Palestinian Economic Policy Research Institute (MAS)

Background Paper
Round Table Session (1)

The American-Israeli Vision to Terminate the Question of Palestine:

Economic Dimensions and Potential Consequences of Implementation

2020

1. Background and Rationale:

On the 28th of January, the United States Administration announced its "new" vision for peace in the Middle East, entitled "Peace to Prosperity: A Vision to Improve the Life of the Palestinian and Israeli People".

Since 2017, the US administration has taken several steps to prepare the political ground to impose its vision, starting with the recognition of Jerusalem as the capital of Israel and the transfer of the American Embassy to the city (December 6, 2017). This was followed by the cessation of US support to UNRWA (August 31, 2018), the statements of US Secretary of State Mike Pompeo that the Administration no longer considered settlements as violation of the international law (November 18, 2019), and considering the West Bank as territories under "Israeli control", not occupied lands. These steps are unprecedented in the declared American position, at least since the start of the peace process, even since 1967. This position provoked a state of political rupture between the American administration and the Palestinian leadership. In preparation for the economic investment plan linked to this Vision which aims to terminate Palestinian national rights, the Bahrain workshop was held on the 22 of June 2019.

A quick review of the wording of the Vision document shows that it fully reflects the Israeli narrative, not only in relation to the conflict, but also in adopting a biblical interpretation of the region's history and the ongoing conflict (what has been coined a "Hundred-Years War against Palestine"). The vision's formulation and details also indicate that it is based on a colonial/guardianship ideology, and on neocolonial concepts that dilute the principles of national sovereignty and the right to self-determination. It assumes that Palestinians have to prove their eligibility for self-governance or earn the right to run their state. Additionally, this Vision ignores all historical UN resolutions regarding the Palestinian cause, and Israel's obligations under international conventions, in areas of international humanitarian law, not to mention the Oslo Accords. In short, this vision is not acceptable owing to its complete denial of historical facts and the national and human rights of the people of Palestine.

Such a situation has impressed upon all Palestinian leaders, economic policy makers, and economists the need to engage in open and candid dialogue on the serious level of risk this vision poses. These include the fundamental changes in the terms and conditions of the "peace process", the paths that the Palestinian national struggle might take, and ways to confront and thwart the vision, including reassessing the previous era's discourse, policies, and programs. It also calls for anticipating possible Israeli measures, and ways to confront them on the ground as much as possible, especially through the government's "disengagement" economic program. Within this context, the first session of the 2020 MAS Roundtable series was convened to discuss the Vision's economic dimensions, implications of economic developments on the ground, and the proper means of absorbing any possible shocks or financial repercussions of the plan.

In short, this Vision is a manifestation of the current US administration's legitimization of the facts that Israel seeks to dictate on the ground, within the framework of its colonial scheme. This scheme aims at looting more land, expanding settlements, maintaining settlement outposts in various regions of the occupied territory, and enrooting an apartheid system through concepts such as "**transportation contiguity"**, and hindering any possibility of establishing any form of a sovereign Palestinian economic entity. Consequently, a unified Palestinian position was established, rejecting the proposed American vision, considering it undermining any remaining opportunity to resume negotiations on the basis of a two-state solution, because it ends all final solution issues, it is not based on the borders of June 4, 1967, and it cedes to Israel absolute sovereignty over all of Jerusalem.

Furthermore, the Vision allows Israeli control over the crossings with Jordan, compels Palestinians to use Israeli ports, and deprives them of establishing their own port and airport in the "foreseeable future", linking this to long-standing conditions. This is in addition to annexing almost all of the Jordan Valley and all existing Israeli colonies and outposts, and establishing a network of roads, tunnels, and bridges to connect these settlements with Israel, which means the confiscation of more Palestinian lands.

Although there is no international consensus regarding the announced vision, the sponsorship of the USA makes it a major and significant event. The USA has the strongest influence globally; its positions and policy contribute to formulating and defining global positions more than any other country. Therefore, the greatest danger in this regard is for the American and Israeli narrative to become a prevailing global framework, without consequences or political costs. The Israeli rightwing can be expected to do its utmost to make the most of this Vision by applying all possible conditions. An additional reason that increases the risk of this Vision is the ambiguous Arab position on the deal. Despite a statement of rejection and condemnation from the meeting of Arab Foreign Ministers at the Arab League, the individual positions of some Arab countries were at variance with the collective Arab position.

2. Trump-Netanyahu's Vision: Economic Peace!

Vision drafters have tried to promote their text by focusing on the economic benefits it would supposedly bestow upon the Palestinian economy and the amount of funding allocated to implement the investment part of the plan. This is not the first time that the economy has been used as an entry point for resolving (or not) the Arab-Israeli conflict, and it is not the first time that Palestinians have expressed their initial rejection of this approach. This hides the true political nature of the conflict, ignores Palestinian national rights, and elicits a racist view of the Palestinians on the grounds that little economic prosperity will limit their national and political demands. It offers the Palestinians a set of "cantons", just like the apartheid ghettos, as a state, and promises them economic prosperity in return.

In fact, the inevitable outcome of this Vision were it to be implemented, will be to undermine the very concept of a Palestinian economy and stifle the space available for work and investment, not to achieve prosperity. The proposed vision deprives Palestinians of controlling the keys to economic management, and keeps them in the hands of Israel. Moreover, it separates and fragments the Palestinian geography, traps Palestinians in “ghettos” where there is no room for demographic or agricultural expansion, and gives Israel absolute control over the movement of goods and people; through its control over external roads (tunnels and bridges supposed to be built) which connect Palestinian cities (including a passage between the West Bank and Gaza Strip).

In addition, the document gives Israel control over the Jordan River and the Dead Sea, Palestinian water and groundwater, and Palestinian airspace and cyber space. In practice, this means entrenching all the restrictions that Israel currently imposes on the Palestinian economy and its dependence to the Israeli economy, even adding new restrictions and determinants that overwhelm the scope for economic activity. The second part of this paper provides a more detailed explanation of the damaging economic effects of implementing this vision unilaterally.

There are two axes that call for analysis regarding the proposed Vision: the first is the investment that is supposed to lead to the revival and development of the Palestinian economy (conditional on the Palestinians surrendering to the “inevitability” of imposing the political vision). The second is the economic implications of Israel’s implementation of the contents of the political/security aspect, unilaterally, gradually, and silently. This is perhaps not new in light of all Palestinian experiences of the creeping Zionist project of the settlement of Palestine (within post-1948 Israel, in Jerusalem, and in the rest of the West Bank since 1967). By holding this session, MAS aims to expand the analysis of the second axis in order to come up with recommendations that enrich policymaking and governmental and local programs, in order to anticipate and meet the potential implications for the implementation of the provisions of the American-Israeli vision.

A. The first axis: the investment component

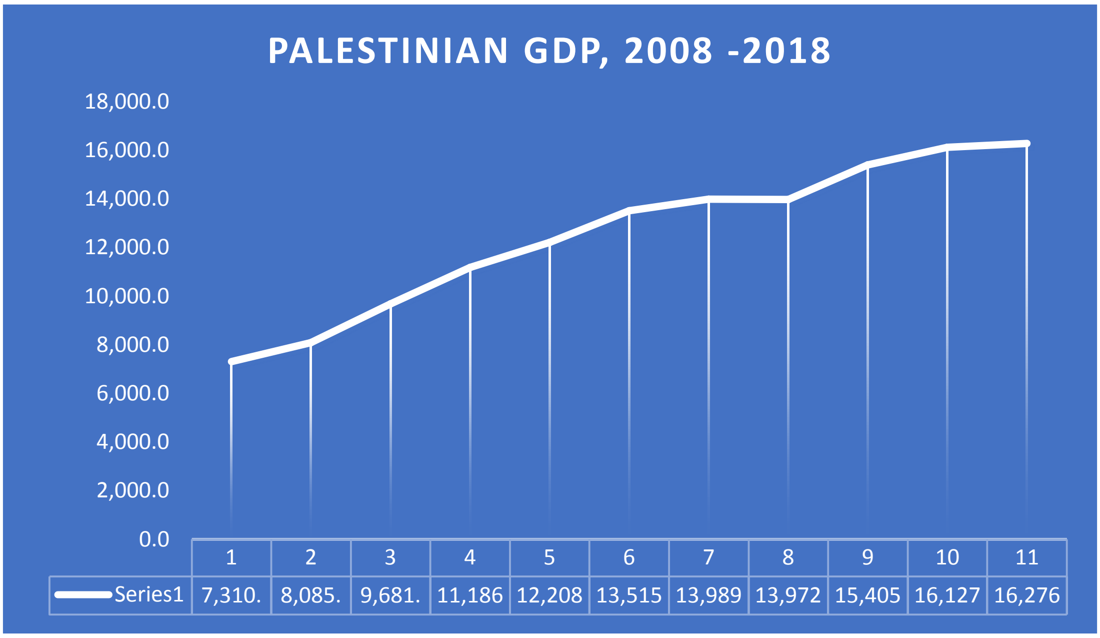
Though the document calls this part of the Vision "the economic component", we have chosen intentionally to refer to it as the “investment component”, as it represents neither a general framework for the real development that Palestinians seek, nor an agreement governing the economic relationship between the future Palestinian state and Israel, as called for by the Paris Protocol. However, the document does not mention such a framework or agreement at all. Rather, it amounts to little more than an investment plan, the detailed components of which are mentioned in previous initiatives and studies, and which have here been reformulated under bold headings and goals. This part - with its annexes - forms the longest section of the Vision document, as it extends to mention the commercial and tourism projects that are intended to be implemented.

The implementation of this component is not only conditional upon signing a peace agreement within the political constraints outlined, but also upon achieving a number of requirements, such as: establishing reliable financial institutions that are transparent and have the ability to engage in global financial markets, establishing a governance system that ensures optimal use of presumed financing, and establishing a judicial system that protects investments and responds to commercial aspirations. The Vision proposes a “carrot” to achieve the following fantastical goals within the next 10 years:

1. Doubling GDP
2. Creating one million job opportunities
3. Reducing the unemployment rate to less than 10%
4. Reducing poverty by 50%

In fact, under current conditions, the Palestinian GDP has doubled in ten years, reaching USD 16 billion in 2018 from about USD 7 billion in 2008 (PCBS, 2019). It is important to note that UN reports confirm that the occupation’s current restrictions cost the Palestinian economy around 35% of GDP (UNCTAD, 2016). The document also states that GDP per capita will witness a cumulative increase of 10%, whereas available data show a rise in GDP per capita from USD 1,855 in 2008 to USD 3,198 in 2018, i.e. a growth rate of 72% (PCBS, 2019).

Figure-1: GDP, 2008-2018



Indicators show that under this plan, the fourth goal (reducing poverty by 50%) is not attainable as long as GDP per capita grows at a slower rate than its current rate. Regarding the unemployment rate, the plan estimates a 12.4% decrease in 10 years, which is considered a large decrease relative to the time span specified and the size of the projects proposed in the plan and the allocated funds. Additionally, the unemployment rate largely affects poverty levels. At this point many questions arise, the second goal of “one million jobs”, for example, is a promise to employ all the unemployed today and the new entrants to labor market in the coming 10 years, which means in other words zero employment rate (or less!). These figures were projected assuming a peace agreement is reached which would guarantee the flow of labour and goods. This means that the above goals entail the same economic goals and directions of today’s Palestinian economy, except that they are framed in a more attractive confection for global and regional capital, and reduces the Palestinians to a status of a sub-contractor or employee (or perhaps a minority partner).

Additionally, the plan creates a lot of uncertainty about realities on the ground. For example, the agreement proposes the possibility of exchanging lands between the future Palestinian state and Israel, so that the Southern Triangle area (Kafr Qara’ villages, Baqa al-Gharbiya, Ar`rah, Umm al-Fahm , Al-Tibbiya, Al-Tirah, Qalansuwa, Kafr Bara, Kafr Qasim, Jaljuliya), with a population of approximately 260 thousand Arab citizens in Israel, falls within the borders of the future Palestinian state.

To achieve its defined goals, the plan allocates USD 27 billion to finance projects and interventions that cover all areas of Palestinian life, a large part of which would be in the form of concessionary loans. The Vision proposes launching three initiatives to: “advance the economy”, “unleash the potential of the people”, and “enhance governance”, each of which initiatives with its own sub-goals, programs and projects.

The Economic Advancement Initiative consists of four programs: the first is linking the West Bank with the Gaza Strip (note that the time frame for implementing this project, as specified in annexes, is eight years). The second is the establishment of the necessary infrastructure. The third is supporting the private sector growth, and the fourth is strengthening regional ties. The specific goals of this initiative include: increasing exports contribution to GDP from 17% to 40%, ensuring the provision of electrical energy to the West Bank and the Gaza Strip, doubling the amount of water available for consumption, providing fast internet services, and increasing net foreign investment contribution to GDP from 1.4% to 8%. What these “rosy” propositions neglect is that Israel will still have the final call in all Palestinian economic decisions and will still control all natural and energy resources. In addition, what is presented in the document as "goals" that the initiative will achieve are in fact basic inalienable rights of the Palestinian people, such as water, access to the global internet network, and developing the energy sector to provide the needs of the citizens. The document does not give an explanation for the specific goal of increasing export contribution to GDP from 17% to 40%, and how this is linked to Palestinian development needs. It also neglects the need to lay the ground for the Palestinian economy as a “separate customs territory”, with the right to implement an independent trade and monetary policy.

Likewise, the Israeli economy is most likely the ultimate beneficiary, even from the funds that are supposed to be allocated to the Palestinians and for regional cooperation. The implementation of huge infrastructure projects such as tunnels, bridges, streets, schools, hospitals, and universities requires raw materials, equipment and technology. Given the dynamics of the current relationship between the Palestinian and Israeli economies, a large part of the funds allocated to Palestine will end up in the accounts of major Israeli corporations.

B. The second axis: economic impacts of the potential implementation of the Deal of the Century

Examining the document and considering it as an embodiment of the reality that Israel seeks to create will help in anticipating the next Israeli measures. Additionally, a deeper reading of the document leads us to the fact that the economic impact of implementing the plan would be negative in general. It will increase the fragility of the Palestinian economy, deepen its dependency, and end any possibility of establishing an independent Palestinian economy. This is precisely the strategic goal of Israeli policies working on dividing Palestine and the Arab areas it governs, each according to a legal, economic, and security system that suits the occupation’s goals: inside the Green Line, in East Jerusalem, the Gaza Strip, and now, in creating the West Bank’s *bantustans.*

Given the current balance of power, it is logical to expect that Israel will begin taking legislative and practical measures towards implementing the part which the Vision gives Israel the right to implement, even though the American administration asked Israel not to take any annexation steps until after the parliamentary elections scheduled in March. The Israeli government and the leader of the Blue and White Party, Benny Gantz, both have confirmed their intention to start implementing the terms of the Vision as they wish, especially the annexation of major settlement blocs and the Jordan Valley area. In preparation, the Israeli government and the American administration announced the formation of a political team assigned to "demarcate borders" based on the terms of the Deal.

This is perhaps a precedent not seen since the Sykes-Picot redrawing of the borders of the Arab countries and their spheres of influence 100 years ago. This means that we are approaching a dangerous political and economic confrontation.

Perhaps we will not witness an open confrontation at all levels that changes the existing political arrangements during this year. However, we notice signs of what is coming in the tightening of restrictions on agricultural and urban activity in the Jordan Valley. Additionally, there are reports of the formation of an Israeli ministerial committee to discuss plans and preparation for implementing the vision. There are two possible implementation scenarios; either one-time annexation, or gradual annexation, and the latter is possibly the preferred scenario for Israel to be able pass the vision incrementally without risking an all-out deterioration of security conditions.

In the following part, we present am understanding of how the economic situation will be if the major terms of the new American-Israeli vision were implemented:

1- The whole city of Jerusalem, with all its regions, located behind the Apartheid Wall, will be under Israeli sovereignty. Palestinians can establish their capital in the Arab towns to the East and North of the wall. All holy sites, including Al-Aqsa Mosque, will remain under Israeli control. Jerusalemites will be given the choice to be awarded the Israeli nationality, to maintain their status as permanent residents of Israel, or to have the Palestinian nationality. In this case, they will be subject to both the Palestinian and Israeli laws. A tourist center will be established in the Atarot area to transport Arab tourists to Jerusalem. This tourist center will contain commercial, services, and entertainment facilities. All licensing arrangements related to Palestinian tour guides will be subject to Israeli security considerations. A joint committee will be established in the name of Al-Quds-Jerusalem Committee for Tourism Development, and Israel will work on setting up a mechanism to transfer tax revenues from tourism activity to this authority, to be invested in developing tourism in Jerusalem.
   Jerusalem has always been the political, cultural, and commercial hub for Palestinians. Its tourism sector is one of the most important national economic assets. It also represents a national and spiritual value for all the Palestinian people, rendering discussion of economic losses here meaningless. However, it is important to note that Israel has demographically and economically isolated Jerusalem from the surrounding Palestinian regions, and dictated a demographic change in the City, by increasing Israelis' share of the population to 66%. Restrictions, barriers, and the construction of the wall have also diminished the size of the productive sectors and increased dependence on the Israeli labor market (PCBS, 2018).
   By the end of 2017, the Palestinian population in East Jerusalem reached 281,000, in addition to 70,000 residing behind the Apartheid wall. East Jerusalem 's contribution to GDP increased from USD 1 billion in 2012 to USD 1.3 billion in 2016, at a growth rate of 4.6% at constant prices. However, its contribution to GDP has remained constant at approximately 8% since 2010, compared to 15% in 1990.
2- The annexation of all West Bank settlements to Israel, including the outposts and colonial blocs that are located at the heart of Palestinian territory. The Map in annex-1 shows these 15 blocs. This means cutting the geographic continuity of the West Bank, and confiscating lands that can accommodate the population increase over the next few decades. Cities are connected to each other only through a network of roads which are under Israel's security control, allowing Israel to hinder or paralyze Palestinians whenever it wants. This will turn Palestinian cities into besieged communities, similar to enclaves. The number of settlers in the West Bank by the end of 2019 was 463,353,

excluding East Jerusalem. This represents an annual increase of 3% over the previous year, which is much higher than the growth rate of the population in Israel itself, which amounted to 1.9% for the same year. Note that 60% of the population increase in settlements comes from new immigrants in addition to the move of Israelis to live in settlements (Times of Israel, 2020).

3- The annexation of the Jordan Valley (excluding the Jericho-Auja enclave) and applying Israeli sovereignty. Palestinian agricultural land, facilities and activity in the Jordan Valley as a whole will be subject to lease and licensing contracts from Israel.
   When comparing Map No. (1) below, attached to the US Vision, with Map No. (2) which shows the division of the West Bank into areas “A”, “B” and “C” according to the Oslo Accords, it becomes clear that the total number of areas that Israel intends to annex are mostly the areas classified as “C”, with the addition of the fifteen outposts outlined in Map No. (1). The World Bank report "Area C and the Future of the Palestinian Economy" provides detailed facts about the costs of the exceptional occupation restrictions in these areas. The total arable land, in Area “C”, amounts to (326,000) dunums, without counting the (187,000) dunums that are occupied by Israeli settlements. Cultivating these areas requires 189 million cubic meters of water annually, while the share of Palestine according to the Oslo Accord is set to 138.5 million cubic meters. The Dead Sea is also a rich source of minerals such as potassium and bromine. Jordan and Israel revenues from these minerals is approximate to USD 4.2 billion annually. The Jordan Valley also contains approximately (20,000) dunums of land suitable for stone and marble quarries. As for tourism in the Dead Sea, it would generate USD 126 million annually for the independent Palestinian economy (World Bank, 2014).
   The World Bank emphasizes that "the key to achieving prosperity in the Palestinian economy lies in removing these restrictions which are imposed on the pretext of security considerations". The Bank concludes that raising Israeli barriers will lead to an increase in production by USD 2.2 billion annually in added value, noting that this includes agriculture and tourism, construction, stone and marble, telecommunications sectors, and Dead Sea salts and minerals, and medical and cosmetic products. Instead of lifting these restrictions, the US Vision gives this land and other lands to Israel on a silver platter.
4- The Palestinian communities that fall within the areas that will be annexed by Israel will administratively follow the Palestinian State, only for residential communities. As for the villages of the Triangle that are supposed to be annexed by the Palestinian State, they will remain under to Israeli security control.
5- All goods and people entering the Palestinian State will pass through Israeli controlled crossings, equipped with the latest scanning and imaging equipment. Access to Jordan will be via two streets only that are under Israeli control. These streets will be connected to the Karama and Sheikh Hussein crossings. A committee will be formed in the name of “the Crossings Committee”, which will include three representatives from Israel, three from Palestine, and one representative from the USA. The committee will convene every 4 months and present its report, which will include non-binding recommendations for Jordan, Egypt, Palestine, Israel and the United States.
6- The Israeli control over all Palestinian foreign trade facilities and outlets will continue. The vision proposes the establishment of "special facilities" that Palestinians can use to manage their foreign trade, in the Ashdod and Haifa Ports in Israel, in addition to the Aqaba Port, in agreement with Jordan. In return, Palestine will pay Israel and Jordan for this service, a charge whose value will be determined by the concerned parties, provided that this does not prejudice the applicable customs agreements. This means that Palestine’s foreign trade will be subject to the political situation and Israeli economic and

security considerations, and Palestinians will be deprived of their right to establish their own port.

7- The dual-use lists will remain applicable. The plan proposes the establishment of a strict control mechanism for the transportation, storage, and use of the materials specified in these lists.

8- Regarding Israel's control of groundwater, the document states that the parties recognize shared water rights and agree to share water resources on both sides of the borders. It also states that the groundwater must be managed in a sustainable manner, according to various hydrological and environmental considerations. Investment should be made in finding solutions that benefit from technological developments in the fields of wastewater treatment, to provide additional quantities of water.

9- Israeli control over the airspace, west of the Jordan River, will continue. This means depriving Palestinians of establishing an international airport that links them with the rest of the world. Likewise, Israel's continued control of the cyber domain will continue as well, keeping the Palestinian telecommunications and information technology sector subject to Israeli security considerations and unable to be free from the technological dependency chain.

So, what is new?

These distortions vacate the investment part of the Plan from any serious substance; therefore, the overall effect of the Deal will be increased Palestinian fragility and dependence on the Israeli economy. That is, even the “carrot” of a prosperous economy is not real. It is in fact a consecration of Israel as a regional economic center around which the economies of the Arab region revolve. Such an understanding of the proposed vision brings to the fore the importance of the economic and developmental dimensions in the conflict with the Israeli occupation. It stresses the importance of Palestinian efforts to achieve a gradual and deliberate disengagement from the Israeli economy, and endeavors to stop the state of the Palestinian’s dependency on Israel at this particular stage.

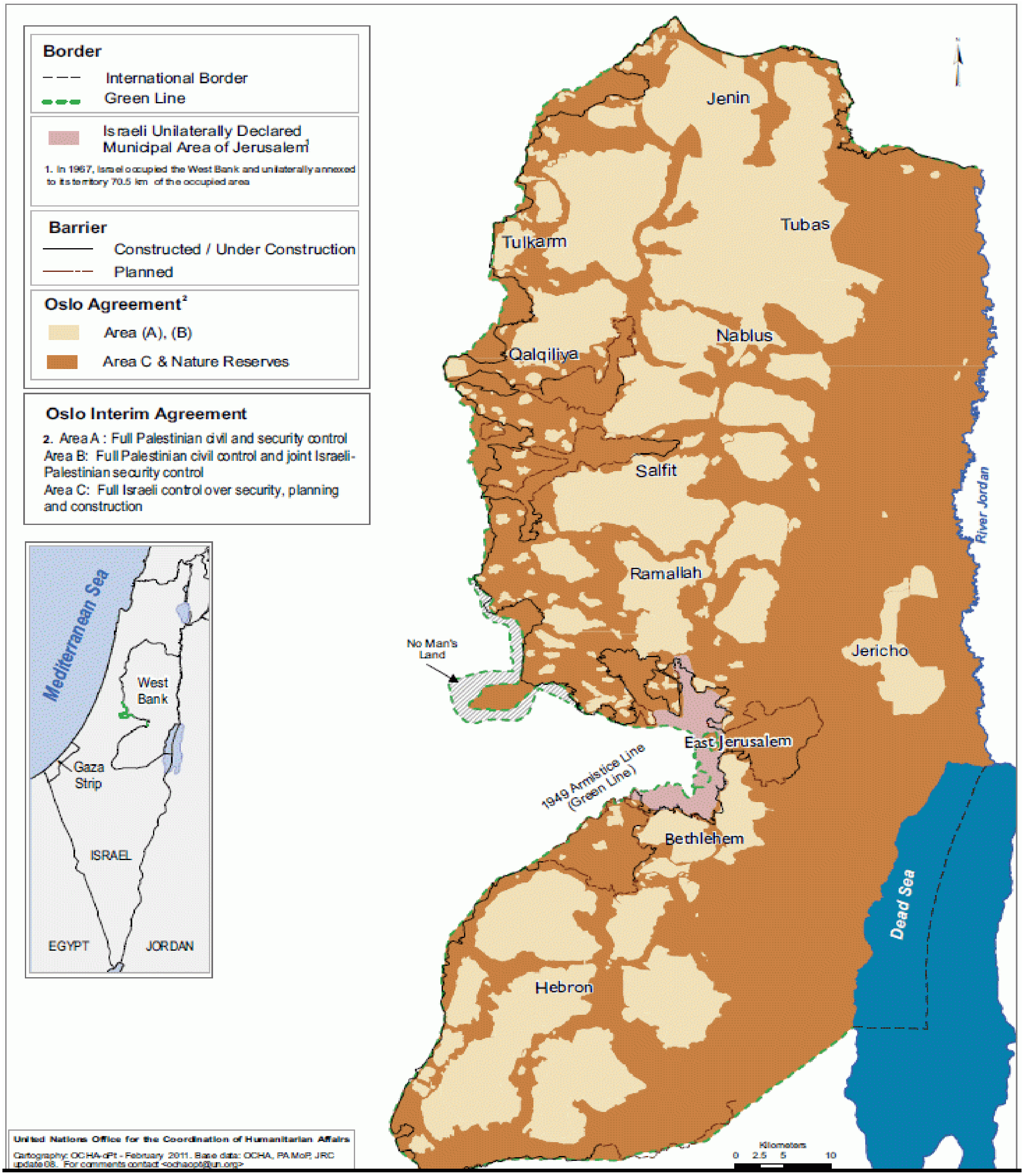
Questions:

1. What are the economic policies that the PNA should adopt to confront the economic impacts of the vision?
2. What are the meeting points between the disengagement program and policies, and the Trump-Netanyahu vision confrontation program?
3. How should these policies be reflected in the next Palestinian General Budget, especially with regard to Jerusalem, agriculture, and the Jordan valley?
4. What is the expected role of the PNA/government? Palestinian NGOs? Private Sector? The Palestinian people?
5. Should the government consider implementing boycott policies that target Israeli goods, or focus on launching educational and national awareness campaigns? What is the relation between these policies and supporting national products and achieving economic independence despite the hostile campaign?
6. Can the Palestinian people confront colonial expansion by creating "facts on the ground"?

Map No. (1)

VISION
for
PEACE
CONCEPTUAL MAP
The State of Israel
LEBANON
SYRIA
Haifa
Nazareth
ISRAEL
Netanya
Tel Aviv-Yafo
Mediterranean Sea
Ashdod
Jerusalem
West Bank–Gaza Tunnel
Beersheba
ISRAEL
JORDAN
EGYPT
Eilat
Israeli Enclave Communities*
1 Hermesh
2 Mevo Dotan
3 Elon More
4 Tel Hayyim (Itamar)
5 Berakha
7 Yitzhar
8 Ma'ale Amos
9 Asfar
10 Karme Zur
11 Telem
12 Adorah
13 Negohot
14 Bet Haggai
Israeli access road
A future State of Palestine
Port access
Palestinian major road
Bridge or tunnel
Strategic site
NOTES

Map No. (2)



Border
International Border
Green Line
Israeli Unilaterally Declared Municipal Area of Jerusalem[1]
1. In 1967, Israel occupied the West Bank and unilaterally annexed to its territory 70.5 km of the occupied area
Barrier
Constructed / Under Construction
Planned
Oslo Agreement[2]
Area (A), (B)
Area C & Nature Reserves
Oslo Interim Agreement
2. Area A : Full Palestinian civil and security control
Area B: Full Palestinian civil control and joint Israeli-Palestinian security control
Area C: Full Israeli control over security, planning and construction
Mediterranean Sea
West Bank
Gaza Strip
ISRAEL
EGYPT
JORDAN
Jenin
Tubas
Tulkarm
Nablus
Qalqiliya
Salfit
Ramallah
Jericho
River Jordan
No Man's Land
East Jerusalem
1949 Armistice Line (Green Line)
Bethlehem
Dead Sea
Hebron
United Nations Office for the Coordination of Humanitarian Affairs
Cartography: OCHA-oPt - February 2011. Base data: OCHA, PA MoP, JRC update 08. For comments contact <ochaopt@un.org>
Kilometers
0 2.5 5 10