Yedioth Ahronot, Mamon, April 27, 2017

[Title] Two Economies for Two Peoples

[sub title] 50 years after the Six-Day War, senior Palestinian economist Saeb Bamya, and expert on the Palestinian economy Prof. Arie Arnon, try to explain in a joint conversation why the standard of living in Gaza and the West Bank shot up in the first years following the war but started to deteriorate after the Oslo Accords and continue to do so to this day. “The Palestinian economy was hijacked by the governments of Israel,” charges Bamya. Arnon: “The Palestinian Authority has to function under intense stress, the political change is not happening.”

By Sever Plocker

This year’s Independence Day marks the 50th anniversary of the Six-Day War, at the end of which Israel found itself controlling extensive territories on the West Bank of the Jordan River, the Gaza Strip, the Golan Heights, and the Sinai Peninsula. The West Bank and Gaza were populated at the time by about one million Palestinians, who were called “the Arabs of the territories.” Following the IDF, The West Bank and Gaza were invaded by economists. I was one of them, a soldier and MA student at Hebrew University. The West Bank looked to us like a mixture of colonialism and Orientalism. Western luxury cars next to neglected refugee camps. Primitive villages making their living from meager olive harvests alongside gentry living in elaborate palaces. Third World.

At the time Israel was a Second World economy. In 1968 the national per capita income in Israel was $4400, in the West Bank it was $550 and in the Gaza Strip it was $375. The current population of the territories of Judea, Samaria and Gaza (to use the official Israeli terminology) is 4.8 million Palestinians and 600,000 Jews. The national per capita income in the Palestinian Authority in the West Bank and Gaza is $3000, according to the latest IMF report. In Israel it is higher than $37,000.

Therefore the standard of living in Israel is 12.5 times higher than the average Palestinians standard of living in Judea, Samaria and Gaza. In 1968 the gap was “only” 10 times higher. Not only did the gap between the Palestinian residents of the West Bank and residents of Israel not narrow but in fact it deepened. Whereas the gap between Gaza and Israel became abysmal.

The Palestinian economist Saeb Bamya previously served as deputy minister of economic development in the PA, headed the Palestinian economic negotiating team with Israel at Camp David, and currently serves as economic advisor to PA President Abu Mazen. Prof. Arie Arnon is an economic researcher at the Truman Institute, a lecturer at Ben-Gurion University, and the number one expert on the Palestinian economy and its ties with Israel. Together the two lead The Aix Group, the only group of economists in the world that studies, produces and distributes working papers that describe the economic conditions for the establishment of a permanent settlement agreement between Israel and Palestine based on the principle of two states for two peoples. In the past there were numerous economic research institutes that dealt with these subjects but along the way they abandoned their research in frustration.

The Aix Group was founded in 2002 by Prof. Gilbert Benhayoun from the Paul Cézanne University Aix-Marseilles in southern France. Its studies reflect an approach that its members call "reverse engineering": first you agree on the principles of an Israeli-Palestinian peace agreement, including an agreed solution of the refugee problem, and only then do you ask what the necessary economic conditions are for its realization and sustainability.

Arnon and Bamya, no longer young men who have accumulated memory, experience and knowledge, were invited by Yedioth Ahronoth to talk about the unequal and asymmetric economic relations between Israel and the territories over the past 50 years. Two economies for two peoples, a zigzag story that even now, May 2017, does not have a happy end in sight.

At the end of the Six-Day War in 1967, what did you not imagine would happen 50 years later? What is your biggest surprise?

Bamya: "I never imagined I would have the nerve to participate in a face-to-face meeting with Israelis, that I would have Israeli friends. At the time I could not even imagine that I would talk freely with pro-Israeli Jews. And now here I am, with Arie, who is certainly not my enemy."

Arnon: "As someone who came from a dovish home (his father Yaakov Arnon was the director general of the Finance Ministry for many years – S.P.), I never imagined that within half a century no less than 600,000 Jews would settle beyond the Green Line. In 1967 it never even entered my mind."

The economists recommended, the government ignored them

In the summer of 1967 a group of lecturers from the Hebrew University's Department of Economics were asked to recommend to the government what economic policy to adopt towards the West Bank and Gaza. The group was headed by Prof. Michael Bruno and its members included Professors Ben Porat, Ben Shachar, Berglas, Halevy, Sadan and others. A group of young and brilliant Israeli economists. In a document they submitted to Prime Minister Levy Eshkol in September 1967 they supported freedom of movement across the Jordan River bridges but opposed erasing the borders between Israel and the territories and the free flow of Palestinian labor into Israel. Their immediate reason for maintaining closed borders was the high level of unemployment that prevailed at that time in Israel. The economists feared that the entrance of Palestinian labor would jeopardize the recovery of demand for workers in Israel. Behind the employment argument was an entire worldview that was reflected in studies, articles and memos submitted in the following months and years to the captains of the economy by the economics professors. A sweeping opening of the Israeli labor market to the Palestinians, thought the economists, would have severe negative consequences. The Israeli economy would grow accustomed to cheap labor, which would undermine the profitability of investment in mechanization and technology, and perpetuate a manufacturing lag and low productivity. Whereas the Palestinian business sector would not be able to compete with the Israeli one with its high salary levels, and therefore its best and brightest would seek employment in Israel. The Palestinian self-economy would atrophy, its growth would fade away and investors would not come to it.

The solution they proposed was the opposite: to forbid (most) Palestinian labor in Israel and to encourage major investments in the development of the independent Palestinian economy so that it could stand on its own feet. The economists particularly suggested starting immediately to eliminate the refugee camps in Gaza and the West Bank. “The Arabs of the territories” would both build the new apartments and live in them. They would build factories and work in them.

The government was not impressed by the studies and recommendations: it forgot about them. Israel's borders opened wide to Palestinian laborers and the administered territories opened to goods from Israel. During the first period, explain Bamya and Arnon, it looked as if this arrangement was working for the benefit of both peoples. But that was an illusion. With the outbreak of the first intifada in the late 1980s the internal weakness of the Palestinian economy was exposed as was its dependence on Israel and its inability to stand on independent feet. Things got even worse after the PA was established.

The Israeli economists who foresaw these developments were therefore right. The politicians who only saw the immediate interest were wrong. The opening of the Israeli labor market to the Palestinians and the closure of the Palestinian market to local investments and development were a fatal Israeli economic error. The possibility of a practical economic piece as a basis for a practical political peace was buried there and then.

"There were no borders here"

"The years of Israeli economic control of Judea, Samaria and Gaza," says Prof. Arnon, "can be divided into two almost identical time periods. The first is from 1967 to 1993, and the second is from 1993 to the present. During the first time period the government of Israel was the only economic sovereign in the territories, through the IDF and the Civil Administration. During the second period the Palestinian Authority was created, which should have functioned as a provisional civilian government. The powers of administering economic and social policy were transferred to the PA and Israel signed an extensive economic agreement with it called the Paris Protocol. The agreement was supposed to create a joint customs and tax envelope for Israel and PA, which also guaranteed the free movement of people, goods, knowledge and capital. Without borders."

What characterizes each one of these periods?

Arnon: "A rapid rise in the Palestinian standard of living during the first period, stagnation and even withdrawal during the second period. During the first period, which has been erased from our collective memory, there were no borders here. Tens of thousands of Palestinians came to work in Israel every night, at reasonable wages from their point of view. One third of the labor force in the West Bank and half of the labor force in Gaza found employment in Israel. The Palestinian standard of living that resulted shot up to new heights. This all stopped shortly after signing the Oslo Accords. A wave of suicide bombings that swept through Israel beginning in 1994, the second intifada from 2001, and the conflicts with the Hamas regime in Gaza, caused severe fluctuations in economic activity in the territories – a consequence of the level of employment in Israel which marked zero per capita growth. In the absence of an independent manufacturing basis, the Palestinian economy remained dependent on the goodwill of international donors and Israeli ministries of defense and finance."

An annual review by the IMF and the World Bank of the economy of the West Bank and Gaza said: “Between the years 1994 in 2014, the national per capita income in the Palestinian territories rose by only 0.1% a year, compared to a 4.8% rise per year in the years 1967 to 1987.” Had the rate of growth from the first period continued in the second one, the Palestinian standard of living would be 130% higher than it is today.

So it turns out that the Oslo Accords and the Paris Protocol, which at least on paper transferred control of the economy to the PA, actually harmed it.

Bamya: “It’s not the economy, it’s the politics. Palestinian economic sovereignty existed and even now exists only on paper. In reality it was suffocated by an Israeli policy of discrimination, closures and checkpoints. The hidden Israeli agenda during most of that time was avoidance of the Paris Protocol and the Oslo Accords, as they were written. Where is the free movement of people and goods between the West Bank and Gaza and Israel, and between the West Bank and Gaza, as it says in the agreements signed by Israel and the PLO in 1994? Today the borders are tighter, more blocked than they were when those agreements were signed. The PA’s dependence on foreign aid grew and has reached peak levels. Gaza is destroyed and close to a humanitarian crisis.”

Bamya goes on in strong language: “The Palestinian economy was hijacked,” he proclaims, “by elements in the Israeli government that wanted to erase any possibility of establishing a Palestinian state, while at the same time preparing the territory for annexation. And as long as politics trump economy, the Palestinian economy will have no chance of establishing itself. There will be no chance for normal development.”

Did the mismanagement of national resources by the Palestinian leadership have no part in the lack of chances? Did the corruption that was exposed have no impact on the donor countries?

Bamya: “I don’t want to minimize the responsibility of the PA. It’s civil functioning, except for a relatively brief period, left more than a little to be desired. But the fact is that donations from abroad rise in direct proportion to the chances for a final settlement. Therefore when the Palestinian government was headed by Salam Fayad (a moderate Palestinian economist who in the 1990s served in senior positions in the IMF –S.P.) and took upon himself the task of laying the groundwork for an independent Palestinian state, donations doubled. The political horizon is the key.”

Why shouldn’t we also enjoy the Dead Sea?

I remind Saeb Bamya of our previous meeting, when in the summer of 2005 we were both involved with the grand schemes of James Wolfenson, President of the World Bank and representative of the international community for the coordination of the withdrawal from Gaza, to turn Gaza into a center of export of fresh agricultural produce to the Middle East. “This is not how I imagined the future of the Gaza Strip,” Bamya groans. “Today there is a shortage of everything in Gaza. There is a shortage of running water, flowing electricity, fresh food products, and basic health services. The closure of Gaza does not punish Hamas but only the poor residents of Gaza.”

Gaza used to serve as an incubator for outsourcing Israeli industries. Today it is an incubator of terror and in a few years it will “no longer be suitable for human inhabitation,” according to Bamya. From the billions of dollars promised for the reconstruction of Gaza after Operation Protective Edge, only one third was actually received and invested.

Since signing the Oslo Accords the PA received more than $20 billion in foreign aid, a peerless relative amount in the history of foreign aid in the twentieth century (15 times more, in real terms per capita, then the US Marshall Plan for devastated Europe after World War II). Yet still, according to IMF reviews, the PA needs between $1-1.3 billion a year in foreign aid.

Will the Palestinians need donations forever?

Arnon: “From the first conference of donor countries to the PA in the fall of 1993 in Washington, and until a few years ago – the donors directed their aid mainly to investments in infrastructures and development in order to bring about an Israeli-Palestinian agreement and facilitate its implementation. Now they understand that an agreement is not imminent and they changed the nature of their aid. It is designated for underwriting the current deficits of the PA so that it can function even in conditions of great distress in order to prevent its collapse. In such circumstances private capital also avoids investment and businesses are afraid to expand. And the political change hasn’t happened and isn’t happening.”

The prosperity that has recently appeared in some Palestinian cities is the result of the renewal of employment of Palestinians in Israel, about 80,000 a day, and of shopping by the Israeli Arab sector in their stores. They find there much cheaper imported goods than in Israeli stores, that do not appear in the markets in Israel because the Israeli government ministries, according to Arnon and Bamya, "do not approve them." A Palestinian importer is not allowed to compete with an Israeli importer over the shelves of Israeli stores, only over the shelves of Palestinian stores. This is against the spirit and contents of the Paris Protocol.

That is an infuriating distortion.

Bamya: "A distortion that is typical of your harassment of us. The PA signed exceptional preferential agreements with the EU, with the Gulf Cooperation Council and more. Agricultural and industrial produce from the Palestinian territories can be sold there without customs and taxes. Except for a little problem: those agreements are dead letters because of the high cost of getting Palestinian goods out of the country. In the absence of a Palestinian seaport, in the absence of a Palestinian airport, in the absence of free passage between the West Bank and the Gaza Strip, in the reality of closure of the Gaza Strip and travel restrictions in large parts of the West Bank itself, what is left of the priority terms we received from other countries? Nothing is left. The Palestinian business sector is suffocated. No actual recovery can be seen on the horizon."

Fifty years after the Six-Day War, 24 years after the Oslo Accords, and 12 years after the disengagement from Gaza, the Palestinians continue to dream about "economic sovereignty," about self-rule of their economic fate. "Why can't we also enjoy royalties from the resources of the Palestinian segment of the Dead Sea its Palestinian segment?" asks Bamya. "Why don't we together develop agriculture in the Jordan Valley, most of whose territory, tens of thousands of dunums, are uncultivated? Equal rights, that is our minimum demand."

The starting point of the AIX economists is a final Israeli-Palestinian settlement that is close to the Clinton parameters and two states for two peoples. Is that still a practical option for the Palestinian public?

Bamya: "In Palestinian public opinion there is still a solid majority that supports a two-state solution for two peoples living in peace side by side, but the peace people are weakening. Either things start moving in the next five years or extremism will win and everything will blow up. Time is running out and stagnation is not a practical option."

On Israel's 69th Independence Day, let's listen to his voice. For us, for them.

[in a separate box]

The numbers behind the tragedy

The economic data tells the story of two economies for two peoples. In the first generation after the Six-Day War, from 1968 until 1992/3, real per capita national Palestinian income in the West Bank shot up by 300% and in Gaza by 200%. That sprint was the exclusive outcome of the rise in Palestinian employment in Israel, which was willing to accept laborers from the territories with open business arms. Real per capita income in Israel rose during that decade by a much more moderate rate of 90%. As a result of those developments, the gap in per capita income between Israel and the Palestinian West Bank narrowed to 4.2-fold (compared to eightfold in 1968) and in the Gaza Strip to 7.5-fold (compared to 12-fold in 1968).

In September 2000, seven years after approving the Oslo Accords and six years after the Paris Protocol, the second intifada broke out. The Palestinian economy absorbed a terrible blow, bled and collapsed. The number of Palestinians employed in Israel dropped from 120,000 to almost zero. National per capita income dropped by 40%, unemployment reached at least one third of the workforce, and poverty knocked on the doors of almost every other household. Israel was also economically hit but much less. The gap in national per capita income expanded by 60%.

And today? Despite the renewal of Palestinian labor in Israel (only from the West Bank), and signs of recovery in the main cities of the West Bank, gaps in the standard of living between Israelis and Palestinians have reached a new high. The entire national product of the PA, $14.5 billion according to the IMF statistics, equals 4% of the Israeli product. Israeli national per capita income is close to $37,000, in the West Bank close to $3500, and in Gaza it is estimated at $2000. Fifty years after the Six-Day War and 24 years after the Oslo Accords, per capita income in Israel is 11 times higher than in the West Bank, 18.5 higher than in Gaza, and an average of 12.5 times higher than the entire PA.

35% unemployment

Following is a selection of data from the last Palestinian Statistical Yearbook. The average monthly wages of a Palestinian industry worker: NIS 2000. Of a construction worker: NIS 2400. A worker in services: NIS 1800 a month. Average monthly wage in Israel: NIS 9800 a month.

72% of the Palestinian men and 20% of the Palestinian women participate in the workforce, which means work or are actively looking for work. Unemployment in the West Bank: 14% of the workforce. Unemployment in Gaza: 35%. Unemployment Israel: 4.7% of the workforce. More than 14% of working age Palestinian men work in Israel or in the settlements, all from the West Bank.

Housing density in the West Bank: 1.7 people per room, compared to one person per room in Israel. Only half of the apartments have sewage. 1.3 hospital beds for every 1000 Palestinian residents, half as many as in Israel.

But every Palestinian household in the West Bank has a cell phone, refrigerator, and television dish on the roof. Two thirds have a desktop or laptop computer. Half have Internet at home, one third have solar water tanks and one fifth have private cars. 200,000 young people attend Palestinian universities and another 11,000 go to community colleges.

The Palestinian population of the West Bank is growing at a rate of 2.5% a year, in Gaza at a rate of 3.3%. The Israeli population is growing at a rate of 2% a year.

Here we must make two technical clarifications. First, the figures relate to national per capita income because as a result of the significant income from work in Israel, in the last year $1.4 billion, in the PA in Judea and Samaria there is a 22% difference between local per capita product and national per capita product, which also includes wages from working Israel. In Israel the differences are small.

Secondly, the buying power of a dollar or shekel in the PA is higher than it is in Israel because prices there are lower. Apartments there are cheaper, food is cheaper, clothing is cheaper. In terms of buying power, the economic differences between Israel and the territories get smaller. How much smaller? There is no answer. The Palestinian Bureau of Statistics and the IMF publish their per capita income estimates for the Palestinian territories in dollars adjusted to buying power. According to a World Bank study, the general level of prices in the West Bank has actually approached that of Israel rather than moved away from it, but it is not known by how much and at what rate.