in the West Bank. There is also detailed information on the population of settlements, their organizational structures and affiliations. Such data is attainable from a periodical published by the Palestinian Central Bureau of Statistics, as well as from publications of NGOs operative in the Palestinian Territories (e.g. PASSIA). Yet, there is a significant dearth of information on the economic structure of the Israeli colonies, including the composition of the labor force, the demography, the pattern and sources of external funding and the nature of economic activities. This lack of information figured clearly during the 2011 campaign, initiated by the Palestinian National Authority, to boycott the products of Israeli settlements.

This study aims to fill this gap. It seeks, in particular, to achieve two goals: to provide as much information as possible on the economic base of the Israeli settlements in the West Bank; and to analyze this information in order to identify the strengths and weaknesses of their economic foundations and their corresponding productive structures, whilst quantifying the contribution and cost of these colonies to the Israeli economy.

The inadequate information on the economic structure of the Israeli settlements highlights the importance of undertaking this research. Such information is, in fact, indispensable for the design and implementation of appropriate policies to boycott the settlements and their products, both in domestic and in international markets. Furthermore, this information is necessary to equip the Palestinian negotiator with appropriate and updated data to discuss the future of these settlements. This knowledge is also important with regards to the lay person, helping them to understand how settlers in these colonies earn their living and to appreciate the importance of boycotting their products.

It is no secret that there are grievous difficulties in obtaining reliable information on the economic base of the settlements. Such information is highly sensitive and can have serious consequences, whether within the Israeli society, political system or internationally, in relation to the Israeli-Palestinian conflict. Needless to say that conducting field research to identify the economic structures of the settlements is out of the question.

The study builds upon two main sources of information: The Israeli sources, whether from official publications or from the numerous reports produced by Israeli NGOs and peace activists; and a database made available, especially to this research, by the Haifa-based Centre for Planning and Urban Studies.

The study aims to use all information available, from multiple sources, to provide a comprehensive picture of the economic structure of the settlements. We hope that this study, despite the unavoidable shortcomings due to scarce and contradictory published information, will help to fill the gap in information on the economics of the settlements and trigger a flow of further analytical studies on the economics of Israel's colonies, as a strategy to combat their cancer-like expansion on Palestinian soil.

### **Study Structure**

The study includes five chapters, a concluding section and three appendices. Chapter one reviews the historical background of the settlements, including the numbers of settlements, the number of settlers, their demographic structure, along with the geographical distribution of settlements, their administrative structure and the ideological makeup.

Chapter two examines the labor force and employment in the settlements, the sectoral distribution of labor and provides data analysis of the place of residence compared to the workplace of the settlers. The chapter ends with review of Palestinian labor in the settlements.

Chapter three tackles economic activities in the Israeli settlements in the West Bank. First, is a review of the agricultural sector, including the cultivated area, production and value-added relative to the rates within the Green Line. Special attention is paid to agricultural activities of the settlements in the Jordan Valley and northern Dead Sea. Second, is an examination of the industrial sector, including the number of firms, the industrial areas, the geographical distribution of industrial enterprises, the composition of industrial products and the degree of technological sophistication of industrial production in the colonies. Third, it considers the quarries and mining activities, as well as tourism, natural reserves and water use of the settlements. The chapter concludes with insights on the export activity of the products coming from the settlements, with a special focus on export to the EU and to the Palestinian market.

Chapter four explores the forms of support (governmental and private) to the economic activities in the settlements, including the 'explicit' governmental budgetary support, 'disguised' subsidies, the intensive support to industrial firms in the industrial parks, the subsidies to house purchases in the settlements and the services provided by Israeli commercial banks to municipal bodies and individual settlers. The chapter also examines the economic costs of the settlements to the Israeli economy. It reviews various studies that gave accounts of total construction costs of the existing houses and facilities in the colonies, as well as the costs of evacuating these settlements, based on the amounts paid by the Israeli government to evacuate settlers from the Gaza Strip.

Chapter five addresses the share of the settlements in the aggregate economic indicators of the Israeli economy: the settlements' share in the total gross domestic product of Israel; in private and public consumption; and in spending on capital formation.

With regard to the appendices, Appendix one shows the number of settlers and their growth rates between 1976 and 2010 (taken from Israeli statistics); Appendix two shows a list of the settlements with information regarding the year of establishment, the growth of the population, their institutional status and their location relevant to the Separation Wall. Appendix three is a list of some 230 Israeli companies operating in the settlements and the main products which they produce.

### **Conclusions and policy recommendations**

International law (Article 55 of the Geneva Convention and 55 of the Hague Regulations) state that the Occupying Power may not exploit resources or confiscate supplies available in the occupied territory, except for two purposes: to provide for the occupying troops and administrative personnel and to provide for the needs of the occupied civilian population. Undoubtedly, the Israeli occupation has economically exploited the Palestinian territory to a degree far beyond that recognized by international law. As made clear in this research, the Israeli economic exploitation of the occupied West Bank is run intensively in four areas: exploitation of ground and surface water; exploitation of quarries and the resources from the Dead Sea, exploitation of touristic and natural sites; and confiscation and use of land for residential and agricultural purposes. In this sense, the Israeli occupation of the Palestinian territory has economic dimensions and motives. However, the question of whether the occupation is a profitable enterprise, i.e. whether the economic returns from the occupation outweigh

the cost of retaining the Palestinian land, remains controversial. The present study shows that this enterprise is probably not commercially profitable.

The data and analysis presented in this study - despite some inevitable shortcomings- leave a strong impression that Israel's colonial settlements in the West Bank are, in the first place, an ideological/political project rather than an economic enterprise. The settlements in the West Bank are unlike the models of European settlements in the nineteenth century in Africa and Asia. The latter had obvious economic intentions; to create and deplete resources and transfer them to the metropolis, to create markets and protect trade routes. Israel may have touches of all of these motives to keep and expand its colonization in the West Bank, yet none of them seem powerful enough to justify the cost, effort and isolation corresponding with the occupation. This is the base of the claim that the settlement enterprise is an ideological-political enterprise.

The Israeli settlements in the West Bank have a rather fragile economic base and still rely on resources coming from inside the Green Line (and generous donations from supporters abroad). The study demonstrates that labor productivity and enterprises' profitability in the settlements are by far lower than their counterparts within the Green Line. We have also shown that per capita income and per capita consumption are also less and that more than half the population of the settlements works within the Green Line; the settlements are, to a large extent, still mere 'bedroom communities'.

Our argument that the Israeli settlements are ideologically rather than economically-motivated does not mean that some individuals who move to settle in the West Bank colonies, or those who initiate projects there, are without economic motives. On the contrary, there is much evidence to support the claim that a significant number of Israelis gamble in the hope that they will obtain generous compensations once these settlements are evacuated. In addition, there are those who live in the colonies to get access to more generous and easily-accessed social subsidies or to take advantage of tax credits. Some references also stress that the opportunities of exploiting Palestinian labor in the settlements more intensively than within the Green-Line is an important motivation for some enterprises to re-locate to the settlements and industrial parks in the West Bank.

Israel's efforts to transform this ideological project into an economically viable and sustainable enterprise are subject to pressures that must not be underestimated. These pressures arise, in part, from the relatively successful campaign launched by the Palestinians to boycott the products of the settlements in the West Bank and in international markets. The recent decision by the European Court of Justice (which stated that the products of the settlements must not be regarded as Israeli products, and thus should not receive preferential commercial treatments in the EU market) has placed more pressure on the products of the settlements. Furthermore, the decision of the Supreme Court in Israel, which states that Israeli labor laws must also be applied to Palestinian workers in the West Bank colonies (if actually implemented), will strip the enterprises in the settlements of a significant competitive advantage. Finally, there is pressure from within the Israeli society itself, whereby large segments of the population believe (which the present study documented) that the settlers receive more than their fair share of public resources, while contributing less to the national productive amalgam. If we take into consideration the demographic structure of the settlements (along with the fact that 70% of the settlers are religious extremists), the tension between the settlers and the population inside the Green Line will probably intensify in the future.

The above analysis, which is based on the findings of this study, provides a blueprint for an overall strategy that should be adopted by the Palestinians to intensify the conflict, if not the contradiction, between ideology and economics in the settlement enterprise; boycotting the products of the settlements in the Palestinian territories and in the Arab markets is critical and must be maintained, intensified and institutionalized. The popular campaigns in international markets (some of which have been ingenious, with good humor and highly effective) are very useful and must be supported. Officially, efforts must be exerted to persuade other countries to abide by the provisions of the Fourth Geneva Convention, which prohibits the occupying power from relocating the population or confiscating private and public property. Efforts must also be made to convince Israel's trade partners to adhere strictly to the text of trade agreements that distinguish between products of Israel proper and products of its ex-territorial colonies. Finally, Palestinians should diligently prepare for boycotting tasks in the West Bank settlements, especially in the agricultural colonies in the Jordan Valley, which benefit from natural comparative advantages.

A Palestinian national consensus towards Israel's colonial settlements in the West Bank should be established and continuously nourished. The settlement should be confronted and isolated on all fronts, including economic and social. The settlements are still an ideological/political enterprise with no solid economic base that justifies their existence. The Palestinians should therefore seek to increase their economic and political burden, and this is possible and attainable once the proper knowledge, planning and determination are available.

To reiterate, the paper concludes that the Palestinians must do all that they can to widen the gap between the ideological/political target and the economic cost of Israeli settlements. The settlements are still standing on a fragile economic base, and are dependent on generous life-lines from Israel and from Zionist organizations abroad. The potentials for raising the economic burden of the colonies and for heightening the moral and legal condemnation of the settlements, within Israeli society and internationally, are definitely available. History teaches us that whenever economy and ideology are at odds, the former always wins.