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Economic Transformation and Development in Palestine

Justin Lonergan
Roger Williams University

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Since the creation of Israel and the conflict that followed, the Palestinian economy has largely been dependant on Israel as its premier economic trading partner and important source of day-labor. This source of employment has been the life-force of the Palestinian economy, with the number of day-worker Palestinians in Israel in the year 2000 numbering approximately 128,000 Palestinians. In contrast, after the start of the al-Aqsa Intifada, the number was cut by three-quarters, to only 32,000 work permits. Without this key element of the Palestinian economy, the effect of this decrease has been a collapse of the Palestinian economy, increased unemployment, and a generally deteriorating quality-of-life for most Palestinians. To put the crisis in perspective, "the fiscal collapse of the PA [in mid-2001] was prevented by average monthly infusions of $40 million from the donor community, amounting through 2002 to approximately half of the PA's monthly budget,[1]" as government funds dried up due to widespread unemployment.

The urgency for action in the current situation is clear. According to the Palestinian Economic Council for Development and Reconstruction, Palestinian losses due to Israeli border restrictions totaled approximately 8.2 Billion U.S. dollars[2], *prior* to the Yassin assassination. Should checkpoint security increase and the West Bank and Gaza remain isolated, that number stands to increase. The prospects for a Palestinian economy remaining dependent on Israel do not appear good. As such, the Palestinian economy needs to adjust and become more independent of its terrorized neighbor.

To this end, serious foreign investment is desperately needed in Palestine, in particular, investment focused on infrastructure development. Investment in infrastructure for safe-passage projects connecting the West Bank and Gaza are one example (see Connecting the West Bank and Gaza Strip: Questions of "Safe-Passage"). Additionally, investing in projects that develop infrastructure for the Palestinians to develop independent ties to foreign markets should also be a focus of investment; specifically, projects facilitating air and sea transportation and trade should receive significant investment.

Repairing and restarting the Gaza International Airport would be a positive start. Unfortunately, Israeli bombing of the runways following the outbreak of the Al-Aqsa intifada will require serious investment. Similarly, a Gaza Seaport constructed over time could do much to alleviate the current economic and humanitarian crises, especially if the West Bank and Gaza Strip become effectively connected. Again, however, security concerns of both the Palestinians and Israelis need to be assuaged.

Such security concerns have the unfortunate tendency to obscure the fact that the Palestinian economy is ripe for investment. In particular, Palestine has a foundation of potentially well-educated, highly-intelligent workers, as well as a good basis for infrastructure improvement and development.

Future investment comes primarily from several potential sources. The first is the U.S. Middle East Partnership Initiative[3], the second source being assistance from the Arab League, and the final plan is the European Union's existing MEDA Programme, which currently "offers technical and financial support measures to accompany the reform of economic and social structures in the Mediterranean partners[4]," including the Palestinian Authority. In terms of feasibility, the U.S. plan, although comprehensive, does not appear politically realistic given the current domestic situation of physical separation of the Security Fence along with the increasingly anti-American position of the new Hamas leader, al-Rantissi. Arab League aid has drastically dropped from over 40% of Palestinian economic aid disbursements in 2001 to 31% in 2003, while the same type of disbursements from the EU have risen from 26% to 36% in the same time frame[5]. This is because the EU offers a plan that is both comprehensive and much more politically and financially realistic than the U.S. or Arab League plans. Moreover, the EU program has already demonstrated reasonable and promising successes. First, the EU contributes approximately €10 million to projects that help to maintain the functionality of the Palestinian Authority as the legitimate government of Palestine, with an additional €20 million budgeted by the EU to the World Bank for use in Palestinian economic reform, development and reconstruction. All of these programs demonstrate promise for the future of the Palestinian economy. Increasingly as well, the EU has addressed the Palestinian plight by initiating programs that are geared towards immediate economic concerns as they arise in Palestine; for example, "assistance from the European Community budget for supporting the reform process and providing humanitarian aid to the Palestinians stands at €570 million for 2002-2003[6]." From this particular plan (the MEDA plan), therefore, the EU has thus developed a certain rapport with the PA in terms of reform and planning that are necessary for future economic development.

Of course, simply adding additional money into the Palestinian economy will not ensure economic transformation. As mentioned, a significant portion of investment funds currently being allocated are focused on sustaining minimal levels of stability in Palestine, such as essential services for functional government. History demonstrates that "in comparison to other developing countries, historically unprecedented amounts of foreign aid have been spent on recurrent expenditures to cover burgeoning PA deficits[7]." However, to be successful in transformation, much more money must be specifically invested to create the institutions and infrastructure that will allow for Palestinian economic growth. Unfortunately, this will most likely require diversion of monies that go to maintaining quality-of-life programs. Only if further increased funding that goes above post-Oslo II levels is invested through the EU MEDA Programme will both sustenance and developmental programs be able to concurrently be executed. To this end, the EU Programme is highly focused on creating a climate for investment: "EuropeAid regularly publishes information on tender forecasts, notices and awards for service, supply and works contracts as well as calls for proposals for projects to be subsidized[8]." What this means is that private direct investment, with adequate guarantees of proper dispersal, may be the final source of monies that is required in order for real progress on infrastructure development to be made.

While transition will be difficult, the evident failure of an economy of integration "necessitates independence from Israeli control and the end of the unequal partnership, despite the large associated costs[9]." Despite the complicated and frustrating nature of the situation, international and private "donors should not abandon their medium-term development programs, and should continue to do what they can do to create the institutions and infrastructure of a future state[10]." At a minimum, such investment is more needed today, with the situation as bleak as it appears, than was needed in the now-"happy days" that followed the Oslo Accords in the 1990s.

Notes and References:

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