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ECONOMIC VIABILITY OF A PALESTINIAN STATE IN THE WEST BANK AND GAZA STRIP

MASTER THESIS

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LIST OF ABBREVIATIONS

CU	Custom Union
DOP	Declaration of Principle
EP	Economic Protocol
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HS	Harmonized Commodity Description and Coding System
IMF	International Monetary Fund
ICBS	Israeli Central Bureau of Statistics
JD	Jordanian Dinar
JWC	Joint Water Committee
MCM	Million of Cubic Meters
NIS	New Israeli Shekel
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PLO	Palestine Liberalization Organization
PT	Palestinian Territory
SAR	Sodium Adsorption Ratio
Sq Km	Square Kilometer
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSCO	Office of the United Nations Special Co-ordinator
USD	United State Dollar
WBGS	West Bank and Gaza Stripe
WHO	World Health Organization

ABSTRACT

Peace process makers had promised the West Bank and Gaza Strip's Population with an economic recovery and stability within the context of peace. The Economic Protocol between Israel and PLO signed in Paris in 1994 has maintained that it is possible to establish economic growth in the West Bank and Gaza Strip without defining territorial integrity and sovereignty. Nine years after the signing of this agreement, though, the situation in the Palestinian areas has deteriorated rather than improved. However, Water resources are an important material aspect of Palestinian existence and relevant to any lasting peaceful solution to the Palestinian-Israeli conflict. This thesis argues that this deterioration is in large part due to the failure of the Oslo agreement, which is signed to protect Palestinian territorial rights and to resolve questions of sovereignty and control over natural resources.

INTRODUCTION

In many centuries, Palestine was conquered by many entities; from 640 to 1917 it was under Islamic rule. In 1917 the British captured the area, Palestine from the Ottoman Empire. Concurrently, a Zionist movement for a Jew homeland arose. In 1917 the (British foreign secretary) Balfour Declaration promised the Jews a national home in Palestine. The Jewish migrants to the region began to increase slowly, and then it expanded dramatically during the British Mandate. Soon after World War II, the Jewish migrants to Palestine stood at 650,000; the Arab population was 1,350,000. Zionists increasingly agitated for an independent Jewish state. Conflict increased, and London turned it to the UN for a solution in 1947.

The UN plan to divide the area between Jewish migrants and Palestinians never went into effect. Instead, when the British withdrew in 1947, war immediately had broken out between Jewish belligerents and the region's Arabs. The Jews won the war, establishing their Zionist entity in 1948 and doubling their territory. Most Palestinian population fled (or was driven) from their homelands to refugee camps in neighbor countries, and Gaza Strip and the West Bank of the Jordan River), the West Bank and Gaza Strip had been part of Palestine but were under Egyptian and Jordanian rule respectively. As a result of the 1967 Six Day War, the West Bank and Gaza Strip came under Israeli Occupation. Also in this period the Palestine Liberation Organization (PLO) became the major representative of Palestinian Arabs. Peace was not possible because the PLO and the Arab states would not recognize Israel's legitimacy.

In 1987, the first Palestinian Intifada erupted against Israeli aggression. During the first Intifada in 1987, Israel concluded that the status quo then was unsatisfactory. This conclusion as well as the Gulf crisis and Gulf war were among important factors that led to open the door to Oslo peace process. Israel hoped that the PLO would be a partner in assuring Israel's security interests in the West Bank and Gaza Strip, and in Israel proper. Israelis and Palestinians met in Spain and held public talks for the first time in 1991. Bilateral secret peace talks between the Israelis and PLO in Norway led to an agreement. In September of 1993, PLO and Israel signed in Washington, the Declaration of Principle, which called for the five-year interim period for Palestinian Autonomy in the West Bank and Gaza Strip. PLO gained limited control over parts of the West Bank and Gaza Strip, and established the Palestinian Authority.

The Oslo II agreement divided the West Bank into three classifications: areas A, B, and C. Until the last redeployment in March 2000, Palestinian Authority have full control in area A (18.2 %) and in area B (21.8 %), it have full control over civil society except that Israel continues to have overriding responsibility for security. The formation of an Israeli Labor Government in 1999, led to resumption of interim and permanent status negotiations at "Camp David" in July 2000. Palestinians want viability, independence, and choice, all of which were missing from Camp David's proposals, thereby it failed.

The establishment of the Palestinian Authority (PA) generated widespread hopes and expectations for economic recovery within a context of peace, political stability and economic integration of the West Bank and Gaza Strip. But, the existence of settlements which left to final status negotiation and the inexact implementation of the interim accords by Israel led to a de facto fragmentation of the West Bank and Gaza Strip, thereby undermining all the hopes above. After 1995, the Oslo Accord segmented Palestinian Land between two authorities control (Palestinian Authority and Israel), since it divided the West Bank into three zones A, B and C, this division has partitioned the West Bank into 64 isolated cantons of areas A and B which are separated from each other by areas C, and Gaza Strip to four cantons by Israeli settlements. However, the issue is not establishment of a State- the issue is one of viability, integrity and independence.

According to Camp David's Proposals, the Palestinians were to get a state, cut up by settlements, fragmented by Bypass roads economically dependent on foreign assistances, above all of this, it would have had less sovereignty and viability than the Bantustans created by the South African apartheid government.

HYPOTHESIS

Since the onset of the Israeli occupation in 1967 of the West Bank and the Gaza Strip (WBGS), Israel has used its dominance as a belligerent occupier to create an economic environment in these areas that has forced Palestinian society into a severe economic dependency on the Israeli economy. Furthermore, it has to change the status and the demographic character of the West Bank and the Gaza Strip as well as creation of de facto realities on ground through settlement activities, based on what Sharon announced in 1973. He said, "we'll insert a strip of Jewish settlements, in between the Palestinians, and then another strip of Jewish settlements, right across the West Bank, so that in twenty-five years time, neither the United Nations, nor the United States, nobody, will be able to tear it apart".

The occupation itself and the means by which Israel created these realities on ground are violations of the principles of international law, especially Article 46 of the 1907 Hague Regulations, in conjunction with Article 49, Article 51, Article 52 and Article 64 of the Fourth Geneva Convention of 1949. On the other hand, Oslo accords called for freezing of settlement activities that started since the occupation in 1967. But, ten years after the initiation of the peace process (1993-2003), we find that the settlement activities of occupation became facts on ground, and peace process failed to stop these activities and became these settlements as acquired right for occupation.

The key question that this thesis will seek to address is whether the West Bank and Gaza Strip constitute an economically viable entity, and whether the PLO can establish independent and viable state on it, and whether it can survive under territorial fragmentation and without full sovereign control over land and resources. Sovereignty is important for economic growth since it defines a state's jurisdiction and its scope of intervention. It is also important because it allows actors, be it individuals, firms or governments, to evaluate the resources they can count, where they can invest and with whom they can trade. However, sovereign borders are important for a State since they determine its economic and political viability, its access to natural resources, its capacity for economic development, and its ability to defend itself from external threats. Moreover, the question of territorial contiguity would result in more predictability, allowing Palestinians to make arrangements for travel and the transfer of goods without worrying about checkpoints and closures.

METHODOLOGY AND STRUCTURE

The thesis is structured into six Chapters. The first chapter (West Bank and Gaza strip: Geography, Resource Endowment and Economy) depicts the geographical aspects and resource endowment of WBGS, as well as pinpoints economic performance of the Palestinian domestic economy. In addition it will be compared with the economies of neighbor countries. The second chapter (Paris Protocol and Economic Viability) pinpoints shortcomings and ambiguities of the Economic Protocol and depicts its oppressive and restrictive arrangements against the Palestinian economy. In this chapter, discussion is relied to a large extent on Protocol Articles and analysis that has been previously addressed by research institutions, and international organizations.

The third chapter (Water problems in WBGS) depicts general data on water supply in WBGS, including the locations of groundwater aquifers and their water qualities, as well as

the surface water and its percentage of the water in Palestine. However, it pinpoints water issues under the Oslo accords, Israeli policies and measures that restrict Palestinian's use of their own water resources, and the importance of water for economic growth as well as its repercussions on economic viability.

The fourth chapter (Territorial Fragmentation of WBGS) describes the fragmentation of WBGS and the changes of its geographic character. This includes terms of bypass roads, closed military areas and green areas in Jerusalem. However, it explicates the Oslo II land classification scheme of the West Bank and Gaza Strip, which that translated into the physical fragmentation of Palestinian communities. Furthermore, it also pinpoints the impact of Jewish settlements and bypass roads on a daily life of Palestinians. In the both chapters, arguments are relied to a large extent on data and information that has been previously investigated by other regional non-governmental organizations and specialist research institutions (such as Applied Research Institute-Jerusalem), as well as international organizations

The fifth chapter (Mobility Restrictions, Closures) on the one hand, describes the impact on economic Viability of Israeli permit and closure policies, mobility restrictions, and Territorial Control. On the other hand, it illustrates how these policies have lead to a severe dependency of the Palestinian labor market on the Israeli labor market (in Israel and in Israeli settlements). The data and information for this chapter based on UNSCO reports on the Palestinian Economy.

The sixth chapter (Camp David Proposals) pinpoints the main lines of Barak's verbal proposals of the final settlement and its implications on ground. However, it provides some analysis of causes that led to the failure of Camp David and the collapse of peace process. In this chapter, we had to deal with the availability of leaked data and information.

CHAPTER 1

WEST BANK AND GAZA STRIP: GEOGRAPHY, RESOURCE ENDOWMENT AND ECONOMY

1.1. Geography of the West Bank and Gaza Strip

As a geographic unit, Palestine extended from the Mediterranean on the west to the Arabian Desert on the east and from the lower Litani River in the north to the Gaza Valley in the south. The Palestinian territory of the West Bank and Gaza Strip is constituting 22 percent of the area of the pre-1948 British Mandate Palestine, The West Bank is 5,800 square kilometers in area, 130 km long and ranges 40 to 65 km in width; The West Bank is divided into three main districts with eight sub-districts, each of which is named after one of the main cities. The northern region comprises the sub-districts of Jenin, Tulkarem, and Nablus, while the central region includes Jerusalem, Jericho, Ramallah and Bethlehem; and the southern region is constituted by Hebron.

The Gaza Strip covers 365 square kilometers, running at 45 km length and between 5 and 12 km in width; it borders Nagap desert to the north and east, the Egyptian Sinai Peninsula to the south, and the Mediterranean Sea to the West; and is divided into three districts: Northern Gaza, Central Gaza, and Southern Gaza. The Gaza Strip is mainly coastal plain and sand dune while the West Bank is more diverse, featuring four topographic zones. These include a fertile plain of around 400 sq. km. in the Jordan Valley and the Jordan River; a rocky semi-arid area of 1,500 sq. km. covering the eastern slopes and leading down to the dead sea; the central highlands constituting the largest zone with a total area of 3,500 sq. km. while rising 1000 meters above sea level in places; and the semi coastal zone consisting of 400 sq. km in the west and north-west.[1]

Since 1967, and especially since the late 1970s, Israel has pursued a policy of building settlements in the West Bank and Gaza Strip, mainly on expropriated public and private Palestinian land. In 1994, the number of Israeli settlements within West Bank and Gaza Strip had reached 194 settlements; most of them are in the West Bank, including 28 constructed since 1967 within the expanded Jerusalem municipal boundaries. Moreover, there are 18

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[1] Palestinian Academic Society for the Study of International Affairs, (PASSIA), Yearbook, Jerusalem, 1996.

Israeli settlements in the Gaza Strip[2] in addition to 40 new settlements founded since the beginning of the second Intifada. The total population of the Israeli settlements in both regions is estimated to have reached around 150,000 by 1995, excluding settlements in the east Jerusalem area[3]. These settlements make intensive and disproportionate use of scarce natural resources. For instance, Israeli settlers constitute 9-10 percent of the West Bank population and some 6900 settlers in the Gaza Strip, equivalent to less than one per cent (only 0.6 percent) of the area's Palestinian population, yet they use 79 percent of the West Bank and Gaza Strip Territory (approximately 25% of the Gaze Strip's Area). In the West Bank, Israeli settlements account for one third of the total water consumption although their population is equivalent to fewer than 10 per cent of the Palestinian population[4].

1.2. Population: a young nation

The Palestinian population of the West Bank and Gaza Strip is estimated to have reached 3.15 million in 2000, approximately 64 percent of who live in the West Bank and the rest in Gaza Strip. It is estimated that over 5 million Palestinians live outside the West Bank and Gaza Strip, including those living in Green line (Israel). The population density differs markedly between the two areas. In the West Bank population density is 342 persons per sq km, whereas in the Gaza Strip the comparable figure is 2,933. In Gaza city, population density is 14,000 persons per sq km, which is one of the highest in the world. The youth represent the largest percentage of the population, where the percentage of population aged 14 years and below is 46.6 percent at the end of 2001. The age group (0-4) constitutes the second largest proportion (19%), while the age group (60 and above) constitutes 3.4 percent of the population only. However the annual rate of population growth is estimated to have reached 5.4% in 2000[5]. Almost 40 percent of the resident population is registered as refugees from the wars of 1948 and 1967 (26 percent of the West Bank population and 64 percent of the Gaza Strip population)[6]. Most of the refugees live in over crowded camps with substandard housing and sanitation conditions representing the disadvantaged stratum in Palestine.

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[2] Palestinian Academic Society for the Study of International Affairs, (PASSIA), Yearbook, Jerusalem, 1996.

[3] Roy, S., The Gaza Strip: the Political Economy of Development, Washington, D.C., Institute for Palestine Studies, 1995, p. 176.

[4] Palestinian Academic Society for Study Of International Affairs (PASSIA), "Fact Sheet – Land and Settlements", Jerusalem, 2001. www.passia.org.

[5] Third United Nations Conference on the Least Developed Countries (May 2001),"Information Note on the Economy of the Occupied Palestinian Territory (West Bank and Gaza Strip) Brussels, Belgium Prepared by the Palestine National Authority Ministry of Economy and Trade.

[6] Palestinian Central Bureau of Statistics (PCBS), Demographic Survey of the West Bank and Gaza Strip, Ramallah, 1996.

1.3. Resource Endowment

1.3.1 Land and water: Notwithstanding the small size of the Palestinian territory, just one quarter of Palestinian land is under cultivation - around 1,500 sq km in the West Bank and 160 sq km in the Gaza Strip. However, Palestinians do not control the totality of the available land in the West Bank and Gaza Strip. By 1995, Israel had confiscated or otherwise controlled 73 percent of the total land area of the West Bank and Gaza Strip combined. The West Bank and Gaza Strip depend to a large extent on groundwater sources for irrigation and drinking water. The annual renewable water that is available as ground and spring water is estimated at around 600-800 million cubic meters (MCM) in the West Bank, and between 50-70 MCM in the Gaza Strip. Use of water by Palestinians in the two regions is estimated at about 200 to 230 MCM annually[7]. The rest is used in Israeli settlements and in Israel proper. From calculation of last numbers, Israel steals about 73 percent of Palestinian water.

1.3.2 Human Resources: It is widely considered that the most impressive asset of the Palestinian economy is its human resources. Throughout 54 years of conflict, dispersion and occupation, Palestinians have exhibited resilience and resourcefulness, and sustained a strong commitment to education. Palestinians are considered to be relatively well-educated, as measured by literacy rates, years of schooling completed, and enrolment rates[8]. The Palestinian territory suffers from three major problems in the area of human resources. The *first* is the failure of the economy to generate enough employment, leading to one third of the labor force working in Israeli labor market and to severe domestic unemployment. The *second* is a labor participation rate that is considerably below the rate in neighboring countries. The *third* problem is low labor productivity, especially in the manufacturing sector[9].

The overall labor force participation rate (the proportion of the labor force to total population) has not risen above 21 per cent over the last five years from 1990 to 1996, whereas it stands at 25 percent in Jordan and 40 percent in Israel[10]. However, according to Palestinian Central Bureau of Statistics, the percentage of population aged 15 years and over is 53.4 percent at the end of 2001, this playing a major role of labor force participation rate.

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[7] United Nation Conference on Trade and development, "The Palestinian Economy and prospects For Regional cooperation", Geneva, 1998.

[8] International Labor Office, "Report of the Director-General, Appendix" International Labor Conference, 82nd Session, 1995.

[9] United Nations Conference on Trade and development, "Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development", 1996.

[10] The World Bank ,"World *Development Report"*, 1995, Washington, D.C.

1.3.3 Capital: During the 1970s and 1980s, the Palestinian economy witnessed a relatively large movement of capital inflows and outflows. The former arose from incomes of Palestinian workers in Israel, remittances from Palestinian workers in the Gulf States, and from Arab and foreign financial assistance. Incomes of workers in Israel and remittances from workers in the Gulf region have declined significantly since 1990, owing to the dramatic drop in the number of Palestinians working in these two major markets (where 400, 000 Palestinians return back From Gulf states and to WBGS as a result of the Gulf crisis in 1990-91), which together employed almost half of the manpower from the territory by the end of 1980[11]. On the other hand, foreign assistance has increased with the establishment of the PA. Between October 1993 and September 1998, donors (around 48 countries, 13 of them Arab) responded to the call for resources by committing a total of US$3.66 billion in assistance to the Palestinian people and disbursing about US$2.5 billion[12]. Donor support has been intended to help the Palestinians achieve sustained economic growth and develop a sound economic and sociopolitical base that would contribute to peace and stability in the region.

International financial aid between 1994-2000 fluctuated in commitment and disbursement according to the status of the political settlement process. International aid to the PNA fell from $506 million in 1994 to $369.3 million in 2000 (27%). The peak of grants and international aid was in 1995 ($554.4 million) and the lowest level was in 2000[13].

1.4. The Palestinian Economy (Constraints and Impediments)

The Palestinian economy is one of the main issues, which has long haunted economists and politicians. The Palestinian economy is almost entirely dependent on Israel and is therefore vulnerable to Israeli measures. This dependence uphold by the Declaration of Principles on Interim self-Government Arrangements, commonly known as Oslo Accords, which kept the border crossings under the Israeli control and divided the Palestinian territories into cantons separated between the Israeli and Palestinian Authorities. Since the occupation of the West Bank and Gaza strip (Occupied Territories) in 1967, many Palestinian economy sectors suffered from stagnation because of the lack of political stability and Israeli impediments to investment in the main sectors:

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[11] United Nations Conference on Trade and development, "Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development", 1996.

[12] The World Bank and the United Nations Office of the Special Coordinator in the Occupied Territories, "Donor Investment in Palestinian Development 1994-1998", A Jointly- Report, 1999.

[13] MAS- Palestine Economic Policy Research Institute, " Economic Monitor Issue No. 8", 2001

1.4.1 Agriculture and Industry: Agriculture plays a vital role in the Economy of the West Bank and Gaza Strip; it generates about 25 percent of Gross Domestic Product (GDP), employs 20 percent of the work force and account for 25 percent of exports. However, Palestinian farmers have demonstrated their competitiveness in high, quality fresh fruits vegetables, and flowers in west Europe by exports through Israel[14]. However, the industrial sector has suffered from very low level of industrialization, and currently faces a number of serious obstacles; one of them is the shortage of water. Movement of goods and services is often blocked by border closures. On the other hand, its contribution to Palestinian economy account for 8 percent of GDP and 16 percent of total employment.[15] Compared to other economies with similar income levels and at the same stage of development, the share of industry to GDP in the West Bank and Gaza Strip has been consistently low its share in GDP has not exceed 10 percent in other economics reached to more than 30 percent[16].

1.4.2 Construction and Housing: Notwithstanding the constraints of occupation, construction and housing have evolved into a major sector of the Palestinian economy, playing an important role in the generation of employment and income. Whereas the construction contribution to GDP has exceeded 6 percent before 1967, it rose to around 17 percent by the end of the 1970s, it remained over 15 percent during the 1980s until the Intifada in 1987, when it declined to around 12-14 percent[17]. This percentage of contribution of domestic production remained fluctuating among 15 to 17 percent from the start of peace process in 1993 until the beginning of Al-Aqsa Intifada in September 2000[18]. Meanwhile, the sector's share of employment also increased from about 14 percent in 1970s to 27 percent in 1993 it remained approximately 22 percent during 1993 until 2000 with the starting Al-Aqsa Intifada[19].

In view of the overpopulations in Gaza Strip and refugee camps and some cities in West Bank, whereas the Palestinian population estimated to have reached 3.15 million, approximately 36 percent of them live in Gaza Strip which covers 359 sq km. The housing situation constitutes one of most serious economic and social problems confronting the Palestinian people in West Bank and Gaza Strip. As we know the percentage of population

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[14] The World Bank, "West Bank and Gaza-Agriculture Sector" Rehabilitation project , 1997.
[15] MAS-Palestine Economic Policy Research Institute, " Opportunities and Possibilities For Industry in the West Bank and Gaza Strip". Issue No. 9, 1997.
[16] The World Bank, "Developing the Occupied Territories: an Investment I Peace". Volume3 Washington, 1993.
[17] Abdul Hadi, R. "Construction and Housing in the West Bank and Gaza Strip", 1994.
[18] Palestine Monetary Authority, "Annual Report", 1998.
[19] Ibid

aged 15 years and over is 53.4 percent at the end of 2001, as well as the birth rate is very high among the Palestinian families.

1.4.3 Tourism: The West Bank and Gaza Strip have great potential as a tourist destination because of its religious, historical, archeological, natural, and cultural attractions. Although, the annual number of visitors to the church of nativity in Bethlehem and archeological sites of Jericho are approximately 1.3 million the limited contributed contribution of the tourism sector to the economy is not surprising, given it's stagnation in the last three decades of political uncertainty and Israeli restrictions[20]. The contribution of the tourism sector exceeds not 2 percent of GDP since 1967, for 0.5 percent of excluded Jerusalem city and only one percent of labor force[21].

1.4.4 Labor Market: As direct result of occupation, the Palestinian economy is tied directly with Israel through many channels. Labor market and foreign trade are important channels with Israel. Structural imbalance within the Palestinian economy makes it unable to absorb the growth of the labor force, creating a large surplus of workers and dangerous growth in unemployment in the West Bank and Gaza Strip. Since the occupation, Palestinian have depend on Israeli labor market to absorb a large portion of surplus labor force, between 1975-1990, the Israeli labor market absorbed 25-40 percent of the Palestinian labor force, and their income constituted 25 percent of the (GNP)[22]. In 1991 nearly 40 percent of Gaza's labor force and over 30 percent of the West Bank's labor force worked in Israel[23].

However, following the Oslo Accords the number of workers employed in Israel dropped from 120.000 in 1992 to 36.000 in 1996, although, the number later rose again to 70.000 by 1997 and of 135.000 by 1999[24]. At the same time unemployment rates reached 20.3 percent in 1997 and declined in 1998 to 14.4 percent. However, the estimations indicate that it is added to the labor market 30.000 person annually, and the necessary investments are estimated to engage one person by 15.000 dollar, which means that the Palestinian authority is in need to annual investment of 450 million dollar to keep on the same unemployment level and also in need of 2 billion dollar to delimit from the unemployment problem[25]. After the outbreak of Al-Aqsa Intifada, the number of the Palestinian workers in Israel declined

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[20] Diwan, I. and R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary. MAS-World Bank Joint Report, 1999.
[21] Palestine Monetary Authority, "Annual Report", 1998.
[22] Farsakh, L, "Palestinian Employment in Israel 1967-1997: A Review", Ramalla, MAS, 1997.
[23] The World Bank, "Developing the Occupied Territories: an Investment I Peace", 1993.
[24] Farsakh, L, "Palestinian Employment in Israel 1967-1997: A Review", Ramalla: MAS, 1997.
[25] Palestine Monetary Authority, "Annual Report ", Ramalla, 1998.

precipitously from an estimated 146.000 in the third quarter of 2000 to 44.000 workers in the fourth quarter of 2000, representing a 70 percent declined. Between the third quarter of 2000 and the third quarter 2001, overall Palestinians employment in Israel has declined by some 57 percent. Gaza strip suffering by the border closures more than the West Bank, whereas, the declined number of workers in Israel from west Bank and Gaza strip was 42 percent and 90 percent respectively[26].

1.4.5 Foreign Trade: The West Bank and Gaza Strip as a result of prolonged occupation are heavily depending on Israel for infrastructure services of Trade (Ports and Airports); Palestinian foreign trade is largely tied to Israel. Some 95 percent of West Bank and Gaza Strip (WBGS) total exports are to or via Israel and also around 90 percent of WBGS total imports come from Israel or through Israeli ports and are subject to Israel customs[27]. Unlike the normal procedure applied in foreign international trade, the Palestinian goods exported to Israel or to other countries via Israel are subject to special procedure. These Israeli measures are implemented under pretext of security and standards, but aim to delay the goods in ports, to increasing costs and reducing competitiveness with Israeli and foreign products. As a direct result of Israeli measures, the estimates of international monetary fund, World Bank and Palestinians ministry of finance reveal merchandize exports were nearly cut in half between 1992 and 1996, from 11 to 6 percent of GDP and imports fell from 46 to 38 percent of GDP[28]. While Israel controls and overrules of the Palestinians natural resources, the Palestinian economy sectors (Agriculture, industry and construction) depends largely on Israeli and imported raw materials. The vast majority of Palestinian exports and imports go and come from Israel or via Israeli ports, thereby the Palestinian economy becomes hocked of the Israeli measures.

The Palestinian economy is suffering from trade deficit since the occupation in 1967 the trade deficit of West Bank rang between 34 - 37 percent of it GDP in the years 1972 to 1990, while the trade deficit of Gaza strip was 54 percent of GDP in 1972, reached 61 percent GDP in 1980, but in 1990 as a result of Israeli border closures amounted to 93 percent of GDP[29]. On the one hand, West Bank and Gaza Strip ran a trade deficit in 1998 approximately 60 percent of GDP. However, after outbreak of second Intifada in September, 2000, Palestinian

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[26] UNSCO, The Impact on the Palestinian Economy of the Recent Confrontations, Border Closures and Mobility Restriction (1October 2000-30 September 2001), 2000.

[27] MAS-Palestine Economic Policy Research Institute, " The Economic Monitor, No. 7." Ramallah, 2000.

[28] Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary. MAS-World Bank Joint Report, 1999.

[29] United Nation Conference on Trade and development, "Prospects for Sustained Development of the Palestinian Economy in the West Bank and Gaza Strip, 1990-2010", 1994.

imports from Israel declined by more than 33 percent, while exports declined by more than 17 percent in the first half of the year 2001 compared to the same period of 2000[30].

Table (1): Estimated Palestinian Foreign Trade Patterns in 1998

	Imports Mill. S$	(%)	**Exports** Mill. US$	(%)
Arab League Members	35	1.1	25	3.4
Free Trade Countries[31]	423	13	35	0.7
Israel	12,422	75.9	697	95.8
Rest of the World	312	9.8	0	0.0
Total	3,192	100.0	727	100.0

Source: United Nation Conference on Trade and development, "trade options for the Palestinian Economy, Some Orders of Magnitude", 2001.

1.4.6 Macro Level: The Palestinian economy is characterized by its limited size and large macroeconomic imbalances, the Gross National Product (GDP) of the West Bank and Gaza Strip was estimated at $4,954 million in 1999. East Jerusalem accounted for 6.7 percent of total Palestinian GDP, while the West Bank (excluding East Jerusalem) contributed 63.9 percent and the Gaza Strip accounted for 29.4 percent[32]. Unlike all positive expectancies, the economic situation in West Bank and Gaza Strip is worse than what it used to be in 1992. The Gross National Income (GNI) of the West Bank and Gaza Strip totaled $6,124.7 million, 23.6 percent higher than GDP[33]. This is a reflection of Palestinian dependence on foreign markets, especially Israeli economy.

However, real Gross National Product (GNP) per capita income dropped by more than 17 percent between 1994-1996, and unemployment soared to over 28 percent in 1996, GDP growth was negative in 1996 and 1997 at -5.1 percent and -0.7 percent respectively[34]. Despite the advance of Palestinian economy during 1998 to 2000, unless GDP growth is not exceeded 2 percent[35]. However, real per capita average expenditure in the 1995-96 survey periods is about 15 percent below its average for the years 1992-93. By 1998, government consumption was almost 25 percent of GDP (compared to 15 percent in 1995), which is among the highest

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30 UNSCO, "the Impact on the Palestinian Economy of the Recent Confrontations, Border Closures and Mobility Restriction (1October 2000-30 September 2001)", 2000.
31 The Free Trade Area Countries group includes: EU counties, USA, Canada, The Czech and Slovak republics, Turkey, Hungary, Poland and Slovenia
32 Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary", MAS-World Bank Joint Report, 1999.
33 MAS-Palestine Economic Policy Research Institute, "The Economic Monitor, No. 6". Ramallah, 2000,
22 Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary", MAS-World Bank Joint Report, 1999.
35 Palestinian Monetary Authority, "Annual Report", 1999.

in the Middle East, however Private investment in productive activities remains low, around 14 percent of GDP, while public investment amounts to 8 percent of GDP. Furthermore, GNP exceeded GDP by more than 20 percent, and the trade deficit is about 50 percent of GDP[36].This is a reflection of Palestinian dependence on foreign markets, especially Israel.

1.5. Peace Process and Economic Viability

When the Palestinian Authority began to exercise its function in May 1994, as envisioned in the Declaration of Principles signed between Israel and Palestine Liberalization Organization (PLO) in Washington, in September 1993, was expected to be accompanied by a significant transformation of economic conditions in the West Bank and Gaza Strip. And also the Palestinian People expected that, the new situation engendered by the peace process may be able to bring about rapid economic change and create a new enabling environment for economic development. Contrary to all hopes, the economic situation reflected deterioration and fragmentation in all markets, coupled with virtual paralysis of the public sector. Although, one of the main aim of the peace process is establishing strong economic infrastructure of the visible Palestinian State, Some political pundits believe that during the movement for Freedom, economic issues seldom attract much attention. They argue that economic problems can be confronted after. But surprisingly, ten years after the initiation of peace process, the question of the economic viability of a Palestinian state still unresolved.

It is generally understood that an economy is viable if it is able to use and exploit its resource endowment, e. g. the land and water, other natural resources like raw materials, the capital, energy resources, and the people (the human capital and the size of work force and consumer market) to grow, sustain itself and increase the welfare of the inhabitants living within its area. To be sure, the people (the human resource) are the most critical variable in any economy. It is not only the will and determination of a people to survive, but also their dynamism in transforming the natural resources into wealth.

The success of the East Asian Tigers and Western states, in attaining prosperity has revealed the power of outward oriented policies in enhancing growth. In particular, openness to world trade and to financial flows has proved to be a viable vehicle for prosperity, since it induces economies to specialize in areas of their comparative advantage and to attract needed capital and inputs[37]. Regional integration projects are also looked upon as a supportive means

[36] The World Bank, "Poverty in West Bank and Gaza", 2000.

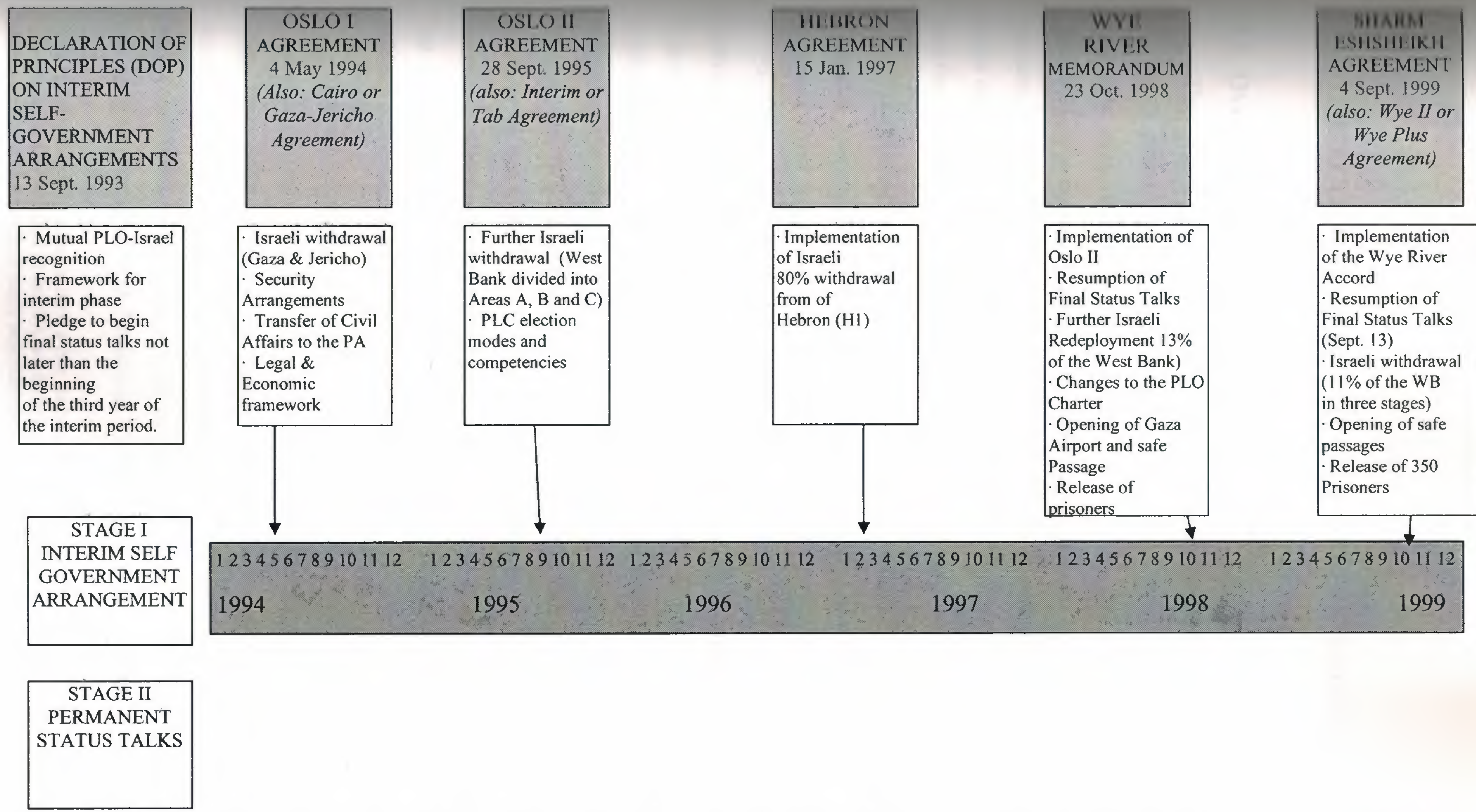
[37] Oman, C., "Globalization and Regionalization: The challenge for developing countries", Paris, 1994.

for integrating into the world economy and for sustaining growth. In the Palestinian context, it is difficult to talk about economic viability or the means to achieve it due to the absence of a workable definition of what is a Palestinian economy. While it is generally agreed that the Palestinian economy covers the West Bank and the Gaza Strip, the territories and borders delineating these areas are not well defined. In addition, the Palestinian Economy has been subjected to a number of handicaps:

Disintegration, under the absence of any territorial link between the WB/GS territories: Are the West Bank and the Gaza Strip really one and the same economy? **Settlements,** while over 200 Israeli settlements are entrenched in different parts of the West Bank and Gaza Strip, is it possible to talk about the economy of Palestine? **Confiscated Land**, while the Israel Occupation confiscating more and more from the Palestinian land under the pretext of security, bypass roads and natural growth for settlements, is it possible to talk about economic integrity? **Jerusalem**, can there be growth and prosperity in Palestine while Jerusalem -which is the physical and economic link between the North and the South of the West Bank is not included? **Trade;** can trade be a vehicle for Palestinian growth before borders are clearly defined with Israel, Jordan and Egypt, as well as with the rest of the world? Can regional integration be a motor for growth while Palestinian territorial sovereignty is not clearly demarcated? **Water**, is it possible to talk about useful utilization for Palestinian natural resources, while Israel controls and overrules about 73 percent of Palestinian water resources?

1.6. Summary

It is clear that, the Palestinian economy is operating substantially below its potential, this situation due a mainly to more than 27 years of direct military occupation, which subject the WBGS economy to a severe fiscal and financial repression, and inhospitable environment featuring infrastructure gap (roads, ports, ...etc), weak public services, absolute institutional frame works, as well as weakened its industrial and agriculture base. Therefore, the Palestinian economy characterized by limited size, a large macro economic imbalance and high and available unemployment rates. So this situation led to many economic and social troubles, for instance, the Palestinian economy is increasingly less able to generate and sustain enough jobs and incomes for its people, as well as the standard of living has continued to fall in the midst of massive unemployment and rising poverty.



OVER ALL FRAMEWORK FOR THE INTERIM PERIOD AND PALESTINIAN SELF-GOVERNMENT

CHAPTER 2

THE ECONOMIC PROTOCOL AND ECONOMIC VIALABILITY

2.1. Overview

The Protocol on Economic Relations between the Government of the State of Israel and the P.L.O. (Paris Protocol) was signed on April 29, 1994, which is the document governing economic relations between Israel and the West Bank and Gaza Strip (WBGS).The Paris Protocol is the economic wing of the political agreements of so-called Middle East peace process, which was initiated in Oslo on 1993. It pertained to the five-year interim period that came to an end on May 4, 1999, and then a move to "final status". This has not yet happened and the situation now is one of a de facto extension of the interim period.

This discussion will spotlight the success and failures of the protocol with respect to economic viability, with reference to four main economic blocks that are *labour issues, trade relations, fiscal issues and monetary arrangements*. In the preamble, it declares that its aim is to "lay the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plans and priorities". The *means* to attain this aim is through two main measures: the establishment of a Palestinian National Authority in the WBGS, which is responsible for managing the economy, and the establishment of a peculiar form of custom union (CU) between the WBGS and Israel[1]. The domain of the Palestinian national authority (PA), however, is not to be territorial but functional. This means that it could run the civil and economic affairs of 93% of the Palestinians living in WBGS (excluding East Jerusalem) but has no sovereign control over land and resources, which is, of course, the core issue to achieve economic viability for a Palestinian state.

Recent economic performance reveals that the operation of fundamental political processes continues to govern the development Palestinian economy in the West Bank and Gaza Strip (WBGS), namely economic transactions are often determined by political or security considerations. The establishment of the Palestinian Authority (PA) generated widespread hopes and expectations for economic recovery within a context of peace, stability and economic integration of Palestinian Territory (WBGS). While important steps have been

[1]The Palestinian team wanted to have a free trade agreement rather than a custom union agreement. However Israel rejected their demand as an FTA would have led to a de facto recognition of borders; an issue which both parties agreed to settle in final status negotiations.

taken in that direction, political uncertainty and uncertainty about future in the period since 1993 have reinforced a declining trend in Palestinian Economy to attain the Economic Viability.

2.2. The Pre-Protocol Situation

The Israeli Occupation of the Palestinian Territories in 1967 severed all links with Egypt and Jordan and Brought annexation with the Israeli economy. As a part of its strategy to annex the Palestinian Territories and incorporate the Palestinian People in its society, Israel opened the door to Palestinian workers who look for jobs in construction, agriculture and other labor intensive activities, which was mainly because of the economic benefits of Israel.

In addition to free access to the Israeli labor market, Palestinians had access to the oil rich economies of the Gulf. During the economic expansion in the Gulf States in the 1970s, many Palestinians were sending back large amounts of money. As a result, between 1969 and 1980 per capita GNP in the Palestinian territories grew at an astonishing 9.7% per year (per capita GDP grew at 7.1%). Between 1981 and 1992 Palestinian GNP growth collapsed to 1.9% per year (and per capita GDP growth to 1.5%)[2]. On the other hand, the onset of the *Intifada* in 1987 brought more political uncertainties and strikes of economic activity. Coupled with this, the outbreak of the Gulf War in 1991 made the Palestinians unwelcome in the Gulf. Under pretext of security, Israel imposed its own restrictions on Palestinian labour, through permit policies and unpredictable border closures. Consequently, Palestinians had access to two rich labour markets, in Israel and the Gulf; they were left with neither, no source of outside funds and no domestic employment[3].

The trade relations between Israel and the West Bank and Gaza Strip were and still are under the Israeli control. There was no customs border between Israel and the WBGS. Exports from Israel to the WBGS were in principle completely free (though there was a voluntary boycott of Israeli goods during the Intifada), but Palestinian Exports to Israel from the WBGS were subject to restrictions. Agricultural and industrial Exports were partially restricted, while officially unrestricted, were limited by standards requirements and by bureaucratic limitations placed on the development of industry in the WBGS[4]. Still, the WBGS did not have access to foreign markets except through Israeli controlled borders.

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[2] Pissarides, Christopher, "Evaluating the Paris Protocol: Lessons learned and Future prospects", 1999.
[3] United Nation Conference on Trade and development, "The Palestinian Economy and prospects For Regional cooperation", Geneva, 1998.
[4] MAS- Palestine Economic Policy Research Institute, " Economic Monitor Issue No. 8", 2001

2.3. The Paris Protocol: Hopes and Disillusions

Among the various accords, the Paris Protocol, signed in April 1994 after six-month-long negotiations, established the new rules governing economic relations between Israel and the Palestinian territories. As stated in its Preamble, the "spirit" of the Paris Protocol was to "view the economic domain as one of the cornerstone in the mutual relations" between the two parties "with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace". The Protocol was "to lay the ground for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plan and priorities". Along with, the two parties were to "cooperate to establish a sound economic base for their relations, who will be governed in various economic spheres by the principles of mutual respect of each other's economic interests, reciprocity, equity and fairness". As well as, the two parties were "recognizing each other's economic ties with other markets and the need to create a better economic environment for their peoples and individuals"[5].

In effect, the Protocol reflects the political situation, the peace process was in its early stages, and negotiations were clearly between two parties of unequal standing. The wording of the agreement, and some resulting ambiguities, were the result of an attempt to compromise between the Palestinian and Israeli positions. On the other hand, the general aim is to pinpoint the areas in which the Protocol presents a radical departure away from the economic environment prevailing until 1994 and the areas in which it still retains the restrictive elements of that environment[6].

However, the tow parties (Palestinians and Israelis) had very opposite views on their political future and, to a less extent, on their specific economic interests. On the political side, the views were particularly contrasted. *The Palestinians wished to* attain maximum symbols of sovereignty, *namely, they wished to see the entity envisaged by the Declaration of Principles as the precursor of a future sovereign Palestinian state and the interim period as inevitably leading to it,* Israel objected to granting the Palestinians rights which implied political sovereignty[7]. On the economic side, the contrast between the objectives was less striking, although the Palestinian side being much smaller, much poorer and much less developed, , the

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[5] The Protocol on Economic Relations, "preamble".

[6] United Nations Conference on Trade and development (1996), "Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development".

[7] Kleiman, Eph., "The Economic Provisions of the Agreement between Israel and the PLO", in the Israel Law Review, 1994.

Palestinians had an evident interest in retaining and even broadening their access to Israeli markets, both the goods market and the labor market. At the same time, they were eager to strengthen their relations with the neighboring countries.

Moreover, on the trade side the Palestinians expected the Protocol to have two important trade effects; the elimination of the prevalent impediments of exports to Israel would be a major stimulus to the exports, particularly of agricultural products, and the Free Trade Area type (FTA) additions would lead to considerable trade diversion. Meanwhile, Israel wanted to secure its import policy and therefore was keen to avoid open or porous external borders in the Territories that could provide a tax- and regulation-free import channel[8].

Essentially, the Protocol replaced what was in effect a one sided custom union (CU) with a more bilateral one. The Economic Protocol binds the WBGS in a custom union with Israel, which give the Palestinian National Authority some Limited means to achieve viable economic environment for its entity. The Custom Union with Israel allows for the free movement of capital and goods except for a list of agricultural goods to be phased out by the year 1998[9]. Free movements of labor flows between the two economies are not guaranteed, but the economy of the West Bank and the Gaza Strip is allowed to trade directly with Arab and foreign countries for a limited list of goods. Moreover, the CU gives the Palestinians the right to decide on their economic priorities, to determine the nature of their employment, industrial and agricultural policies, as well as to impose tax and to invest in areas under its control. It also gives the Palestinians limited leeway in monetary and trade policy. However, Palestinian trade remains bound by Israel trade policy. Israeli tax rates, both direct and indirect, also remain the governing guidelines, as are Israeli standards and import regulations[10].

2.4. Disillusionment with the Protocol (Disillusion after Hope)

The Economic protocol however did not give the PA all the necessary means to achieve economic growth, however the Palestinians were expect, the new economic environment under the Protocol will enable them to return to pre-1987 intifada growth rates. But the years following the signing of the Paris Protocol reveal exiguous economic growth in the WBGS and trade has not developed in the way expected. The Numbers and Estimates which calculated by

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[8] Pissarides, Christopher, "Evaluating the Paris Protocol: Lessons learned and Future prospects", 1999.

[9] The major exceptions of agricultural goods were five exports (eggs, poultry, potatoes, cucumbers and tomatoes).

[10] United Nation Conference on Trade and development, "The Palestinian Economy: Achievement of the Interim Period and Tasks for Future", 2001.

The Palestinian Central Bureau of Statistics (PCBS) and Israeli Central Bureau of Statistics (ICBS) indicate that the period after 1994 witnessed fluctuation in the performance of Palestinian Economy. According to IMF estimates, the overall GDP growth over 1994-98 has reached a disappointing average of 2.8 percent. The yearly profile of economic performance has largely followed the cycle of closures. An initially better performance in domestic output in 1993-94 (+ 3.8%) was led by a surge in private and public investment (+37%) as well as in exports of goods and services (+39.8%), while private consumption was stagnating. In the following years, the Palestinian economy has witnessed a sluggish GDP growth (+2.1%). Investment, notably private, has strongly declined over 1996-98 (-6.9%), fortunately relayed by a strong increase in public consumption (6.9%). Growth in export of goods and services has then slackened, together with growth in imports of goods and services after the 1995 boom[11]. These recent trends in exports and private investment are particularly worrying since they are key to future overall growth, income and external balance prospects.

Table (2): West Bank and Gaza Strip Macroeconomic Performance (1994 to 1998)

Growth Rates in %	1994-98	1994-95	1996- 98
(1986 constant prices)			
Gross Domestic Product (GDP)	2.8	3.8	2.1
Imports of goods and services	12.2	16.9	9.1
Exports of goods and services	19.5	39.8	7.6
Consumption	6.1	1.0	9.6
Private	3.2	-2.1	6.9
Public	19.2	18.1	19.9
Gross Fixed Investment	8.7	37.1	-6.9
Private	5.4	35.1	-10.6
Public	13.2	28.4	4.1
Net factor income	0.3	-9.3	7.3
Gross National Income (GNI)	2.4	1.5	2.9
Net transfers in % of GNI per. Average	14.4	15.7	13.6
Gross Disposable Income (GDI)	1.9	2.3	1.6

Source: Kessler, V. (1999)"Palestine's External Trade performance under the Paris Protocol: Hopes and Disillusions

[11] Kessler, V. "Palestine's External Trade Performance under the Paris Protocol: Hopes and Disillusions", 1999.

The PCBS estimate of total exports in 1997 and 1998 where in the vicinity of $450 million. While exports in general, and to Israel in particular, increased compared to the low rate of 1993, the expected significant surge did not take place[12]. However, Israel is the main market for Palestinian exports and imports, while the Palestinian exports to Israel from 1994 to 1998 ranged between 84 percent and 94 percent respectively, did not exceed 13 percent to Arab countries and 4 percent to rest of world. Also imports from Israel ranged between 87 percent and 81 percent from 1994 to 1998 respectively, while it not exceeded 15 percent from the rest of world[13]. But an important thing is the exports represented approximately 9 percent of GDP among 1994 to 1998, while the imports represented 51 percent of GDP at the same years[14]. Thus, this mean there is trade deficit of Palestinian economy. Clearly, the hoped for trade diversion did not take place, neither in exports nor in imports.

On the other hand, the Protocol does not address natural resources at all. It was agreed that there will be no change in sovereignty over land and settlements in the transnational period. This situation affected negative by the viability of economic sectors and composition of WBGS exports. For instance, agricultural production was clearly affected by limited water supplies, which largely remained subject to Israeli control. Citrus exports, in earlier years the major export of Gaza, declined due to salinity of the soil. Industrial exports, though relatively large, remained small absolutely. So this reflects deteriorated condition in the agricultural sector. However, the commodity composition of WBGS exports in 1998 consisted of some 64 percent manufactured goods and only 20 percent agricultural products[15].

2.5. The Protocol: The Main Economic Blocks

The establishment of PA attracted more attention for many issues which consider the main economic blocks in the Palestinian economy. Labor issues, trade relations, fiscal issues and monetary arrangements are the most important elements in the economic relations between WBGS and Israel. They play a major role in achieving economic growth and attaining economic viability. However, the evaluation of these economic blocks began with signing of the Paris Protocol.

Notwithstanding the terms of the Israel-Palestine accords that give the PA the right for exercising its functions and of economic decision-making in accordance with its own

[12] Halevi, N., "Trade and the Paris Protocol", 1999.
[13] United Nation Conference on Trade and development, "The Palestinian Economy: Achievement of the Interim Period and Tasks for Future", 2001.
[14] Ibid
[15] Halevi, N., "Trade and the Paris Protocol", 1999.

development plans and priorities, the economy remains largely influenced by external political and economic imperatives. The chief characteristics of that imperative has been demonstrated most notably by the increased restrictions and constraints on movement of goods and people imposed since 1994, the use of natural resources, production orientation, mobilization and allocation of financial resources, and composition and direction of trade activities.

2.5.1 Trade Relations

In the period 1967 to 1994 Palestinian trade policy was completely determined by the Israeli trade policy. All tariffs, other levies, requirements of standards etc. applied to imports from third parties adopted by Israel were automatically in effect for the West Bank and Gaza Strip too. Since 1994, the guiding principles for the West Bank and Gaza trade policy have been defined in the *Protocol on Economic Relations between Israel* and *the PLO,* signed in Paris on April 29 1994. The Palestinian trade sector currently depicts a weak and deteriorating situation. The pattern of trade has been greatly skewed toward one market, and merchandise trade suffers from a large and increasing deficit, which results from the long-term trends of declining exports and unconstrained imports. Naturally, these two trends in exports and imports have resulted in a substantial and increasing trade deficit, which reached about 40[16] percent and 60[17] percent of GDP in 1993 and 1998 respectively. The bulk of the deficit has been with Israel, reflecting its growing relative significance as an export market and predominant role as a source of imports.

As backbone of the Palestinian economy, the trade sector has been tasks in the transition period and beyond. The task of revitalizing the trade sector involves policies to increase the capacity for production, and re-establish entry into neighboring markets and access to new ones. The trade relationship between Israel and the Palestinian economy remains, generally maintained by the interim period economic accords, so these tasks cannot be completed during the interim period which is insufficient to affect such a profound and comprehensive transformation of production and trade structures. Furthermore, the economic policy environment of the interim period limits the possibilities for bringing about complimentary changes which are a prerequisite for successful transformation. According to a number of studies, the poor trade performance of the Palestinian economy since 1993 is primarily the result of an imperfect implementation of the Paris Protocol, caused mainly by restrictions on

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[16] United Nations Conference on Trade and development (1996)," Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development".
[17] World Bank (2001), "Trade Options for the Palestinian Economy, some Orders of Magnitude".

movement of goods and people at borders and within West Bank and Gaza as a result of security measures implemented by Israel[18] or may be understood as an interplay between restrictions on production and barriers to trade existed by Israel.

Furthermore, the protocol does not give the Palestinian Authority full control over natural resources. Restricted use of land and water will continue to hamper the regaining of full capacity utilization. Therefore, the protocol has been negative impacts on Palestinian trade performance, along with the PA which could not begin its tasks to improving economic conditions. Negotiating trade agreements with neighboring countries is also not free of obstacles. Nevertheless, the Protocol does have some positive elements that allow Palestinian trade to become more vibrant, and allow the PA to reap some benefits. In the trade area, many new provisions were quite positive, especially when seen in the overall context of much larger autonomy of the Territories over their economic, financial and administrative organization and policy. Meanwhile, some important changes have been agreed and implemented in the trade policy environment since 1994, but the scope for developing Palestinian external trade remains hocked by political and security considerations. Exactly, this happened when the political situation changed with outbreak of Al-Aqsa Intifada, where PA achievements became in windward.

2.5.1.1 Trade Regime and Trade Issues

Before the signing of the Paris Protocol, trade between Israel and the Palestinian territories could be described as a one-way customs union. Israeli goods had free access to Palestinian markets but Palestinian agricultural goods had only limited access to Israeli markets. The Protocol on Economic Relations created a trade regime between areas under PA control and Israel that is something of a hybrid between a free trade area and a customs union. In view of political signing agreements and under Israeli inordinate desire of hegemony, the quasi-customs union was the only possible compromise among different trade regimes. If we refer to the past: What were indeed the trading arrangements alternatives? They were, in a decreasing order of economic integration and achieving trade viability: a common market, a customs union and a free trade agreement.

A common market was rejected, because both sides, neither the Palestinians nor Israel wanted a deeper integration[19]. To the Palestinian Authority, the best alternative was probably a free trade agreement, because it would have allowed her to pursue its own independent

[18] The World Bank, "Trade Options for the Palestinian Economy, some Orders of Magnitude, 2001.

[19] A common Market means that in addition to the customs union, member states allow labor and capital (as well as goods) to flow freely across borders (Coldstein, J., "International Relations" second edition, p 395).

import policy. But such agreements would have required borders between the Territories and Israel to check the origin of the goods passing the borders, and would have required an agreement on rules of origin to decide on which goods were incorporating enough "local" value added to be exempted from tariffs and regulations applying to imports from the rest of the world. An alternative could have been to implement notional borders. In the text of the Protocol, the articles defining the external trade regime of the "Areas" were quite central to the overall agreement. The main thrust was to pursue with the previously implicit customs union while getting rid of its major asymmetries and providing substantial customs revenues to the Palestinian Authority (PA).

2.5.1.2 Trade Arrangements: Difficulties and Constraints

Israeli goods have free access to Palestinian markets, but also Palestinian goods, with some minor and temporary exceptions and restrictions, have free access to Israeli markets. Article III of the Paris Protocol's provisions have been complex: For products on Lists A1 and A2 and in quantities agreed upon by the two sides. These goods (mostly food products and construction material) can be imported from Jordan and Egypt in particular, and from other Arab and Islamic countries in general, instead of Israel. However, while PA can exercise complete discretion over tariffs (customs duties, purchase taxes, levies, excises and other charge) on imports for limited quantities of commodities from specified sources identified in List A1 and List A2 and on imports with no restrictions on quantities in List B. Products not on lists A1, A2, or B, or those on lists A1 and A2 but exceeding the quotes, will be subjected to the minimum of Israeli tariffs.

For other products, such as fuel and automobiles, special import regime and standards are adopted. "The PA will determine its own rates of customs and purchase tax on motor vehicles imported as such, to be registered with the Palestinian Authority" (paragraph 11a). The PA is also allowed to import used passenger cars up to three-years-old, subject to approval by a joint Palestinian-Israel committee, and is free to determine the price of petrol derivatives, except gasoline, as long as the price derivatives does not exceed 15% of the consumer price in Israel[20].

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20 United Nations Conference on Trade and development, "Palestinian Merchandise Trade in the 1990s: opportunities and Challenges", 1998.

Box 1: Trade Arrangements in the Paris Protocol

The Protocol has provided the Palestinian economy with a trade regime characterized by:

- free and unrestricted trade with Israel, except for temporary quotas for the access of five agricultural Palestinian products to the Israeli market (poultry, eggs, potatoes, cucumbers, tomatoes) while exports of Israeli melons to the Palestinian territories were symmetrically limited.
- the Israeli import policy for all goods imported from third parties and not specified in Lists A1, A2, and B (see below). This means that the Palestinian Authority (PA) has to employ the same regulations as Israel regarding classification, valuation and other import procedures, the same policies of import licensing and standards requirements, and has to use the Israeli rates of customs duties, purchase tax, levies, excises and other charges as a minimum basis for these imports.

However, the PA has some power over the import policy for certain goods and certain origins. Exceptions fall into four categories:

a) the PA can exercise complete discretion over tariffs (customs duties, purchase taxes, levies and excises), and over conditions of importation (licensing, procedures and standards requirements) for certain goods of certain origin, but in limited quantities (list A1[21] and A2[22]). To avoid large-scale smuggling to the Israeli markets, the quantities are limited to the Palestinian market needs estimated by a joint sub-committee of experts, agreed upon by the two sides, and reviewed and updated very six months.

b) the PA can exercise some discretion over tariff rates for certain goods crucial to the Palestinian development program, in unrestricted quantities (list B[23]). Note that if the PA was to decide to lower tariffs on these items, Israel would have no other choice but to follow suit.

c) the PA can determine its own rate of customs and purchase tax on motor vehicles to be registered with the PA. Israeli standards will however apply. Imports of used passengers cars (forbidden in Israel) are allowed in the P. Territories, provided they are no more three years and comply with the standards;

d) The PA can freely import petroleum products provided they meet the Jordanian standards and in quantities according to markets needs. However, to avoid smuggling into Israel, gasoline will have to be marked in a distinctive color, and its final price will not be lower than 15% of the official final consumer price in Israel.

The other prominent features of the trade-related articles pertain to the issuance of import licenses, to potential changes in standards requirements, to the role of the JEC, to the entry/exit points and responsibility over customs procedures, and to the clearance of revenue from customs. It is worth noting that:

- Each side can issue import licenses to its own importers;
- Israel may change any aspect of its import policy, provided that changes in standards requirements do not constitute a non-tariff barrier;
- in the entry points of the Jordan River and the Gaza Strip, the PA has full responsibility and powers in the customs points for freight (in the presence of Israeli customs officials who are entitled to ask for inspection), and full administration of their own passengers customs procedures (with the invisible presence of Israeli customs officials entitled to request inspection).

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[21] The list A1 initially consisted of 29 tariff items of goods locally produced in Arab countries, with 2/5 of them restricted even further by having to have been produced in Egypt or in Jordan.

[22] The list A2 initially consisted of 18 tariff items which could be imported from all Arab, Islamic, and other countries without having necessarily been produced there.

[23] List B consist mainly of machinery, equipment, tools, and some semi-processed pharmaceuticals and raw materials for the wood industry.

All goods imported from third parties and not specified in Lists A1, A2, and B will subject to the Israeli imports policy. This means that the Palestinian Authority (PA) has to employ the same regulations as Israel regarding classification, valuation and other import procedures, the same policies of import licensing and standards requirements, and has to use the Israeli rates of customs duties, purchase tax, levies, excises and other charges as a minimum basis for these imports and this means also that the valuation of all PA imports is based on the General Agreement on Tariffs and Trade (GATT) 1994 agreement, while classification of goods for customs purposes is in line with the principles of the Harmonized Commodity Description and Coding System (HS)[24]. However, these trade arrangements present obstacles to negotiating suitable trade arrangements between the Palestinian economy and its other neighbors.

2.5.1.3 Trade Arrangements: Failure by Limitations

Since 1994, the Protocol has been the subject of growing analysis and debate, from different conceptual and policy viewpoints. Many of these examinations have highlighted some of the major omissions or shortcomings of the Protocol, aspects which are considered to diminish the trade viability for Palestinian economy. The Protocol aimed to confer upon the Palestinian economy significant benefits, in respect of viability for the trade sector, as addressed in the Preamble and relevant articles, namely: Strengthening the base of the Palestinian economy and the PA's independent and institutional economic decision-making processes, in accordance with its own development plan and priorities; facilitating regional trade diversification by establishing direct economic links with Arab countries, particularly Jordan and Egypt; Opening up the Israeli market to Palestinian agricultural and manufactured products by allowing goods to move freely, not subject to customs duties, taxes or quotas. Allowing the PA to receive tax revenues for goods imported by the West Bank/Gaza Strip via Israeli channels, and establishes its own import policy and tariff structure for certain products.

According to many studies which were accomplished by UN Conference on Development and Trade, World Bank and other research institutes reveal that economic developments hampered by the protocol limitations. These limitations resulted from omissions and shortcomings in the Protocol which have effects on trade activities, some of key limitations are:

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[24] United Nations Conference on Trade and development, "Palestinian Merchandise Trade in the 1990s: opportunities and Challenges", 1998.

- **Limitations by "market needs",** the quantitative restrictions placed on Palestinian imports, which limit the latter to amounts that are expected to be sold within the Palestinian economy according to “market needs”. Imports from Arab Countries are limited by “market needs” as determined by the Joint Economic Committee established under the Protocol. However, there are no reliable data for making accurate estimates of “market needs”, limiting imports to the West Bank and Gaza Strip by this measure is seen as interference in the operation of market mechanisms. Disagreement can arise over actual market needs if imports from alternative sources begin to replace imports from Israel; conversely, these quantitative limits can act as effective incentives to monopolistic or price distorting practices by Palestinian importers with favored links with Jordanian or Egyptian markets[25].

- **Limitations for accessibility,** Barriers to trade are one of the most important factors which restricted accessibility to foreign Markets. Loss of accessibility to foreign markets reduces the demand for Palestinian goods, and reduces both production and efficiency. The limitations by protectionist quotas on the import of Palestinian agriculture products in neighboring markets, lifting them only when there are severe shortages that can be met by allowing imports beyond specified quotas[26].Barriers like these have resulted in the loss of profitability for Palestinian farmers, and brought a decline in their investment and production.

- **Facilitating fiscal leakage**: the “re-export” clause (paragraph 15) should ensure that the PA will receive customs revenues on goods sold in the West Bank/Gaza Strip by Israelis that are not of Israeli origin, but are imported from outside Israel with little or no transformation in their value taking place in Israel[27]. In theory, customs revenues generated from these goods should accrue to the PA since they are classified as non-Israeli or Israeli re-exports, but Israel does not receipt PA by that. However, the PA's inability to adequately monitor imports from Israel has resulted in a fiscal leakage between $166 million and $275 million a year during the period from 1994 to 1996[28].

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[25] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998) (UNCTAD/GDS/SEU/1).

[26] El-Jafari, Mahmoud, "Non-tariff barriers: the case of the West Bank and Gaza Strip agriculture exports", Journal of world trade, vol. 25. No. 3, June 1991.

[27] Paris Protocol,, Article III Paragraph 15.

[28] Muna Jawhary, “The Palestinian-Israeli trade agreements: searching for fair revenue sharing” Ramalla, Palestine Economic Policy Research Institute, (MAS), December 1995.

- **Limitations on subsidies:** The Protocol does not address the wide range of subsidies and other non-tariff barriers that benefit some Israeli sectors and products leaving Palestinian industry and agriculture at a disadvantage. Although support measures are gradually being phased out as Israeli trade is liberalized, they continue to operate in some areas with a bearing on the Palestinian similar productive branches[29].

- **Limitations on movement:** While the Protocol calls for free movement of goods between Israel and Palestinian self-rule areas, such movement is subject to the "security measures", thereby constraining the quantities of Palestinian goods exported to Israel, interrupting the smooth flow of imports and of course preventing Palestinian labor flows to Israel[30].

As noted above, the Protocol on economic relations between PLO and Israel creates many limitations which reduced trade viability for the Palestinian economy. The economic base of WBGS still weak, characterized by imbalance, weak infrastructure and poor performance of trade sector. However, negotiating trade agreements with neighboring countries is not free of limitations and obstacles; it is limited by "market needs" as determined by joint economic committee established under the Protocol. And also the trade arrangement, presents obstacles to negotiating suitable trade arrangements between the Palestinian economy and its Arab neighbors, prevents PA to give duty-free treatment to imports from the most countries, except Jordan and Egypt, and restricted accessibility to foreign markets. On the other hand, the protocol subjected movements of goods to "security measures" and failing to capture all the trade tax on goods imported from outside. Along with the Article III Paragraph 15 facilitates fiscal leakage though the PA's inability to adequately monitor imports from Israel. However, the trade arrangement of Protocol works on opposite direction to re-integrate the Palestinian economy with its neighbors.

2.5.2 Labor Issues

For decades, the West Bank and Gaza Strip have been subjected to difficult circumstances. Both the 1948 and 1967 wars led to demographic changes that in turn changed supply and demand conditions in the labor market of the territories. Following the 1967 Six-Day War, dependence on employment in Israel and elsewhere has become the main feature of

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[29] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998).
[30] Paris Protocol, Annex 1, Articles IX and X.

the Palestinian economy[31]. In the last 20 years, outside employment has contributed substantially to the West Bank and Gaza Strip (WBGS) GNP, and played a key role in the Palestinian economy's integration with Israel. Palestinian employment in Israel grew very rapidly after the borders opened in 1968 to between 30 and 35 per cent of the Palestinian work force. Employment in Israel was particularly important for the poorer and less educated sections of the population, predominantly male from rural areas and refugee camps. Since 1993, because of Israeli restrictions, the predominant group has been over 25, male and married. Before 1993, the Israeli labor market was the main destination of first time Palestinian job seekers[32].

In the eighties the Palestinian economy as a whole experienced growth due to that were not a consequence of sustained growth in domestic output. Rather, the payment for labor employed in Israel and emigrants transfers constituted the motor for economic growth of the Palestinian economy[33]. So, the Palestinian labor force constitutes one of the main bases for economic viability of Palestinian economy. The deterioration in the economic conditions of the Palestinian territory owing to the unstable political situation, the absence of a Palestinian planning authority and the restrictions imposed under occupation constrained the ability of the Palestinian economy to absorb its growing labor force, resulting in widespread unemployment. This process also resulted in a growing dependence of Palestinian labor on employment in Israel. With the initiation of peace process, the hope of the official actors in the peace era was that domestic job creation by an export-oriented private sector would expand domestic employment quickly, transforming the Palestinian economy from labor-exporting to commodity-exporting[34], but this hope disappeared when the close policy is implemented, Palestinians workers, business men, and merchandise can be delayed suddenly and for long derived at the borders.

On the local level, the demand for labor in the Palestinian territories fluctuated dramatically in response to economic upheavals and the close policy imposed by Israel. The performance and the role of agriculture sector have declined in peace era, in addition the share

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[31] Kleiman, Ephraim, "The Flow of Labor Services from the West Bank and Gaza to Israel". Working paper The Hebrew University, 1992

[32] Pissarides, Chr.,"Evaluating the Paris Protocol: Lessons Learned Future Prospects", 1999. {Evaluating the Paris Protocol : Economic Relations between Israel and Palestinian Territories, Chapter1 }

[33] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998) (UNCTAD/GDS/SEU/1).

[34] Diwan, I., And R. Shaban, "Development under Adversity: The Palestinian Economy in Transition": Summary, MAS-World Bank Joint Report, 1999.

of industrial labor fell in both the west bank and Gaza strip, but labor has risen in the construction sector[35]. However, the Palestinian labor force estimates about 683,000 in the second half of 1999, Palestinians worked in the Israel labor market estimated by 143,400 in 1999[36], (about 21 percent total Palestinian employment). PCBS surveys indicate that, approximately 20 percent of the labor force is unemployed during "normal periods". However, this rate suddenly jumps to 30 percent during border closures[37]. This means the Palestinian economic sectors was employing about 59 percent of total labor force in Palestinian territory. During the interim period, the Palestinian economy was suffering from chronic incapacity to create enough jobs to employ the labor force.

The size of the labor force in an economy is directly correlated to that of its population, which constitutes the main source of labor supply. Furthermore, the age structure of the population is an important indicator of growth in the labor force. However, the Palestinian society is characterized by high level of fertility, where the annual rate of population growth is estimated to have reached 5.4 percent in 2000[38], this means more numbers of labor force in labor market.

2.5.2.1 The Paris Protocol and Labor Issues

The protocol on economic relations sets out the framework for economic relations between the economies of Israel and the West Bank and Gaza Strip in the interim period pending final status negotiations. The question of the labor flows to Israel was central to the economic negotiations and therefore to successful implementation for the agreement. In its preamble the protocol used for-reaching and optimistic terms like cooperation of the parties in building a sound economic base, reciprocity, equity and fairness.... in addition to parties will recognize each other's need to create better economic environments for their people.

The protocol covers three central issues relating to the labor flows to Israel, these concern the access of workers to the Israeli labor market, the regulation of labor flows and the social security contributions made by legal workers employed in Israel. The access of workers is dealt within Article seven (labor) refer to labor mobility between the WBGS and Israel should be normal state of affairs, but it leaves a lot to the discretion of either side. It stipulates

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35 Makhool, Basim, "Analysis of Palestinian Labor Supply and Demand" 2000.
36 Palestine Economic Policy Research Institute (MAS), " Economic Monitor Issue No. 7", 2000.
37 Diwan, I., And R. Shaban, "Development under Adversity: The Palestinian Economy in Transition": Summary, MAS-World Bank Joint Report, 1999
38 United Nations Conference on the Least Developed Countries (May 2001),"Information Note on the Economy of the Occupied Palestinian Territory (West Bank and Gaza Strip) Brussels, Belgium Prepared by the Palestine National Authority Ministry of Economy and Trade

that "Both sides will attempt to maintain the normality of movement of labor between them, subject to each side's right to determine from time to time the extent and conditions of the labor movement into its area. If the normal movement is suspended temporarily by either side, it will give the other side immediate notification...."[39] The protocol also gives the Palestinians the right to participate in the regulation of labor flows and to reclaim social contributions made by workers to the Palestinian economy.

The general spirit of the protocol is in the cooperation and mutual respect of each other's economic interest. But the Israel's security priorities became over the signed agreements. On the one hand, the key sentence with respect to labor movements was designed to emphasize the Palestinian's need to have access to Israeli labor market, but on the other, the protocol did not preclude closures and permits that restricting Palestinian employments in Israel. However, there was to be "normal" movement of labor, but the protocol left it to the discretion of the Israeli and Palestinian authorities as to when and how many Palestinians are admitted.

2.5.2.2 The Implementation of Labor - Related Articles in the Protocol.

The Israeli labor market has been a central employment outlet for more than one third of the WBGS labor force since the 1970s. It has been a major fact linking Palestinian economy to that of Israel[40]. In practice, the labor – related articles have only partially been implemented. This is largely because security priorities, as defined unilaterally by Israel, were given precedence over all economic priorities. The normality of labor movements has been maintained only in so far as Israel determined that it was desirable politically and compatible with security. Israel policies of closures and permits halted the access of Palestinian workers to Israel. Between 1994 and 1998 there were more than 400 days of closure[41]. According to the protocol, the wages equalization deductions levied by Israel will be transferred to the Palestinian authorities and used for social benefits and health services of Palestinians employed in Israel and their families. But, pension and national insurance deductions are still being held by Israel[42].

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[39] The Protocol on Economic Relations, Article 7.

[40] United Nations Conference on Trade and Development, "Review of labor and Employment Trends in the West Bank and Gaza Strip" 1995.

[41] Pissarides, Christopher "Evaluating the Paris Protocol: Lessons learned and Future prospects" 1999.

[42] De Motiloa, E. Garcia, "Pressing Issues of the Palestinian Labor Force" 1999.

2.5.3 Fiscal Issues

The **fiscal issues** are of a more urgent in nature because they have a strong and direct bearing on development and viability of Palestinian economy. During the direct occupation, from 1967 to 1994, Israel used ***the principle of origin*** for allocating import and other indirect taxes[43]. According to a quasi customs union that established by the Israeli - PLO accord of 1994 on economic relations, the tax distribution principle was reversed from the origin principle to the **principle of destination**[44]. This means, Taxes are paid to the authority that has jurisdiction over the territories where final consumption takes place. Thus, the PA has the right to receive the international tax collected in Israel on behalf of WBGS. There are two types of fiscal transfers from the Israeli authorities to the Palestinian Authority. The first includes general fiscal revenue arising from income tax deductions of Palestinian workers in Israel, Value Added Tax (VAT), and excise (purchase) tax and import duties. The second pertains to the social security contributions of Palestinian workers in Israel[45].

For sustain economic viability, revenues from general fiscal revenue and the social security contributions of Palestinian workers in Israel constitute large proportion from fiscal transfers from Israel to PA. In 1995-98, fiscal transfers from Israel to the PA averaged about 60 percent of all fiscal revenues of 1998[46]; such transfers amounted to US$500 million, or 60% of total revenue of the WBGS budget and 15% of the Palestinian GDP[47].

2.5.3.1 The Paris Protocol and Fiscal Issues

The Protocol addressed itself to the harmonization of tax rates and the clearance of tax revenues and also the question of revenue sharing. The Protocol allows the PA to set up its own domestic tax system (income tax, property tax, municipal tax and fees[48]. There are three types of transfers, in addition to the ones related to social security contributions.

I. Regarding income tax, the Israeli tax authorities are required by the agreements of the Paris Protocol to transfer to the Palestinian Authority 75 per cent of all income tax collected from Palestinian workers in Israel, and the full amount for the Palestinians employed in the settlements[49].

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[43] El-Jafari, Mahmoud, "Non-tariff barriers: the case of the West Bank and Gaza Strip agriculture exports
[44] Dumas, Jean-Pierre. " Fiscal leakage in the West Bank and Gaza Strip" 1999
[45] Pissarides, Christopher "Evaluating the Paris Protocol: Lessons learned and Future prospects" 1999.
[46] Ibid
[47] Dumas, Jean-Pierre. " Fiscal leakage in the West Bank and Gaza Strip" 1999.
[48] Paris Protocol on Economic Relations, appendix 2, V, 1.
[49] Paris Protocol on Economic Relations, appendix 2, VI, 1.

II. In the case of VAT, According to the Paris protocol, the VAT rate in WBGS may be two percent lower than the Israeli one. As a matter of fact, this flexibility has not been used by the Palestinian side, and the same rate applies as in Israel (17%)[50]. VAT is paid according to the place of final consumption. So, any VAT on goods and services consumed in the Palestinian territories and paid to the Israeli authorities in earlier stages in the production and distribution chain has to be transferred by the Israeli authorities to the Palestinian Authority. As well as, in the case of purchase tax which was not mentioned in the Paris Protocol but added later, also is transferred from the Israeli authorities to the Palestinian Authority[51].

III. The clearance of revenues from all import taxes and levies, between Israel and the Palestinian Authority, will be based on the principle of final destination[52]. Namely, the principle of tax clearance is the place of final consumption of the goods. Duties collected on goods imported in Israel but destined for the Palestinian territories should be transferred in their entirety from the Israeli Treasury to the Palestinian Treasury only if the final destination is explicitly mentioned (WBGS) in the import document. The problem is that an important amount of WBGS imports comes from Israel and therefore no tax transfer is made[53]. However, the Protocol required customs duties and excise taxes to be levied in the Palestinian territories at the same (identical) or, at least, at not lower rates than in Israel. The exception were the lists A1 & A2, which apply to a limited quantity of goods produced locally in Jordan, Egypt and other Arab countries, as well as motor vehicles, where registration requirements provide a *notional* border (as opposed to a physical one), at which tax differences can be collected.

Palestinian workers in Israel (but not in the settlements) are subject to the same social security deductions and their employers to the same taxes as Israeli workers, to avoid any competitive advantage that Palestinian workers may accrue from lower non-wage labor costs. But because Palestinian workers are non-resident in Israel and they are not entitled to the majority of social security benefits, the Paris Protocol stipulates that the revenue from contributions and taxes should be transferred to Palestinian institutions, who will then use it to finance the benefits to Palestinian workers in Palestinian territory. In 1997, worker

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[50] Ibid
[51] Paris Protocol on Economic Relations, appendix 2, VI, 6.
[52] Paris Protocol on Economic Relations, Article III, Paragraph 15.
[53] Dumas, Jean-Pierre. "Fiscal leakage in the West Bank and Gaza Strip" 1999.

contributions amounted to about 8.6 per cent of their wages and employer contributions to about 29 per cent[54].

2.5.3.2 Fiscal Leakage

According to the Paris Protocol, Taxes are paid to the authority that has jurisdiction over the territories where final consumption takes place, or will be based on the principle of final destination. But this principle doesn't work, because there is no official border between Israel and West Bank and less degree with Gaza Strip. As well as there are no statistics kept on goods that are imported for consumption in Israel but are subsequently sold to Palestinian Territories. Additionally, almost all points of entry to the WBGS are under the control of Israel, thus there is a problem in tax collection, for customs tax and domestic indirect tax such as excise (purchase tax)[55]. Tax revenues, according to this principle, belong to WBGS but collected by Israel at the point of entry, are transferred by the Israeli Treasury to the PA. Taxes are thus allocated according to the point of final consumption.

There is a *problem* when goods are *imported* first to Israel and then *re-exported* from Israel to WBGS ("**indirect imports**"). In this case, there is no tax transfer from Israel to WBGS. Since these indirect imports account for the biggest share of WBGS imports, the Palestinian Authority is losing potentially large amounts of revenue called "l*eakage*". Estimates for Fiscal Leakage are not possible because of the absence of real statistic on goods crossing from Israel to the Palestinian Territories. According to some methods calculating fiscal leakage, the total leakage in 1997 is estimated at US$112 million or 3% of WBGS GDP[56].

2.5.4 Monetary Arrangements

Restructuring the Palestinian economic sectors and reviving investments and trade flows depend on rejuvenating the monetary sector, which suffered severely during 27 years of Israeli direct occupation. The Palestinian economy has no national currency, after its occupation for WBGS of 1967; Israel introduced its currency Israeli Shekel and then NIS (New Israeli Shekel) for circulation instead of circulated currencies (Jordanian Dinar in WB and Egyptian Pound in GS) as legal tender in the Palestinian Territories. Three currencies circulate in WBGS, Egyptian Pound, Jordanian Dinar (JD) and US dollar as foreign currency. Because of the continued commercial contacts with Jordan, the JD has continued to enjoy

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[54] Pissarides, Christopher ,"Evaluating the Paris Protocol: Lessons learned and Future prospects" 1999.
[55] Dumas, Jean-Pierre. "Fiscal leakage in the West Bank and Gaza Strip" 1999.
[56] Ibid

wide circulation in the Palestinian territories[57]. On the other hand, the WBGS was subject to Israeli foreign exchange restrictions, which included a ban on foreign currency deposits at the WBGS banking system except for the Jordanian Dinar in the West Bank. When the Monetary Authority assumed responsibility over the banking system, it stopped enforcing the Israeli ban on foreign currency deposits. In the Post-Oslo period, West Bank and Gaza Strip had become a three-currency economy, with the NIS, Jordanian Dinar and US dollar circulating freely. The NIS remained the dominant currency for everyday transactions, while the US dollar and Jordanian Dinar became the dominant currencies for bank deposits or a repository for savings[58].

2.5.4.1 Monetary Arrangements during the Transition Period

The Israeli- PLO accord on economic relations (Paris Protocol) allowed for setting up a Palestinian Monetary Authority (PMA), which was given the traditional responsibilities of a central bank. Article IV, Item 4, states that the PMA will act as the sole financial agent (locally and internationally) to the Palestinian Authority, as well as being its financial advisor. It also holds and manages the foreign currency reserves of all public sector entities. Article IV, Item 5, of the Protocol states that the PMA should operate a discount window to advance loans to commercial banks, and act as a lender of last resort. Along with supervisor and controller of the financial system, the Protocol designating the PMA as a banker to both the Palestinian Authority and the commercial banks, the PMA is thus entrusted with the job of licensing all banks operating in the West Bank and Gaza Strip, holding their reserves, and regulating their operations with regard to solvency, liquidity, and stability[59]. But, because reserve ratios are one of the determinants of the quantity of money, the reserve requirements on NIS deposits were to remain under the supervision of the Bank of Israel[60]

The Paris Protocol did not grant the PMA the right to issue currency, because it considered a prerogative of sovereignty, and gave Israel an effective veto power against the issue of a Palestinian currency[61]. And also the protocol required the circulation of NIS in the WBGS as a legal tender.

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[57] Kleiman, E. "Evaluating the Fiscal and Monetary Arrangements of the Paris Protocol – a Counterfactual Analysis with Suggestions for the Future". 1999

[58] United Nation Conference on Trade and development (1998)."The Palestinian Economy and prospects For Regional cooperation", Geneva

[59] United Nations Conference on Trade and development (1996), Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development.

[60] Kleiman, E. "Evaluating the Fiscal and Monetary Arrangements of the Paris Protocol – a Counterfactual Analysis with Suggestions for the Future". 1999

[61] Ibid

2.5.4.2 The Reflections of the Absence of National Currency

The absence of a Palestinian currency deprives the Palestinian Monetary Authority of seigniorage revenue. During the period 1970-1987, the NIS seigniorage generated in the WBGS and was retained by the Bank of Israel averaged 1.6 percent to 4.2 percent of WBGS GNP. Using 1990 dollars, it ranges from $0.7 billion to $1.8 billion[62]. However, the Period 1994-1998, WBGS NIS seigniorage in this period averaged .31 percent to 1.68 percent of WBGS Gross National Income (GNI). Using 1998 dollars, it estimated at dollars, $247.8 million[63]. On the other hand, the existence of a dual currency standard has the potential for increasing the costs associated with fluctuations in exchange rates. In addition, a dual currency tends to reduce the ability of commercial banks to perform their function of transforming debt maturities, because of currency mismatching of assets and Liabilities.

This can discourage them from extending long-term loans, which are essential for investment and growth. Furthermore, the existence of a dual currency standard renders the Palestinian economy vulnerable to shocks originating both in Jordan and in Israel. A Jordanian monetary shock will be transmitted to the Palestinian economy through the capital account since there is almost free mobility of capital between the two economies and very little trade[64]. On the other hand, an Israeli monetary shock will affect the Palestinian current account, which is composed mainly of trade with Israel in both goods and labor services.

2.6. Summary

The wording of the Economic Protocol, and some resulting ambiguities, were the result of an attempt to compromise between the Palestinian and Israeli positions. The Palestinians were expect, the new economic environment under the Protocol will enable them to return to pre-1987 Intifada growth rates, but the Economic protocol did not give the PA all the necessary means to achieve economic growth. According to many studies which were accomplished by UN Conference on Development and Trade, World Bank and other research institutes reveal that economic developments are hampered by the protocol limitations.

In the Trade sector, Lists A1, A2 and B as well as the term of market needs created limitations that, in practice, constrained movement of goods and products. The agreement

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[62] Hamed, Osama and Shaban, Radwan, "One - Sided Customs and Monetary Union: the Case of the West bank and Gaza strip", 1993.

[63] Hamed, Osama, "Current Monetary Arrangements between Israel and the West Bank and Gaza Strip and Possible Alternatives", 1999.

[64] Hamed Osama, "Monetary Policy in the Absence of a National Currency and under a Currency Board". Ramallah, Palestine Economic Policy Research Institute (MAS).

facilitating fiscal leakage where there principles doesn't working, because there is no official border between Israel and West Bank and less degree with Gaza Strip. However, the agreement did not assure the continuation of Palestinian labour flow to Israeli market. Moreover, the agreement denied PA from issue its own national currency; this deprives the Palestinian Monetary Authority of seigniorage revenue. On the other hand, the existence of a dual currency standard has the potential for increasing the costs associated with fluctuations in exchange rates, as well as renders the Palestinian economy vulnerable to shocks originating both in Jordan and in Israel. The economic protocol sought to lay down a mechanism that could allow for economic viability in the West Bank and the Gaza Strip, but this mechanism hampered by the protocol limitations.

CHAPTER 3

WATER PROBLEM IN WBGS AND ITS REPERCUSSIONS ON ECONOMIC VIABILITY

3.1. Overview

Water is the most basic source for human existence. It is vital for human life itself and for human activities in general. Water is an issue that has been widely debated about both for its importance in potential development and for its bringing about conflict. Throughout the Middle East, the natural fact of water supply and the socio-political fact for water control, consumption and demand interplay to form complex hydro-political boundaries of the Middle East, therefore, it is a highly politicized issue in the Middle East conflict, with the Palestinian-Israeli conflict at its core. To date, all negotiation attempts on the reallocation of the water supply have failed because they were not based on the right of the equitable and reasonable utilization principle. Water resources are an important material aspect of the question of Palestine and relevant to any lasting peaceful solution to the Palestinian – Israeli conflict.

The key question that this chapter will seek to address is whether the West Bank and Gaza strip is an economically viable entity and whether it can survive without full sovereign control over own water resources. Water is a precious resource not only for economic growth but for survival. So, water has been of significant importance for development and reconstruction. Economic sectors are affecting by a scarce and sufficient supply of water, agriculture sector is very sensitive for the scarcity and abundance of water, and it is the engine of growth in the Palestinian economy. It does mean, however, that improvements in agriculture are a prerequisite for the proper functioning of that engine, which is the combination of manufacturing and service sectors. Although, water is naturally a scarce resource nonetheless, water crisis is not chiefly one of insufficient supply, but of uneven and inequitable distribution. While water is stringy resource in West Bank, it is very scarce resource in Gaza strip. Briefly, the chapter will focus on current water situation in WBGS as an engine of economic growth and as a viable resource for development and reconstruction of Palestinian economy.

3.2. Control of the Water Resources

Attempts to control the water resources started with the beginning of the twentieth century. After the defeat of the Ottoman Empire in the course of world war I. Britain and France splitted up the territory of Ottoman Syria between them. Zionists movement by its leaders Lobbied the two European powers to incorporate within what was to become mandate Palestine the head waters of the Jordan River as well as segments of Yarmuk River and the Litany River (in Lebanon), In 1923, France and Britain drew the boundaries of their mandated territories such that Palestine bounded some of these water sources but not others. Thus, Palestine's borders excluded the Litany River and important segments of the Banyas, al-Hasbani, And the Yarmuk River. On the other hand the boundaries included key components of the basin, notably Lake Tiberias, the largest fresh water reservoir of the basin and the entire aboveground channel of the Dan River[1].

After the establishment of Israel over the Palestinian land, in 1948, Israel prevailed over some of these resources. As a result of the 1967 war, Israel came to control entire Palestine and with it the water resources as well. Moreover, though the Occupation of the Golan Heights and West Bank, Israel added to occupied area of control the headwaters of the Jordan River basin and three major aquifers. After its seizure of WBGS, Israel promptly took over the management of the water supply and distribution systems in both places. It instituted a severely restrictive policy with respect to Palestinian access to the resources. The Israel objective to expand control over land and water resource is to get millions of Jews to immigrate to Palestine. Security of sufficient quantities of water to irrigate the land is very important for the economic viability of Israel.

3.3. Water Supply Sources in WBGS:

There are three main water resource areas pertaining to the occupied Palestinian territory (WBGS) that have attracted international concern: **First,** the Mountain Aquifer that is a system of ground water basins in the West Bank, this system is extending over approximately 130 km, from Mount Carmel in the north to Nagap in the south. The aquifer is some 35 km. wide from the Dead Sea and Jordan valley on the east, to the western border of the costal strip on the west[2]. The Mountain Aquifer is composed of three basins:

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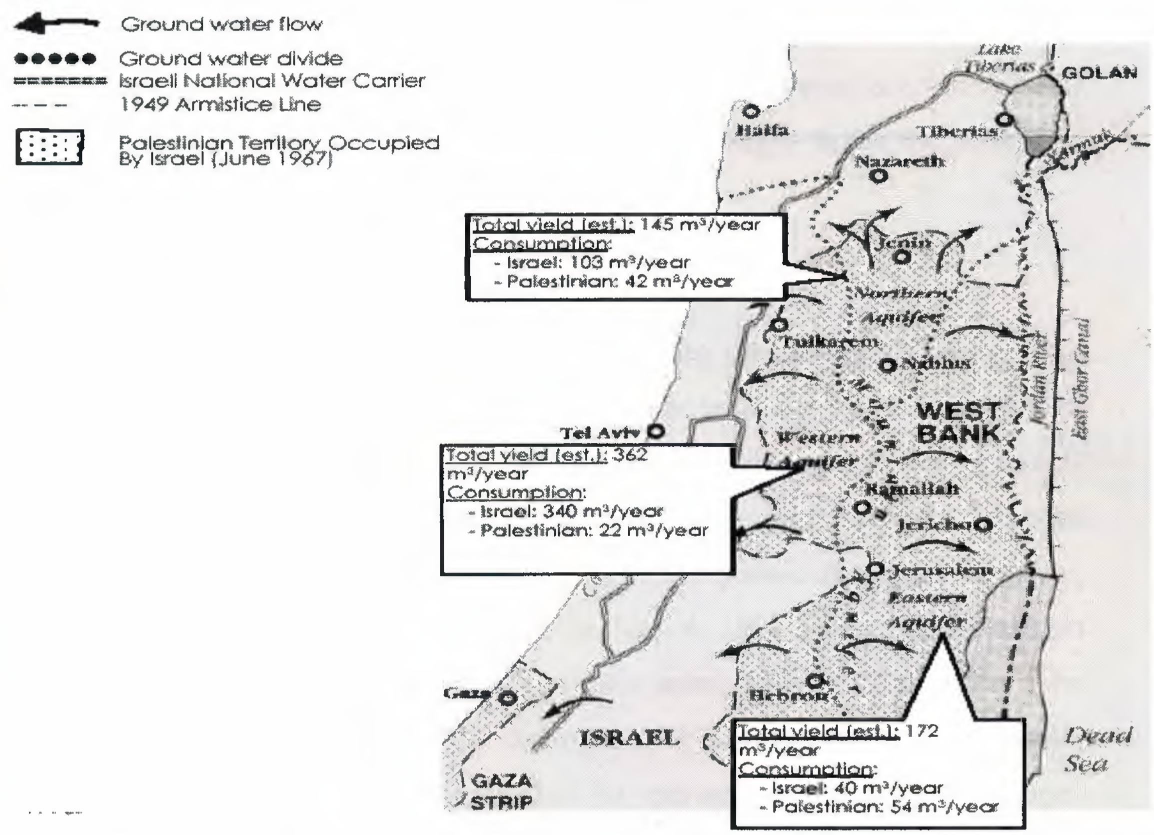
[1] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.

[2] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Disputed Water: Israel's Responsibility for the Water Shortage in the Occupied Territories", !998.

- The Western Basin, which, while supplied and recharged from the West Bank Mountains, its area hits about 1300 km2 and recharged by approximately 380 to 400 MCM per year. While the annual fed rate is not exceeding 370 MCM, the water deficit reached to 40 MCM annually[3].
- The North Eastern Basin, which is located inside the West Bank , near Nablus-Jenin Basin, which located on area hit about 500 km2, its annual pumping waters estimate between 92-104 MCM, while its annual feed range between 80-95 MCM, and the other composed Jerusalem, Betlehem and Hebron areas, it is used by the Israeli settlements[4].
- The Eastern Aquifer Basin contains number of aquifers located within the West Bank and the springs from which represent 90 percent of spring discharge in this area[5].

Figure (1): Water Supply Sources In Palestine



Source: PASSIA, Palestinian Academic Society for the Study of International Affairs, Jerusalem.

[3] http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
[4] http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
[5] Isaac, Jad, "A sober Approach to the Water Crisis in the Middle East", ARIJ, Bethlehem.

The **second**, Gaza Aquifer, it is a part from Coastal Aquifer, and its groundwater is the only natural source of waters[6] the Gaza aquifer replenished both by direct rain water infiltration, particularly in the sand dunes along with the coast, which estimated at 40 MCM /y, and by underground flows from the east at 10-20 MCM/y[7].

The **third** is the surface water, which contributes 30 percent of the water in Palestine[8]. One of the most important surface water is Jordan River. Its water resources originate in north Palestine, south Lebanon and Golan Heights in Syria respectively. By its pre 1967 war, Israel accounts for only 3 percent of the Jordan Basin area; yet it currently has control of the greater part of its waters. Palestinians are currently utilizing less than 0.5% of the Jordan River's water. While its pre 1967 riparian area, accounts for 10 percent of the Jordan basin area[9]. The second important surface water in Palestine is the springs. In the West Bank, there are 310 springs or spring groups, the vast majority of the 310 springs surveyed yielded a small, seasonal discharge and were scattered a cross the territory of the West Bank, inside or near villages. Many of them need rehabilitation after long neglect or road-building that led to the loss of water and dispersion of the flow[10]. In Gaza strip, there is only one surface water source that is Wadi Gaza, which is currently impounded upstream in Nagap under the control of Israel[11].

3.4. Water Issues under the Oslo Accords

Water issues between Israelis and Palestinians, has been on the agenda of the joint peace talks since the meeting in Madrid. Despite progress in the talks that led to declaration of principles in Washington on 13, September 1993 and then signing of the Oslo I and II Agreements, the water problem still is unsolved. Declaration of Principles referred to the need for cooperation between the two sides in managing and developing water resources. However; the Cairo Agreement on Gaza and Jericho, signed on May 4, 1994 grants the Palestinian Authority full control over water resources in both of these areas, which shall continue to be operated by the water Planning Authority (Mekerot). Under this agreement terms, water systems and resources in Gaza and Jericho area shall be operated, managed and developed (included drilling) by the Palestinian Authority[12].

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[6] Roy, S., "The Gaza Strip: the Political Economy of Development", 1995.
[7] Shawa, R., "Water Situation in the Gaza Strip".
[8] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[9] http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
[10] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[11] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[12] Cairo Agreement on Gaza and Jericho," Annex II. Article II paragraph 31.9"

The interim agreement that Israel and the Palestinian authority signed in September 1995 (Oslo II) includes the most updated understanding on water issues that has been reached in the peace process framework. It is also more detailed than previous documents. The main principle of this agreement is that the future allocation of water "the amounts each side pumps from the aquifer, including water for Israeli settlements" will be based on situation at the time the accord was signed[13]. The water increase, according to the "Taba Agreement", was to be 70-80 MCM/y, including an immediate 28.6 MCM/y for household use. 10 MCM/y of which was to be reserved for Gaza and 18.6 for the West Bank[14]. Responsibility for development and supply was divided between Israel and Palestinian Authority. However, Israel was to bear the capital cost of only 9.5 MCM/y (five to Gaza and 4.5 to the West Bank) for the remaining 19.1 MCM/y, the costs were to be borne by the PA[15].

Table (3): Allotment to Each Side - in Millions of Cubic Meters per Year in West Bank

Mountain Aquifer (Regions)	Israel *	Percentage	Palestinians	Percentage
North Eastern Aquifer	103	71	42	29
East Basins	40	42.5	54	57.5
West Aquifer	340	94	22	6
Total	**483**	**80**	**118**	**20**

Source: Israeli -Palestinian Agreement on the West Bank and the Gaza Strip, Annex III, Schedule 110, Data Concerning Aquifers (Washington, 1995).
* The total amount of water drawn by Israel for use in Israel and the Israeli settlements in the Occupied Territories, except for water Mekorot sells to Palestinians

Projects for the extraction, pumping and distribution of the above mentioned water supplements as well as the licensing and drilling of new wells were given to a bipartite joint water committee (JWC) which created by the agreement for the approval of the geo-hydrological and technical details and specifications[16]. This committee was to consist of an equal number of members from each side, and its decisions were to be taken by consensus[17].

3.4.1 Following the Oslo Accords: Prejudice and Ambiguity

The declaration of principle failed to make clear the extent to which water should be under Palestinian control during the interim period. It is not made explicit whether autonomy includes limited control of water resources or whether, on the other hand, control of water

[13] Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs Article 40, 31".
[14]Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs , Article 40,6"
[15] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[16]Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs, Article 40, Schedule 8.7.
[17]Ibid, Article 40.12.

resources is a permanent status issues. Moreover, the accords forced the Palestinian authority to purchase its own water from Israel[18], while in the West Bank; Palestinians would continue to be prevented from utilizing their rightful water resources. Such a situation would, however, deepens the dependency on Israel to provide the WBGS increasing water needs, and also deepens the linkage of Palestinian water system with Israel, especially since Mekorot already provided about one-fourth of the municipal water in the West Bank[19].

Although, Taba Accord allows the Palestinian to carry out the development necessary to supply an additional 41-51 MCM/y over the long term from the eastern aquifer. But it doesn't set a timetable for producing this water, and also this additional water will not be realized in the near future because most of it is saline and requires desalination, as well as a complicated and costly procedures . According to the Agreement, this increase will result entirely from drilling of new extraction wells not from a redivision of existing sources. Responsibility for new drillings is divided between the two sides – 19 percent by Israel and 81 percent by the PA. Israel performed its part of the agreement within the time allotted to it. As of today, more than four years after the interim period ended, the PA produces and supplies approximately two-thirds of the amount of water that it undertook in the Agreement[20].

However, the accord does not address the possibility of supplying this additional water from other sources, like Jordan River and the springs, on the other hand, Israel handed over to the Palestinians an extremely deteriorated water system, the agreements do not hold Israel responsible for this, and do not obligate Israel to cover the cost of their repair[21]. The interim agreement stipulates that, regarding water resources the Gaza strip will constitute a separate sector. Other than the small quantity that Israel undertook to sell, population of Gaza Strip will have to meet their needs, solely from resources located within Gaza's borders[22], also the agreement does not allow to obtain water from the West Bank. However, as of 1996, Mekorot supplied 60 percent (on a yearly average) of all the water for household needs in the West Bank, the remainder came from municipal wells. Fifty-five percent of the water provided by Mekorot in the West Bank comes from wells drilled by Mekorot[23].

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[18] Israeli-Palestinian Agreement on West Bank and Gaza strip, "Annex III protocol on civil Affairs , Article 40,6
[19] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[20] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Not Even a Drop, the Water Crisis in Palestinian Villages without a Water Network".
[21] Ibid
[22] Nassereddin, Taher, "legal and administrative responsibility of Domestic Water Supply to the Palestinians"
[23] Ibid

The interim agreement fails to protect the water resources in WBGS from over-pumping and to put the water resources in WBGS under the Palestinian control. In addition, the failure to re-distribute the water resources that prevented any "surplus" of water in the West Bank that could increase the supply of water to Gaza Strip. As a result, the severance of Gaza strip and West Bank continued. However, the Palestinian water authority donated administrative functions, but denied anything other than symbolic control. On the other hand, the joint water committee (JWC), which is comprised of an equal number of representatives of both sides. All its decisions are made by consensus and there is no mechanism for mediation or arbitration for resolving disputes. Such an arrangement effectively granted Israel veto power over decision-making because it was the Palestinian who needed the new wells, Moreover, these agreements left settlement water supply at the pre-agreement levels. It thus legitimized the blatant discrimination between Palestinians and Jewish settlers and left the improvement and expansion of the Palestinian water sector in the WBGS to Israeli good will[24].

In summary it can be said that the agreement signed by the parties eliminated the restrictive Israeli policy that sweepingly prohibited the drilling of new wells, and significantly increased the water quotas available to the PA. On the other hand, in practice indirect but tighter Israeli control continues. There are still quotas on the water available to Palestinians, and the Palestinian's dependence on Mekorot was even increased.

3.5. Restrictions on Palestinian Water Resources

Since the beginning of the Israeli occupation in 1967, Israel instituted restrictions and prohibitions over the water use that had not existed before the occupation, and emphasized that by legal and institutional changes in the water sector[25]. These restrictions and prohibitions are principal reason for the water shortage and the resultant water crisis. By other wards, they have created a severe water shortage for the Palestinian people.

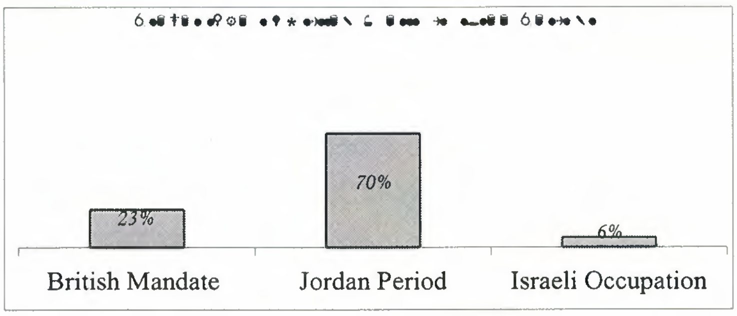
3.5.1 Drilling Wells

The primary result of the change in the law and transfer of powers over water sector was the drastic restrictive on drilling new wells to meet Palestinian water needs. In order to drilling new wells, the Palestinians in WBGS a permit must be obtained from the Israeli military Authorities according to Israel's water law, because it considers the water resources as public property. Currently, some 350 Palestinian wells are operating in the West Bank. The

[24] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[25] Ibid

vast majority of the drilled and operating wells were developed in the 1950-67 period, when the West Bank was under the rule of Jordan. Only 6 percent of the operating wells in 1990 were drilled under Israeli rule; the rest were the Jordanian period (70 percent) or the British mandate (23 percent). Not only were drilling licenses denied and abstraction quotas fixed, but these wells had been no longer functioning because technical and /or maintenance problems. Israel did not allow their owners to use those again, and the few permits Israel granted were not even renew the operation of wells that had not been functioning However, to obtain a permit, an applicant must pass eighteen stages of approval in various departments of civil administrative, Mekorot, and the Ministry of Agriculture[26].

Figure (2): Percentage of Drilled wells in Three Period



3.5.2 Expropriations

According to the Military Order on Abandoned Property (Order No. 58, of 1967), property whose owners left the region is transferred to the Custodian of Abandoned Property. This Order also applies to property whose owners are unknown, with the burden of proof as to the status of the property falling on the owners, and not the government.[27] Shortly after occupying the territories, Israel declared these lands "absentee property," thereby expropriating an unknown number of Palestinian-owned wells that had been used for irrigation.[28]

3.5.3 Water Quotas by Surprise

When the West Bank was under the Jordanian rule, there were no limits and restrictions whatsoever on the amount of water drawn from the wells, and owners made the decision on the basis of agronomy, economics, and the technical requirements of their wells. In 1975, Israel changed this practice by instituting for each well quotas limiting the amount of water drawn from each well, and has enforced compliance by means of meters that it installed, with

[26] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[27] Benvenisti, M., "West *Bank Lexicon,* Jerusalem", 1987.
[28] Baskin, G.,, 'The West Bank and Israel's Water Crisis", 1993.

heavy fines imposed for exceeding the quota[29]. Whereas settlers pay $ 0.40 for domestic consumption and a highly subsidized rate of $0.16 for agricultural use, Palestinians pay a standard rate of $1.20 for their piped water[30], these rates are per cubic meter.

3.5.4 Springs: Diversion and Control

According to the Palestinian Hydrology group, there are more than 310 springs or spring groups, in West Bank. In 1967 and 1969 Israel declared the headwaters of five spring groups from them to be "natural reserves" or "protected natural areas" and changed fees for entrance to their perimeters. In effect, the declaration of natural reserve signifies the transfer of the area to Israeli control. Additionally, from 1970-71 to 1993-94, of 113 springs within the boundaries of the West Bank were kept by the water Department[31], many of these springs are feed by the Yarmuk River and Lake Tiberias which recharge the West Bank aquifer by infiltration. Israel is drawing an annual 70-100 MCM from the Yarmuk and is piping 1.5 MCM per day from Lake Tibarias in its National Water Carrier. Consequently, the River Jordan, which in 1953, had an average flow of 1250 MCM per year at the Allenby Bridge, now records annual flows of just 152-203 MCM[32].

3.5.5 Diversion and Depletion

According to a 1981 United Nations report, which was prepared by a team of experts found that, Israeli authorities are in a position to transfer water from one basin or an aquifer to another, both within the West Bank and from the West Bank to other areas. Water of Jordan basin is diverted into the Israel National Water carrier and distributed to other basins under the control of Israeli Authorities. These waters are transferred from the National Water Carrier back to Jewish settlements in other basins located in Golan Heights and the West Bank[33], Furthermore, the Israeli diversion of these water resources, including the interference by Israel with the rainfall above the northern part of the basin, is a major concern regarding this resource area[34].

In Gaza strip, Israel, impounded the water of Wadi Gaza upstream in Nagap, which used to replenish Gaza's a aquifer. Moreover, Israel drilled so many wells in the outskirts of Gaza to draw the eastern water flows to Gaza's aquifer. Then re-pump this water into other

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[29]Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[30] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[31] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[32] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem
[33] UN," Water Resources of the Occupied Palestinian Territories", 1992. Prepared for, and under the guidance of, the Committee on the Exercise of the Inalienable Rights of the Palestinian People
[34] Ibid

aquifers. On top of this, Gaza Palestinians have to contend with the 7000 settlers having access to the only supplies of sweet water in the strip[35]. Israel utilized its military power for controls and overrules of these resources to promote Israeli interests, almost completely ignoring the right and needs of the Palestinian population, which was left to face a growing water shortage, alongside, more saltwater intrusion in groundwater.

3.5.6 Lack of Water Infrastructure

Among those particularly suffering from the water shortage are Palestinians of villages, towns and refugee camps in WBGS not connected to a running-water network. The existence of these communities without a water network resulted from Israel's policy of neglecting infrastructure and investment throughout the period of occupation. Immediately following the 1967 war, from the mid-1970s Mekorot began expansion of water systems through building an extensive water network in WBGS to supply the water needs for military areas and settlements within West Bank and Gaza strip, this expansion was not linked to a water system of Palestinians[36]. Although the condition of the municipal water systems most of them built before the occupation had deteriorated, Israel made no effort to improve them or maintain them in a reasonable condition[37]. Ignoring the municipal water systems is only part of Israel's neglect of infrastructure in WBGS.

According to two comprehensive studies on the Palestinian economy in WBGS conducted by the World Bank examined Israel's fiscal policy from the occupation to the beginning of peace process in 1993. They indicate unequivocally that, throughout that period, Israel's expenditures for the public investment in economic and social infrastructure in WBGS (not including expenditures for security and settlements) was significantly less than the taxes it collected from Palestinians in WBGS. The gap between revenues and expenditures over those years made its way to the Israeli treasury and was expended inside Israel[38]. This policy resulted in un-development of the Palestinian economy; including significant delay in development of water infrastructure.

As a result, in 1995 on the eve of the signing of the Oslo II, one-fifth of the population of the West Bank lived in communities without any water infrastructure. There are communities of three West Bank districts which did not receive piped water relied on traditional methods. In the Tulkarm district, rain fed cisterns were the only source of water for

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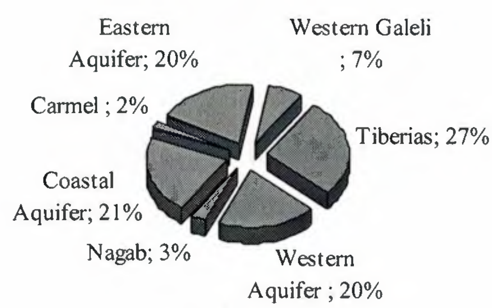
[35] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[36] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[37] Nassereddin, Taher, "legal and administrative responsibility of Domestic Water Supply to the Palestinians"
[38] The World Bank, "Developing the Occupied Territories: An Investment in Peace, Washington, D.C., 1993.

42 communities, spring-fed cisterns for 11, nonpiped spring water for four communities[39]. Since 1995, the PA, with the help of donor states and organizations, connected many communities to a water network. However , the primary problem was and remains the lack of Palestinian access to the water sources, on the other hand, such a situation of neglect and poor conditions of the pipes and water systems result in a substantial loss of water.

3.6. The Gap in Consumption:

The severe shortage suffered by Palestinians is evident in the enormous gap in water consumption between Palestinians and Israel, in general and Jewish settlers in particular. Present availability of renewable water resources (based on Oslo II Agreement) for Palestinians in the West Bank is only 118 MCM annually[40]. Palestinians in the WBGS are currently using 246 MCM annually to supply their domestic, industrial and agricultural needs, while Israel's to supply their domestic, industrial and agricultural needs , while Israel's residents, consumes 1,959 MCM. In addition Jewish settlers consume 75 MCM of WBGS's water per year[41]. It should be emphasized that, 40 percent of water consumed in Israel comes from the two water resources shared by Israel and Palestinians.

Figure (3): Relative Percentage Productivity from the Groundwater Aquifers



According to Israel's annual allocation, Palestinians have 93 MCM for industrial use, 155 MCM for agriculture use and only some 26 cu m per capita domestic consumption per year, while Israelis have 128 cu m per year[42]. According to the Palestinian water authority, the current water supply to the WBGS totals 279 MCM/y (WB: 146; GS: 108), of which 174 MCM is consumed for agricultural (WB: 89; GS: 85) and 107 MCM for municipal and industrial uses (WB: 57; GS: 50)[43]. Annual per capita consumption, according to Israel' annual allocation (the average household consumption) of Israel is five times that of a

[39] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[40] Israeli -Palestinian Agreement on the West Bank and the Gaza Strip, Annex III, Schedule 110, 1995.
[41] Jssac, Jad, "the Palestinian water crisis", center for policy analysis, and B'T selem, "thirsty for a solution", July 2000.
[42] Ibid
[43] PWA (Palestinian Water Authority), "Water Sector Strategic Plan", 2000.

Palestinians in WBGS. For all purposes, water consumption in Israel is four times higher than in WBGS[44], On the other hand, the agricultural sector is the largest consumer of water in Israel. This fact has historic roots related to Zionist movement, where agriculture was perceived for political, economic, and ideological reasons, as crucial to the sources of Zionist project, this perception led to creation of a complicated system of subsidies for irrigation water, which encourages continuously increased consumption. The subsidies continue although agriculture is much less important now than it was in the 1960s[45]. Agriculture consumption in WBGS takes up some 60-70 percent of the water resources; it should be emphasized, that less than 5 percent of the total land area in WB is irrigated, while Israel irrigates more than 50 percent of cultivated land inside the green line[46]. This situation is particularly problematic in light of the water shortage, where water has been great importance of agriculture for the limited economy of the Palestinians.

3.7. Poor Water Quality: Creeping contamination?

Water quality and quantity are indivisible and the relationship between water, on the one hand, and economy, on the other, is complex and irrepealable. Unlike the West Bank, the worst problem in the Gaza strip's water sector is not the shortage or irregular supply during the summer, but the poor quality of water flowing through pipes. The poor condition of the water seriously affects, on the one hand, the quality of life of the local people and exposes them to server health risks, on the other, the economy through reduce crop yields.

In the case of economy, saline contamination can be injurious to agriculture. Chlorides may reduce crop yields, depending on the crop's salt tolerance, and high sodium adsorption ratio (SAR), or roughly a high tendency for sodium ions to stick to the soil, may damage clay texture of the soil. In most of the central area, where the population is concentrated, salinity exceeded 500 mg/1 chloride, in 1991, 11 of the 17 wells supplying water to Gaza city contained chloride exceeding that of WHO'S guidelines (250 mg/1), as much as 6-8 times in three of the wells. In fact, two of these wells had to be abandoned because of salinity. On the whole, it has been estimated that 60 percent of Gaza well water contained 600 mg/1 chloride by the early 1990's and that its overall range of chloride concentration was 380 mg/1, or 50

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[44] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Disputed Water: Israel's Responsibility for the Water Shortage in the Occupied Territories", !998.

[45] Kahhaleh, Subhi, "The Water Problem in Israel and its Repercussions on the Arad-Israeli Conflict.

[46] The World Bank, "From Scarcity to Security: Averting a Water Crisis in the Middle East", 1997.

percent greater than the WHO guidelines[47]. On the other hand, in Israel, Pesticide application is one of the most intensive in the world and contamination by those chemicals may be heavy.

The overuse of pesticide application effect negatively on the land cultivated by settlers in the west Bank and Gaza, in Gaza, nitrate concentration resulted from overuse of Pesticide of agriculture, was found to be high, averaging 45 mg/1, close to the maximum permissible limit of the 54 standards. In the densely populated areas, especially in the refugee camps, where nearly two-thirds of Gaza population dwell, the concentration reached 90 mg/1 and in some instance 159 mg/1. It has been conjectured that 30-60 mg/1 nitrate are abase-level contamination from agriculture. The higher levels devise from domestic waste water[48]. Finally, the main reasons for the contamination and salinization of the aquifer are over – extraction (over pumping), penetration of untreated sewage, and penetration of pesticide and fertilizers.

More potentially serially salinity problems these occurring naturally have been in the making in some parts of the mountain aquifer, because of Israel's overexploitation[49]. The Israel's overexploitation of mountain aquifers led to the accumulation of water deficit and decline in water table to the point where "red lines". This accumulation in turn led to the leakage of brine rock formations, causing salinity to rise. An example of such a sequence happened in the western basin in the 1950s and early 1960 as Israel over pumped the aquifer to expand the irrigated areas, increasing irrigation water supply from 413 MCM/y in the crop year 1950-1951 to 1,047 MCM/y a decade later[50]. Overpumping recurred during the drought period, 1985-1990, causing an accumulated water deficit in the western aquifer of 1,100 MCM with respect to the red lines. The deficit translated into a drop of water table to 10 m below sea level. The designated red line of that basin, similar developments also occurred in the northern basin. However, the coastal aquifer's natural outlet in the Mediterranean Sea, the interface between the waters of the two poses an ever present salinity threat to the aquifer. The water level, in turn, depends on the balance between replenishment and pumping[51].

In Gaza strip, the water levels declined sharply in the 1950s and 1960s due to Israel's overexploitation, as happened in the mountain aquifers. Overexploitation of Gaza's coastal aquifer led to intensive decline in the water table which allowed sea water intrusion and

[47] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[48] Ibid
[49] Isaac, J. and Hosh, L. "Roots of the Water Conflict in the Middle East", 1992.
[50] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[51] Ibid

increased that salinity of the water extracted from the wells. Whereas, water quality in the Gaza Strip that is much worse with only 4 MCM out of 44.1 MCM supplied by municipal wells being of an acceptable standard[52]. Furthermore, overexploitation was more intensive in some areas of aquifer than in others. This overexploitation led to water depressions below sea level in several parts of the aquifer. Salinity is much more acute in some areas of Gaza strip than in others, but in general, reached alarmed proportions.

3.8. Water and the Palestinian Economy

Undoubtedly, water is a motor of economic growth, and forms the base which relies on it economic sectors. Water is a scarce resource in the West Bank, and a very scarce resource in Gaza Strip where the groundwater resources are over-exploited and becoming increasingly contaminated. The signed agreements between PLO and Israel gave the West Bank only 118 MCM per year (See table 4), which is among the lowest in the World. This limited renewable water will pose a serious constraint for the economy. This challenge requires re-thinking economic growth patterns and changing attitudes vis-à-vis water. Agriculture is clearly very important to the Palestinian economy and plays a unique role in the life of the Palestinian people in the West Bank and Gaza Strip. Furthermore, agriculture plays a pivotal role in the economy by virtue of its strong intersectoral linkages. But the peculiar role of agriculture in the West Bank and Gaza Strip extends in effect far beyond above mentioned roles. As a people whose survival on their own land has always been in jeopardy, Palestinians realize that their sustained struggle for survival is over land and water. So agriculture is one of struggle's means for survival.

Agriculture comprised 24 percent of the Palestinian GDP in 1966, the same percentage as in 1980-85[53]. Presently, WBGS agriculture uses, on average, 70 percent of all extracted water (strikingly, in Gaza Strip, it uses 150 percent of annually renewable water resources) [54], and the sector contributes about 8.2 percent to GDP[55], employs 20 percent of the work force,

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[52] PWA, (Palestinian Water Authority), " Water Sector Strategic Planning Study", volume III: Specialist studies Part B, Focal areas, May 1999

[53] Foundation for Middle East Peace, "*Special Report: The Socio-Economic Impact of Settlement on Land, Water and the Palestinian Economy*", Washington, DC:, July 1998

[54] Diwan, I. And A. Shaban, R., "Development under Adversity: The Palestinian Economy in Transition", World Bank and MAS.

[55] PMA, Palestinian Monetary Authority, "Annual Report 1998".

and accounts for 25 percent of exports[56]. By comparison, industry and construction consume about 13 percent of available water resources and contribute about 25 percent to GDP[57].

Table (4): Water Resources and Use – Regional Comparison

	Israel	Jordan	WBGS[58]	Syria	Lebanon
Resources (billion m3/year)	2.1	0.8	0.2	5.5	4.8
Consumption (billion m3/year)	1.9	1.0	0.2	3.2	0.8
Per capita consumption (m3/year)	375	213	115	385	1,200
[59]Renewable resources (m3/capita/year)	290	229	134	1,861	1,199
Groundwater (% renew resources)	60	28	94	16	63
Groundwater use (% of recharge)	n.a	155	200(GS)/ 88(WB)	143	n.a
Dependency ratio (% from outside the country)	15	20.7	5.73[60]	80	0.8
Water use ' (% of water resources)	122	91	88	48	27
Agricultural use (% of total)	65	69	82	98	68

Source: World Bank. "West Bank and Gaza Update, Second Quarter 1999; World Bank./ From Scarcity to Security – Averting a Water Crisis in the Middle East and North Africa", Washington, DC, 1995.

Since the sector suffers from restricted water resources, over 90% of the cultivated WB area depends on rain fed farming methods. In contrast, Israel irrigates over 50% of its cultivated land, although the agricultural sector contributes less than 3% to its GDP [61]. Industrial and agricultural production is impossible without water. The water consumption per produced unit of crops is high, especially for vegetables and fruit. In West Bank and Gaza Strip, intensive agriculture is dependent on irrigation but there is little access to irrigation water. The volume of irrigation water fluctuated in the West Bank, staying in the range of 70-90 MCM/y. It declined over time in Gaza, falling from 85 MCM/y in 1967, to 75 MCM/y in 1993. However, limited quantity and poor quality of water have negatively been effects on

[56] World Bank, "West Bank and Gaza-Agriculture Sector", Report No. PID5988, 1997.
[57] Diwan, I. And A. Shaban, R., "Development under Adversity: The Palestinian Economy in Transition", World Bank and MAS, 1999.
[58] Based on Oslo II
[59] Global average = 7,500 m3/cap/year
[60] Global average = 7,500 m3/cap/year
[61] MOPIC, "*Valuable Agricultural Areas in the West Bank Governorates*", Ramallah, 1998)

NEAR EAST UNIVERSITY

INSTITUTE OF APPLIED AND SOCIAL SCIENCE

ECONOMIC VIABILITY OF A PALESTINIAN STATE IN THE WEST BANK AND GAZA STRIP

MASTER THESIS

MALATH ALAGHA

DEPARTMENT OF INTERNATIONAL RELATIONS

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Approval of Director of Graduate School of Applied and Social Sciences

Prof. Dr. Fakhraddin Mamedov

We certify that this thesis is satisfactory for the award of a degree of Master of Arts in International Relations

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IN THE NAME OF GOD THE MOST GRACIOUS AND MERCIFUL

This is the ingathering of two passed years, hoping for more progress, hard working has reached aims.

Firstly, I would like to thank my supervisor Prof. Jouni Suistola for his great help he gave to me during my research.

I dedicate my thesis to my parents who insured me the suitable environment for study at the periods of my life, with the grace of Allah.

It is my pleasure to dedicate this thesis to my honorable teachers who provide me the guideline where I felt difficulty. I feel no hesitation to say that they are really capable and kind enough to mold every student toward study.

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LIST OF ABBREVIATIONS

CU	Custom Union
DOP	Declaration of Principle
EP	Economic Protocol
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HS	Harmonized Commodity Description and Coding System
IMF	International Monetary Fund
ICBS	Israeli Central Bureau of Statistics
JD	Jordanian Dinar
JWC	Joint Water Committee
MCM	Million of Cubic Meters
NIS	New Israeli Shekel
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PLO	Palestine Liberalization Organization
PT	Palestinian Territory
SAR	Sodium Adsorption Ratio
Sq Km	Square Kilometer
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSCO	Office of the United Nations Special Co-ordinator
USD	United State Dollar
WBGS	West Bank and Gaza Stripe
WHO	World Health Organization

ABSTRACT

Peace process makers had promised the West Bank and Gaza Strip's Population with an economic recovery and stability within the context of peace. The Economic Protocol between Israel and PLO signed in Paris in 1994 has maintained that it is possible to establish economic growth in the West Bank and Gaza Strip without defining territorial integrity and sovereignty. Nine years after the signing of this agreement, though, the situation in the Palestinian areas has deteriorated rather than improved. However, Water resources are an important material aspect of Palestinian existence and relevant to any lasting peaceful solution to the Palestinian-Israeli conflict. This thesis argues that this deterioration is in large part due to the failure of the Oslo agreement, which is signed to protect Palestinian territorial rights and to resolve questions of sovereignty and control over natural resources.

INTRODUCTION

In many centuries, Palestine was conquered by many entities; from 640 to 1917 it was under Islamic rule. In 1917 the British captured the area, Palestine from the Ottoman Empire. Concurrently, a Zionist movement for a Jew homeland arose. In 1917 the (British foreign secretary) Balfour Declaration promised the Jews a national home in Palestine. The Jewish migrants to the region began to increase slowly, and then it expanded dramatically during the British Mandate. Soon after World War II, the Jewish migrants to Palestine stood at 650,000; the Arab population was 1,350,000. Zionists increasingly agitated for an independent Jewish state. Conflict increased, and London turned it to the UN for a solution in 1947.

The UN plan to divide the area between Jewish migrants and Palestinians never went into effect. Instead, when the British withdrew in 1947, war immediately had broken out between Jewish belligerents and the region's Arabs. The Jews won the war, establishing their Zionist entity in 1948 and doubling their territory. Most Palestinian population fled (or was driven) from their homelands to refugee camps in neighbor countries, and Gaza Strip and the West Bank of the Jordan River), the West Bank and Gaza Strip had been part of Palestine but were under Egyptian and Jordanian rule respectively. As a result of the 1967 Six Day War, the West Bank and Gaza Strip came under Israeli Occupation. Also in this period the Palestine Liberation Organization (PLO) became the major representative of Palestinian Arabs. Peace was not possible because the PLO and the Arab states would not recognize Israel's legitimacy.

In 1987, the first Palestinian Intifada erupted against Israeli aggression. During the first Intifada in 1987, Israel concluded that the status quo then was unsatisfactory. This conclusion as well as the Gulf crisis and Gulf war were among important factors that led to open the door to Oslo peace process. Israel hoped that the PLO would be a partner in assuring Israel's security interests in the West Bank and Gaza Strip, and in Israel proper. Israelis and Palestinians met in Spain and held public talks for the first time in 1991. Bilateral secret peace talks between the Israelis and PLO in Norway led to an agreement. In September of 1993, PLO and Israel signed in Washington, the Declaration of Principle, which called for the five-year interim period for Palestinian Autonomy in the West Bank and Gaza Strip. PLO gained limited control over parts of the West Bank and Gaza Strip, and established the Palestinian Authority.

The Oslo II agreement divided the West Bank into three classifications: areas A, B, and C. Until the last redeployment in March 2000, Palestinian Authority have full control in area A (18.2 %) and in area B (21.8 %), it have full control over civil society except that Israel continues to have overriding responsibility for security. The formation of an Israeli Labor Government in 1999, led to resumption of interim and permanent status negotiations at "Camp David" in July 2000. Palestinians want viability, independence, and choice, all of which were missing from Camp David's proposals, thereby it failed.

The establishment of the Palestinian Authority (PA) generated widespread hopes and expectations for economic recovery within a context of peace, political stability and economic integration of the West Bank and Gaza Strip. But, the existence of settlements which left to final status negotiation and the inexact implementation of the interim accords by Israel led to a de facto fragmentation of the West Bank and Gaza Strip, thereby undermining all the hopes above. After 1995, the Oslo Accord segmented Palestinian Land between two authorities control (Palestinian Authority and Israel), since it divided the West Bank into three zones A, B and C, this division has partitioned the West Bank into 64 isolated cantons of areas A and B which are separated from each other by areas C, and Gaza Strip to four cantons by Israeli settlements. However, the issue is not establishment of a State- the issue is one of viability, integrity and independence.

According to Camp David's Proposals, the Palestinians were to get a state, cut up by settlements, fragmented by Bypass roads economically dependent on foreign assistances, above all of this, it would have had less sovereignty and viability than the Bantustans created by the South African apartheid government.

HYPOTHESIS

Since the onset of the Israeli occupation in 1967 of the West Bank and the Gaza Strip (WBGS), Israel has used its dominance as a belligerent occupier to create an economic environment in these areas that has forced Palestinian society into a severe economic dependency on the Israeli economy. Furthermore, it has to change the status and the demographic character of the West Bank and the Gaza Strip as well as creation of de facto realities on ground through settlement activities, based on what Sharon announced in 1973. He said, "we'll insert a strip of Jewish settlements, in between the Palestinians, and then another strip of Jewish settlements, right across the West Bank, so that in twenty-five years time, neither the United Nations, nor the United States, nobody, will be able to tear it apart".

The occupation itself and the means by which Israel created these realities on ground are violations of the principles of international law, especially Article 46 of the 1907 Hague Regulations, in conjunction with Article 49, Article 51, Article 52 and Article 64 of the Fourth Geneva Convention of 1949. On the other hand, Oslo accords called for freezing of settlement activities that started since the occupation in 1967. But, ten years after the initiation of the peace process (1993-2003), we find that the settlement activities of occupation became facts on ground, and peace process failed to stop these activities and became these settlements as acquired right for occupation.

The key question that this thesis will seek to address is whether the West Bank and Gaza Strip constitute an economically viable entity, and whether the PLO can establish independent and viable state on it, and whether it can survive under territorial fragmentation and without full sovereign control over land and resources. Sovereignty is important for economic growth since it defines a state's jurisdiction and its scope of intervention. It is also important because it allows actors, be it individuals, firms or governments, to evaluate the resources they can count, where they can invest and with whom they can trade. However, sovereign borders are important for a State since they determine its economic and political viability, its access to natural resources, its capacity for economic development, and its ability to defend itself from external threats. Moreover, the question of territorial contiguity would result in more predictability, allowing Palestinians to make arrangements for travel and the transfer of goods without worrying about checkpoints and closures.

METHODOLOGY AND STRUCTURE

The thesis is structured into six Chapters. The first chapter (West Bank and Gaza strip: Geography, Resource Endowment and Economy) depicts the geographical aspects and resource endowment of WBGS, as well as pinpoints economic performance of the Palestinian domestic economy. In addition it will be compared with the economies of neighbor countries. The second chapter (Paris Protocol and Economic Viability) pinpoints shortcomings and ambiguities of the Economic Protocol and depicts its oppressive and restrictive arrangements against the Palestinian economy. In this chapter, discussion is relied to a large extent on Protocol Articles and analysis that has been previously addressed by research institutions, and international organizations.

The third chapter (Water problems in WBGS) depicts general data on water supply in WBGS, including the locations of groundwater aquifers and their water qualities, as well as

the surface water and its percentage of the water in Palestine. However, it pinpoints water issues under the Oslo accords, Israeli policies and measures that restrict Palestinian's use of their own water resources, and the importance of water for economic growth as well as its repercussions on economic viability.

The fourth chapter (Territorial Fragmentation of WBGS) describes the fragmentation of WBGS and the changes of its geographic character. This includes terms of bypass roads, closed military areas and green areas in Jerusalem. However, it explicates the Oslo II land classification scheme of the West Bank and Gaza Strip, which that translated into the physical fragmentation of Palestinian communities. Furthermore, it also pinpoints the impact of Jewish settlements and bypass roads on a daily life of Palestinians. In the both chapters, arguments are relied to a large extent on data and information that has been previously investigated by other regional non-governmental organizations and specialist research institutions (such as Applied Research Institute-Jerusalem), as well as international organizations

The fifth chapter (Mobility Restrictions, Closures) on the one hand, describes the impact on economic Viability of Israeli permit and closure policies, mobility restrictions, and Territorial Control. On the other hand, it illustrates how these policies have lead to a severe dependency of the Palestinian labor market on the Israeli labor market (in Israel and in Israeli settlements). The data and information for this chapter based on UNSCO reports on the Palestinian Economy.

The sixth chapter (Camp David Proposals) pinpoints the main lines of Barak's verbal proposals of the final settlement and its implications on ground. However, it provides some analysis of causes that led to the failure of Camp David and the collapse of peace process. In this chapter, we had to deal with the availability of leaked data and information.

CHAPTER 1

WEST BANK AND GAZA STRIP: GEOGRAPHY, RESOURCE ENDOWMENT AND ECONOMY

1.1. Geography of the West Bank and Gaza Strip

As a geographic unit, Palestine extended from the Mediterranean on the west to the Arabian Desert on the east and from the lower Litani River in the north to the Gaza Valley in the south. The Palestinian territory of the West Bank and Gaza Strip is constituting 22 percent of the area of the pre-1948 British Mandate Palestine, The West Bank is 5,800 square kilometers in area, 130 km long and ranges 40 to 65 km in width; The West Bank is divided into three main districts with eight sub-districts, each of which is named after one of the main cities. The northern region comprises the sub-districts of Jenin, Tulkarem, and Nablus, while the central region includes Jerusalem, Jericho, Ramallah and Bethlehem; and the southern region is constituted by Hebron.

The Gaza Strip covers 365 square kilometers, running at 45 km length and between 5 and 12 km in width; it borders Nagap desert to the north and east, the Egyptian Sinai Peninsula to the south, and the Mediterranean Sea to the West; and is divided into three districts: Northern Gaza, Central Gaza, and Southern Gaza. The Gaza Strip is mainly coastal plain and sand dune while the West Bank is more diverse, featuring four topographic zones. These include a fertile plain of around 400 sq. km. in the Jordan Valley and the Jordan River; a rocky semi-arid area of 1,500 sq. km. covering the eastern slopes and leading down to the dead sea; the central highlands constituting the largest zone with a total area of 3,500 sq. km. while rising 1000 meters above sea level in places; and the semi coastal zone consisting of 400 sq. km in the west and north-west.[1]

Since 1967, and especially since the late 1970s, Israel has pursued a policy of building settlements in the West Bank and Gaza Strip, mainly on expropriated public and private Palestinian land. In 1994, the number of Israeli settlements within West Bank and Gaza Strip had reached 194 settlements; most of them are in the West Bank, including 28 constructed since 1967 within the expanded Jerusalem municipal boundaries. Moreover, there are 18

[1] Palestinian Academic Society for the Study of International Affairs, (PASSIA), Yearbook, Jerusalem, 1996.

Israeli settlements in the Gaza Strip[2] in addition to 40 new settlements founded since the beginning of the second Intifada. The total population of the Israeli settlements in both regions is estimated to have reached around 150,000 by 1995, excluding settlements in the east Jerusalem area[3]. These settlements make intensive and disproportionate use of scarce natural resources. For instance, Israeli settlers constitute 9-10 percent of the West Bank population and some 6900 settlers in the Gaza Strip, equivalent to less than one per cent (only 0.6 percent) of the area's Palestinian population, yet they use 79 percent of the West Bank and Gaza Strip Territory (approximately 25% of the Gaze Strip's Area). In the West Bank, Israeli settlements account for one third of the total water consumption although their population is equivalent to fewer than 10 per cent of the Palestinian population[4].

1.2. Population: a young nation

The Palestinian population of the West Bank and Gaza Strip is estimated to have reached 3.15 million in 2000, approximately 64 percent of who live in the West Bank and the rest in Gaza Strip. It is estimated that over 5 million Palestinians live outside the West Bank and Gaza Strip, including those living in Green line (Israel). The population density differs markedly between the two areas. In the West Bank population density is 342 persons per sq km, whereas in the Gaza Strip the comparable figure is 2,933. In Gaza city, population density is 14,000 persons per sq km, which is one of the highest in the world. The youth represent the largest percentage of the population, where the percentage of population aged 14 years and below is 46.6 percent at the end of 2001. The age group (0-4) constitutes the second largest proportion (19%), while the age group (60 and above) constitutes 3.4 percent of the population only. However the annual rate of population growth is estimated to have reached 5.4% in 2000[5]. Almost 40 percent of the resident population is registered as refugees from the wars of 1948 and 1967 (26 percent of the West Bank population and 64 percent of the Gaza Strip population)[6]. Most of the refugees live in over crowded camps with substandard housing and sanitation conditions representing the disadvantaged stratum in Palestine.

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[2] Palestinian Academic Society for the Study of International Affairs, (PASSIA), Yearbook, Jerusalem, 1996.
[3] Roy, S., The Gaza Strip: the Political Economy of Development, Washington, D.C., Institute for Palestine Studies, 1995, p. 176.
[4] Palestinian Academic Society for Study Of International Affairs (PASSIA), "Fact Sheet – Land and Settlements", Jerusalem, 2001. www.passia.org.
[5] Third United Nations Conference on the Least Developed Countries (May 2001),"Information Note on the Economy of the Occupied Palestinian Territory (West Bank and Gaza Strip) Brussels, Belgium Prepared by the Palestine National Authority Ministry of Economy and Trade.
[6] Palestinian Central Bureau of Statistics (PCBS), Demographic Survey of the West Bank and Gaza Strip, Ramallah, 1996.

1.3. Resource Endowment

1.3.1 Land and water: Notwithstanding the small size of the Palestinian territory, just one quarter of Palestinian land is under cultivation - around 1,500 sq km in the West Bank and 160 sq km in the Gaza Strip. However, Palestinians do not control the totality of the available land in the West Bank and Gaza Strip. By 1995, Israel had confiscated or otherwise controlled 73 percent of the total land area of the West Bank and Gaza Strip combined. The West Bank and Gaza Strip depend to a large extent on groundwater sources for irrigation and drinking water. The annual renewable water that is available as ground and spring water is estimated at around 600-800 million cubic meters (MCM) in the West Bank, and between 50-70 MCM in the Gaza Strip. Use of water by Palestinians in the two regions is estimated at about 200 to 230 MCM annually[7]. The rest is used in Israeli settlements and in Israel proper. From calculation of last numbers, Israel steals about 73 percent of Palestinian water.

1.3.2 Human Resources: It is widely considered that the most impressive asset of the Palestinian economy is its human resources. Throughout 54 years of conflict, dispersion and occupation, Palestinians have exhibited resilience and resourcefulness, and sustained a strong commitment to education. Palestinians are considered to be relatively well-educated, as measured by literacy rates, years of schooling completed, and enrolment rates[8]. The Palestinian territory suffers from three major problems in the area of human resources. The *first* is the failure of the economy to generate enough employment, leading to one third of the labor force working in Israeli labor market and to severe domestic unemployment. The *second* is a labor participation rate that is considerably below the rate in neighboring countries. The *third* problem is low labor productivity, especially in the manufacturing sector[9].

The overall labor force participation rate (the proportion of the labor force to total population) has not risen above 21 per cent over the last five years from 1990 to 1996, whereas it stands at 25 percent in Jordan and 40 percent in Israel[10]. However, according to Palestinian Central Bureau of Statistics, the percentage of population aged 15 years and over is 53.4 percent at the end of 2001, this playing a major role of labor force participation rate.

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[7] United Nation Conference on Trade and development, "The Palestinian Economy and prospects For Regional cooperation", Geneva, 1998.
[8] International Labor Office, "Report of the Director-General, Appendix" International Labor Conference, 82nd Session, 1995.
[9] United Nations Conference on Trade and development, "Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development", 1996.
[10] The World Bank ,"World *Development Report"*, 1995, Washington, D.C.

1.3.3 Capital: During the 1970s and 1980s, the Palestinian economy witnessed a relatively large movement of capital inflows and outflows. The former arose from incomes of Palestinian workers in Israel, remittances from Palestinian workers in the Gulf States, and from Arab and foreign financial assistance. Incomes of workers in Israel and remittances from workers in the Gulf region have declined significantly since 1990, owing to the dramatic drop in the number of Palestinians working in these two major markets (where 400, 000 Palestinians return back From Gulf states and to WBGS as a result of the Gulf crisis in 1990-91), which together employed almost half of the manpower from the territory by the end of 1980[11]. On the other hand, foreign assistance has increased with the establishment of the PA. Between October 1993 and September 1998, donors (around 48 countries, 13 of them Arab) responded to the call for resources by committing a total of US$3.66 billion in assistance to the Palestinian people and disbursing about US$2.5 billion[12]. Donor support has been intended to help the Palestinians achieve sustained economic growth and develop a sound economic and sociopolitical base that would contribute to peace and stability in the region.

International financial aid between 1994-2000 fluctuated in commitment and disbursement according to the status of the political settlement process. International aid to the PNA fell from $506 million in 1994 to $369.3 million in 2000 (27%). The peak of grants and international aid was in 1995 ($554.4 million) and the lowest level was in 2000[13].

1.4. The Palestinian Economy (Constraints and Impediments)

The Palestinian economy is one of the main issues, which has long haunted economists and politicians. The Palestinian economy is almost entirely dependent on Israel and is therefore vulnerable to Israeli measures. This dependence uphold by the Declaration of Principles on Interim self-Government Arrangements, commonly known as Oslo Accords, which kept the border crossings under the Israeli control and divided the Palestinian territories into cantons separated between the Israeli and Palestinian Authorities. Since the occupation of the West Bank and Gaza strip (Occupied Territories) in 1967, many Palestinian economy sectors suffered from stagnation because of the lack of political stability and Israeli impediments to investment in the main sectors:

[11] United Nations Conference on Trade and development, "Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development", 1996.
[12] The World Bank and the United Nations Office of the Special Coordinator in the Occupied Territories, "Donor Investment in Palestinian Development 1994-1998", A Jointly- Report, 1999.
[13] MAS- Palestine Economic Policy Research Institute, " Economic Monitor Issue No. 8", 2001

1.4.1 Agriculture and Industry: Agriculture plays a vital role in the Economy of the West Bank and Gaza Strip; it generates about 25 percent of Gross Domestic Product (GDP), employs 20 percent of the work force and account for 25 percent of exports. However, Palestinian farmers have demonstrated their competitiveness in high, quality fresh fruits vegetables, and flowers in west Europe by exports through Israel[14]. However, the industrial sector has suffered from very low level of industrialization, and currently faces a number of serious obstacles; one of them is the shortage of water. Movement of goods and services is often blocked by border closures. On the other hand, its contribution to Palestinian economy account for 8 percent of GDP and 16 percent of total employment.[15] Compared to other economies with similar income levels and at the same stage of development, the share of industry to GDP in the West Bank and Gaza Strip has been consistently low its share in GDP has not exceed 10 percent in other economics reached to more than 30 percent[16].

1.4.2 Construction and Housing: Notwithstanding the constraints of occupation, construction and housing have evolved into a major sector of the Palestinian economy, playing an important role in the generation of employment and income. Whereas the construction contribution to GDP has exceeded 6 percent before 1967, it rose to around 17 percent by the end of the 1970s, it remained over 15 percent during the 1980s until the Intifada in 1987, when it declined to around 12-14 percent[17]. This percentage of contribution of domestic production remained fluctuating among 15 to 17 percent from the start of peace process in 1993 until the beginning of Al-Aqsa Intifada in September 2000[18]. Meanwhile, the sector's share of employment also increased from about 14 percent in 1970s to 27 percent in 1993 it remained approximately 22 percent during 1993 until 2000 with the starting Al-Aqsa Intifada[19].

In view of the overpopulations in Gaza Strip and refugee camps and some cities in West Bank, whereas the Palestinian population estimated to have reached 3.15 million, approximately 36 percent of them live in Gaza Strip which covers 359 sq km. The housing situation constitutes one of most serious economic and social problems confronting the Palestinian people in West Bank and Gaza Strip. As we know the percentage of population

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[14] The World Bank, "West Bank and Gaza-Agriculture Sector" Rehabilitation project , 1997.
[15] MAS-Palestine Economic Policy Research Institute, " Opportunities and Possibilities For Industry in the West Bank and Gaza Strip". Issue No. 9, 1997.
[16] The World Bank, "Developing the Occupied Territories: an Investment I Peace". Volume3 Washington, 1993.
[17] Abdul Hadi, R. "Construction and Housing in the West Bank and Gaza Strip", 1994.
[18] Palestine Monetary Authority, "Annual Report", 1998.
[19] Ibid

aged 15 years and over is 53.4 percent at the end of 2001, as well as the birth rate is very high among the Palestinian families.

1.4.3 Tourism: The West Bank and Gaza Strip have great potential as a tourist destination because of its religious, historical, archeological, natural, and cultural attractions. Although, the annual number of visitors to the church of nativity in Bethlehem and archeological sites of Jericho are approximately 1.3 million the limited contributed contribution of the tourism sector to the economy is not surprising, given it's stagnation in the last three decades of political uncertainty and Israeli restrictions[20]. The contribution of the tourism sector exceeds not 2 percent of GDP since 1967, for 0.5 percent of excluded Jerusalem city and only one percent of labor force[21].

1.4.4 Labor Market: As direct result of occupation, the Palestinian economy is tied directly with Israel through many channels. Labor market and foreign trade are important channels with Israel. Structural imbalance within the Palestinian economy makes it unable to absorb the growth of the labor force, creating a large surplus of workers and dangerous growth in unemployment in the West Bank and Gaza Strip. Since the occupation, Palestinian have depend on Israeli labor market to absorb a large portion of surplus labor force, between 1975-1990, the Israeli labor market absorbed 25-40 percent of the Palestinian labor force, and their income constituted 25 percent of the (GNP)[22]. In 1991 nearly 40 percent of Gaza's labor force and over 30 percent of the West Bank's labor force worked in Israel[23].

However, following the Oslo Accords the number of workers employed in Israel dropped from 120.000 in 1992 to 36.000 in 1996, although, the number later rose again to 70.000 by 1997 and of 135.000 by 1999[24]. At the same time unemployment rates reached 20.3 percent in 1997 and declined in 1998 to 14.4 percent. However, the estimations indicate that it is added to the labor market 30.000 person annually, and the necessary investments are estimated to engage one person by 15.000 dollar, which means that the Palestinian authority is in need to annual investment of 450 million dollar to keep on the same unemployment level and also in need of 2 billion dollar to delimit from the unemployment problem[25]. After the outbreak of Al-Aqsa Intifada, the number of the Palestinian workers in Israel declined

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[20] Diwan, I. and R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary. MAS-World Bank Joint Report, 1999.
[21] Palestine Monetary Authority, "Annual Report", 1998.
[22] Farsakh, L, "Palestinian Employment in Israel 1967-1997: A Review", Ramalla, MAS, 1997.
[23] The World Bank, "Developing the Occupied Territories: an Investment I Peace", 1993.
[24] Farsakh, L, "Palestinian Employment in Israel 1967-1997: A Review", Ramalla: MAS, 1997.
[25] Palestine Monetary Authority, "Annual Report ", Ramalla, 1998.

precipitously from an estimated 146.000 in the third quarter of 2000 to 44.000 workers in the fourth quarter of 2000, representing a 70 percent declined. Between the third quarter of 2000 and the third quarter 2001, overall Palestinians employment in Israel has declined by some 57 percent. Gaza strip suffering by the border closures more than the West Bank, whereas, the declined number of workers in Israel from west Bank and Gaza strip was 42 percent and 90 percent respectively[26].

1.4.5 Foreign Trade: The West Bank and Gaza Strip as a result of prolonged occupation are heavily depending on Israel for infrastructure services of Trade (Ports and Airports); Palestinian foreign trade is largely tied to Israel. Some 95 percent of West Bank and Gaza Strip (WBGS) total exports are to or via Israel and also around 90 percent of WBGS total imports come from Israel or through Israeli ports and are subject to Israel customs[27]. Unlike the normal procedure applied in foreign international trade, the Palestinian goods exported to Israel or to other countries via Israel are subject to special procedure. These Israeli measures are implemented under pretext of security and standards, but aim to delay the goods in ports, to increasing costs and reducing competitiveness with Israeli and foreign products. As a direct result of Israeli measures, the estimates of international monetary fund, World Bank and Palestinians ministry of finance reveal merchandize exports were nearly cut in half between 1992 and 1996, from 11 to 6 percent of GDP and imports fell from 46 to 38 percent of GDP[28]. While Israel controls and overrules of the Palestinians natural resources, the Palestinian economy sectors (Agriculture, industry and construction) depends largely on Israeli and imported raw materials. The vast majority of Palestinian exports and imports go and come from Israel or via Israeli ports, thereby the Palestinian economy becomes hocked of the Israeli measures.

The Palestinian economy is suffering from trade deficit since the occupation in 1967 the trade deficit of West Bank rang between 34 - 37 percent of it GDP in the years 1972 to 1990, while the trade deficit of Gaza strip was 54 percent of GDP in 1972, reached 61 percent GDP in 1980, but in 1990 as a result of Israeli border closures amounted to 93 percent of GDP[29]. On the one hand, West Bank and Gaza Strip ran a trade deficit in 1998 approximately 60 percent of GDP. However, after outbreak of second Intifada in September, 2000, Palestinian

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[26] UNSCO, The Impact on the Palestinian Economy of the Recent Confrontations, Border Closures and Mobility Restriction (1October 2000-30 September 2001), 2000.
[27] MAS-Palestine Economic Policy Research Institute, " The Economic Monitor, No. 7." Ramallah, 2000.
[28] Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary. MAS-World Bank Joint Report, 1999.
[29] United Nation Conference on Trade and development, "Prospects for Sustained Development of the Palestinian Economy in the West Bank and Gaza Strip, 1990-2010", 1994.

imports from Israel declined by more than 33 percent, while exports declined by more than 17 percent in the first half of the year 2001 compared to the same period of 2000[30].

Table (1): Estimated Palestinian Foreign Trade Patterns in 1998

	Imports Mill. S$	(%)	**Exports** Mill. US$	(%)
Arab League Members	35	1.1	25	3.4
Free Trade Countries[31]	423	13	35	0.7
Israel	12,422	75.9	697	95.8
Rest of the World	312	9.8	0	0.0
Total	3,192	100.0	727	100.0

Source: United Nation Conference on Trade and development, "trade options for the Palestinian Economy, Some Orders of Magnitude", 2001.

1.4.6 Macro Level: The Palestinian economy is characterized by its limited size and large macroeconomic imbalances, the Gross National Product (GDP) of the West Bank and Gaza Strip was estimated at $4,954 million in 1999. East Jerusalem accounted for 6.7 percent of total Palestinian GDP, while the West Bank (excluding East Jerusalem) contributed 63.9 percent and the Gaza Strip accounted for 29.4 percent[32]. Unlike all positive expectancies, the economic situation in West Bank and Gaza Strip is worse than what it used to be in 1992. The Gross National Income (GNI) of the West Bank and Gaza Strip totaled $6,124.7 million, 23.6 percent higher than GDP[33]. This is a reflection of Palestinian dependence on foreign markets, especially Israeli economy.

However, real Gross National Product (GNP) per capita income dropped by more than 17 percent between 1994-1996, and unemployment soared to over 28 percent in 1996, GDP growth was negative in 1996 and 1997 at -5.1 percent and -0.7 percent respectively[34]. Despite the advance of Palestinian economy during 1998 to 2000, unless GDP growth is not exceeded 2 percent[35]. However, real per capita average expenditure in the 1995-96 survey periods is about 15 percent below its average for the years 1992-93. By 1998, government consumption was almost 25 percent of GDP (compared to 15 percent in 1995), which is among the highest

[30] UNSCO, "the Impact on the Palestinian Economy of the Recent Confrontations, Border Closures and Mobility Restriction (1October 2000-30 September 2001)", 2000.
[31] The Free Trade Area Countries group includes: EU counties, USA, Canada, The Czech and Slovak republics, Turkey, Hungary, Poland and Slovenia
[32] Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary", MAS-World Bank Joint Report, 1999.
[33] MAS-Palestine Economic Policy Research Institute, "The Economic Monitor, No. 6". Ramallah, 2000,
22 Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary", MAS-World Bank Joint Report, 1999.
[35] Palestinian Monetary Authority, "Annual Report", 1999.

in the Middle East, however Private investment in productive activities remains low, around 14 percent of GDP, while public investment amounts to 8 percent of GDP. Furthermore, GNP exceeded GDP by more than 20 percent, and the trade deficit is about 50 percent of GDP[36].This is a reflection of Palestinian dependence on foreign markets, especially Israel.

1.5. Peace Process and Economic Viability

When the Palestinian Authority began to exercise its function in May 1994, as envisioned in the Declaration of Principles signed between Israel and Palestine Liberalization Organization (PLO) in Washington, in September 1993, was expected to be accompanied by a significant transformation of economic conditions in the West Bank and Gaza Strip. And also the Palestinian People expected that, the new situation engendered by the peace process may be able to bring about rapid economic change and create a new enabling environment for economic development. Contrary to all hopes, the economic situation reflected deterioration and fragmentation in all markets, coupled with virtual paralysis of the public sector. Although, one of the main aim of the peace process is establishing strong economic infrastructure of the visible Palestinian State, Some political pundits believe that during the movement for Freedom, economic issues seldom attract much attention. They argue that economic problems can be confronted after. But surprisingly, ten years after the initiation of peace process, the question of the economic viability of a Palestinian state still unresolved.

It is generally understood that an economy is viable if it is able to use and exploit its resource endowment, e. g. the land and water, other natural resources like raw materials, the capital, energy resources, and the people (the human capital and the size of work force and consumer market) to grow, sustain itself and increase the welfare of the inhabitants living within its area. To be sure, the people (the human resource) are the most critical variable in any economy. It is not only the will and determination of a people to survive, but also their dynamism in transforming the natural resources into wealth.

The success of the East Asian Tigers and Western states, in attaining prosperity has revealed the power of outward oriented policies in enhancing growth. In particular, openness to world trade and to financial flows has proved to be a viable vehicle for prosperity, since it induces economies to specialize in areas of their comparative advantage and to attract needed capital and inputs[37]. Regional integration projects are also looked upon as a supportive means

[36] The World Bank, "Poverty in West Bank and Gaza", 2000.

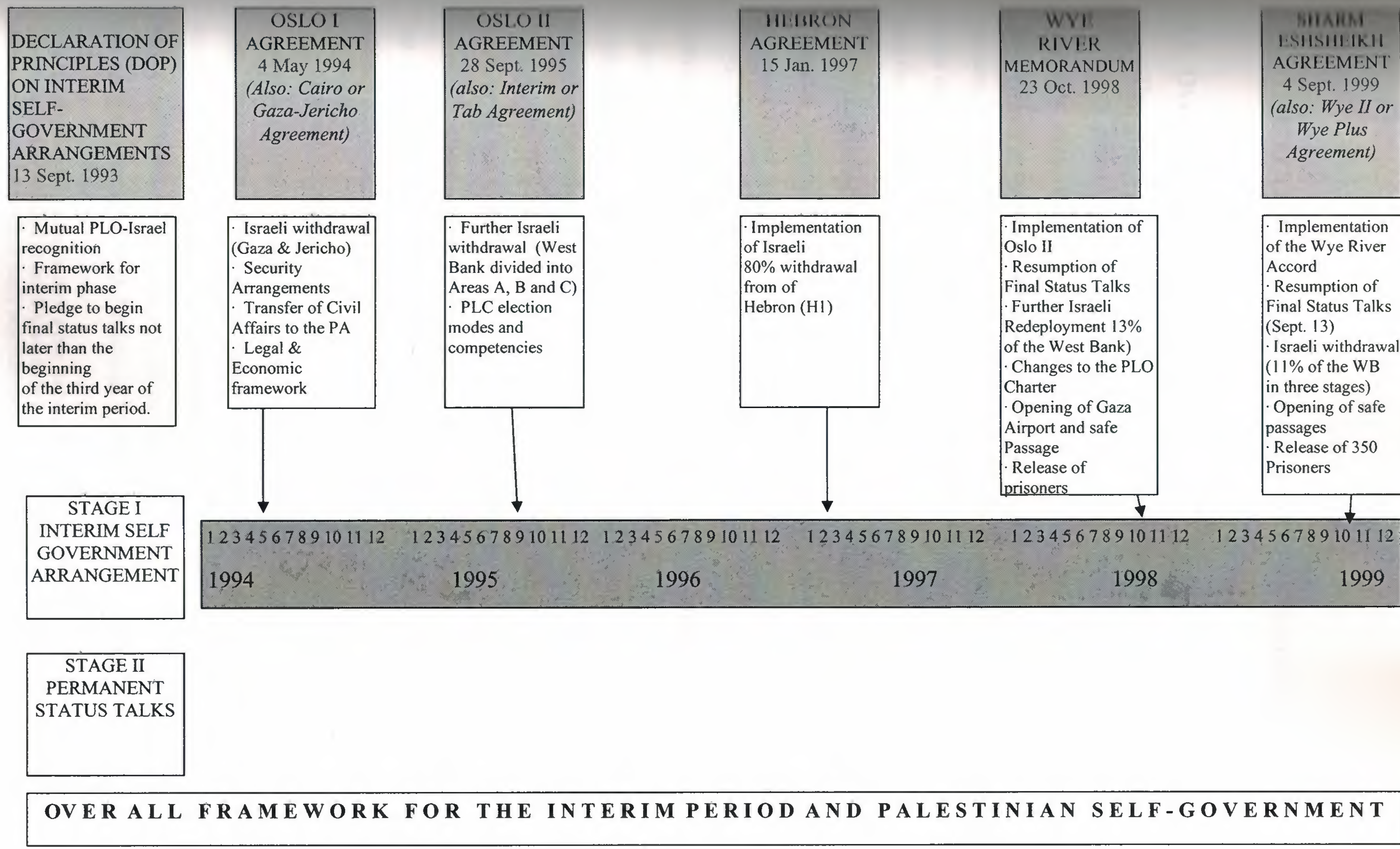
[37] Oman, C., "Globalization and Regionalization: The challenge for developing countries", Paris, 1994.

for integrating into the world economy and for sustaining growth. In the Palestinian context, it is difficult to talk about economic viability or the means to achieve it due to the absence of a workable definition of what is a Palestinian economy. While it is generally agreed that the Palestinian economy covers the West Bank and the Gaza Strip, the territories and borders delineating these areas are not well defined. In addition, the Palestinian Economy has been subjected to a number of handicaps:

Disintegration, under the absence of any territorial link between the WB/GS territories: Are the West Bank and the Gaza Strip really one and the same economy? **Settlements,** while over 200 Israeli settlements are entrenched in different parts of the West Bank and Gaza Strip, is it possible to talk about the economy of Palestine? **Confiscated Land**, while the Israel Occupation confiscating more and more from the Palestinian land under the pretext of security, bypass roads and natural growth for settlements, is it possible to talk about economic integrity? **Jerusalem**, can there be growth and prosperity in Palestine while Jerusalem -which is the physical and economic link between the North and the South of the West Bank is not included? **Trade;** can trade be a vehicle for Palestinian growth before borders are clearly defined with Israel, Jordan and Egypt, as well as with the rest of the world? Can regional integration be a motor for growth while Palestinian territorial sovereignty is not clearly demarcated? **Water**, is it possible to talk about useful utilization for Palestinian natural resources, while Israel controls and overrules about 73 percent of Palestinian water resources?

1.6. Summary

It is clear that, the Palestinian economy is operating substantially below its potential, this situation due a mainly to more than 27 years of direct military occupation, which subject the WBGS economy to a severe fiscal and financial repression, and inhospitable environment featuring infrastructure gap (roads, ports, ...etc), weak public services, absolute institutional frame works, as well as weakened its industrial and agriculture base. Therefore, the Palestinian economy characterized by limited size, a large macro economic imbalance and high and available unemployment rates. So this situation led to many economic and social troubles, for instance, the Palestinian economy is increasingly less able to generate and sustain enough jobs and incomes for its people, as well as the standard of living has continued to fall in the midst of massive unemployment and rising poverty.


DECLARATION OF PRINCIPLES (DOP) ON INTERIM SELF-GOVERNMENT ARRANGEMENTS 13 Sept. 1993
· Mutual PLO-Israel recognition
· Framework for interim phase
· Pledge to begin final status talks not later than the beginning of the third year of the interim period.
OSLO I AGREEMENT 4 May 1994 (Also: Cairo or Gaza-Jericho Agreement)
· Israeli withdrawal (Gaza & Jericho)
· Security Arrangements
· Transfer of Civil Affairs to the PA
· Legal & Economic framework
OSLO II AGREEMENT 28 Sept. 1995 (also: Interim or Tab Agreement)
· Further Israeli withdrawal (West Bank divided into Areas A, B and C)
· PLC election modes and competencies
HEBRON AGREEMENT 15 Jan. 1997
· Implementation of Israeli 80% withdrawal from of Hebron (H1)
WYE RIVER MEMORANDUM 23 Oct. 1998
· Implementation of Oslo II
· Resumption of Final Status Talks
· Further Israeli Redeployment 13% of the West Bank)
· Changes to the PLO Charter
· Opening of Gaza Airport and safe Passage
· Release of prisoners
SHARM ESHSHEIKH AGREEMENT 4 Sept. 1999 (also: Wye II or Wye Plus Agreement)
· Implementation of the Wye River Accord
· Resumption of Final Status Talks (Sept. 13)
· Israeli withdrawal (11% of the WB in three stages)
· Opening of safe passages
· Release of 350 Prisoners
STAGE I INTERIM SELF GOVERNMENT ARRANGEMENT
1 2 3 4 5 6 7 8 9 10 11 12
1994
1995
1996
1997
1998
1999
STAGE II PERMANENT STATUS TALKS
OVER ALL FRAMEWORK FOR THE INTERIM PERIOD AND PALESTINIAN SELF-GOVERNMENT

CHAPTER 2

THE ECONOMIC PROTOCOL AND ECONOMIC VIALABILITY

2.1. Overview

The Protocol on Economic Relations between the Government of the State of Israel and the P.L.O. (Paris Protocol) was signed on April 29, 1994, which is the document governing economic relations between Israel and the West Bank and Gaza Strip (WBGS).The Paris Protocol is the economic wing of the political agreements of so-called Middle East peace process, which was initiated in Oslo on 1993. It pertained to the five-year interim period that came to an end on May 4, 1999, and then a move to "final status". This has not yet happened and the situation now is one of a de facto extension of the interim period.

This discussion will spotlight the success and failures of the protocol with respect to economic viability, with reference to four main economic blocks that are *labour issues, trade relations, fiscal issues and monetary arrangements.* In the preamble, it declares that its aim is to "lay the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plans and priorities". The *means* to attain this aim is through two main measures: the establishment of a Palestinian National Authority in the WBGS, which is responsible for managing the economy, and the establishment of a peculiar form of custom union (CU) between the WBGS and Israel[1]. The domain of the Palestinian national authority (PA), however, is not to be territorial but functional. This means that it could run the civil and economic affairs of 93% of the Palestinians living in WBGS (excluding East Jerusalem) but has no sovereign control over land and resources, which is, of course, the core issue to achieve economic viability for a Palestinian state.

Recent economic performance reveals that the operation of fundamental political processes continues to govern the development Palestinian economy in the West Bank and Gaza Strip (WBGS), namely economic transactions are often determined by political or security considerations. The establishment of the Palestinian Authority (PA) generated widespread hopes and expectations for economic recovery within a context of peace, stability and economic integration of Palestinian Territory (WBGS). While important steps have been

[1]The Palestinian team wanted to have a free trade agreement rather than a custom union agreement. However Israel rejected their demand as an FTA would have led to a de facto recognition of borders; an issue which both parties agreed to settle in final status negotiations.

taken in that direction, political uncertainty and uncertainty about future in the period since 1993 have reinforced a declining trend in Palestinian Economy to attain the Economic Viability.

2.2. The Pre-Protocol Situation

The Israeli Occupation of the Palestinian Territories in 1967 severed all links with Egypt and Jordan and Brought annexation with the Israeli economy. As a part of its strategy to annex the Palestinian Territories and incorporate the Palestinian People in its society, Israel opened the door to Palestinian workers who look for jobs in construction, agriculture and other labor intensive activities, which was mainly because of the economic benefits of Israel.

In addition to free access to the Israeli labor market, Palestinians had access to the oil rich economies of the Gulf. During the economic expansion in the Gulf States in the 1970s, many Palestinians were sending back large amounts of money. As a result, between 1969 and 1980 per capita GNP in the Palestinian territories grew at an astonishing 9.7% per year (per capita GDP grew at 7.1%). Between 1981 and 1992 Palestinian GNP growth collapsed to 1.9% per year (and per capita GDP growth to 1.5%)[2]. On the other hand, the onset of the *Intifada* in 1987 brought more political uncertainties and strikes of economic activity. Coupled with this, the outbreak of the Gulf War in 1991 made the Palestinians unwelcome in the Gulf. Under pretext of security, Israel imposed its own restrictions on Palestinian labour, through permit policies and unpredictable border closures. Consequently, Palestinians had access to two rich labour markets, in Israel and the Gulf; they were left with neither, no source of outside funds and no domestic employment[3].

The trade relations between Israel and the West Bank and Gaza Strip were and still are under the Israeli control. There was no customs border between Israel and the WBGS. Exports from Israel to the WBGS were in principle completely free (though there was a voluntary boycott of Israeli goods during the Intifada), but Palestinian Exports to Israel from the WBGS were subject to restrictions. Agricultural and industrial Exports were partially restricted, while officially unrestricted, were limited by standards requirements and by bureaucratic limitations placed on the development of industry in the WBGS[4]. Still, the WBGS did not have access to foreign markets except through Israeli controlled borders.

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[2] Pissarides, Christopher, "Evaluating the Paris Protocol: Lessons learned and Future prospects", 1999.
[3] United Nation Conference on Trade and development, "The Palestinian Economy and prospects For Regional cooperation", Geneva, 1998.
[4] MAS- Palestine Economic Policy Research Institute, " Economic Monitor Issue No. 8", 2001

2.3. The Paris Protocol: Hopes and Disillusions

Among the various accords, the Paris Protocol, signed in April 1994 after six-month-long negotiations, established the new rules governing economic relations between Israel and the Palestinian territories. As stated in its Preamble, the "spirit" of the Paris Protocol was to "view the economic domain as one of the cornerstone in the mutual relations" between the two parties "with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace". The Protocol was "to lay the ground for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plan and priorities". Along with, the two parties were to "cooperate to establish a sound economic base for their relations, who will be governed in various economic spheres by the principles of mutual respect of each other's economic interests, reciprocity, equity and fairness". As well as, the two parties were "recognizing each other's economic ties with other markets and the need to create a better economic environment for their peoples and individuals"[5].

In effect, the Protocol reflects the political situation, the peace process was in its early stages, and negotiations were clearly between two parties of unequal standing. The wording of the agreement, and some resulting ambiguities, were the result of an attempt to compromise between the Palestinian and Israeli positions. On the other hand, the general aim is to pinpoint the areas in which the Protocol presents a radical departure away from the economic environment prevailing until 1994 and the areas in which it still retains the restrictive elements of that environment[6].

However, the tow parties (Palestinians and Israelis) had very opposite views on their political future and, to a less extent, on their specific economic interests. On the political side, the views were particularly contrasted. *The Palestinians wished to* attain maximum symbols of sovereignty, *namely, they wished to see the entity envisaged by the Declaration of Principles as the precursor of a future sovereign Palestinian state and the interim period as inevitably leading to it,* Israel objected to granting the Palestinians rights which implied political sovereignty[7]. On the economic side, the contrast between the objectives was less striking, although the Palestinian side being much smaller, much poorer and much less developed, , the

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[5] The Protocol on Economic Relations, "preamble".

[6] United Nations Conference on Trade and development (1996), "Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development".

[7] Kleiman, Eph., "The Economic Provisions of the Agreement between Israel and the PLO", in the Israel Law Review, 1994.

Palestinians had an evident interest in retaining and even broadening their access to Israeli markets, both the goods market and the labor market. At the same time, they were eager to strengthen their relations with the neighboring countries.

Moreover, on the trade side the Palestinians expected the Protocol to have two important trade effects; the elimination of the prevalent impediments of exports to Israel would be a major stimulus to the exports, particularly of agricultural products, and the Free Trade Area type (FTA) additions would lead to considerable trade diversion. Meanwhile, Israel wanted to secure its import policy and therefore was keen to avoid open or porous external borders in the Territories that could provide a tax- and regulation-free import channel[8].

Essentially, the Protocol replaced what was in effect a one sided custom union (CU) with a more bilateral one. The Economic Protocol binds the WBGS in a custom union with Israel, which give the Palestinian National Authority some Limited means to achieve viable economic environment for its entity. The Custom Union with Israel allows for the free movement of capital and goods except for a list of agricultural goods to be phased out by the year 1998[9]. Free movements of labor flows between the two economies are not guaranteed, but the economy of the West Bank and the Gaza Strip is allowed to trade directly with Arab and foreign countries for a limited list of goods. Moreover, the CU gives the Palestinians the right to decide on their economic priorities, to determine the nature of their employment, industrial and agricultural policies, as well as to impose tax and to invest in areas under its control. It also gives the Palestinians limited leeway in monetary and trade policy. However, Palestinian trade remains bound by Israel trade policy. Israeli tax rates, both direct and indirect, also remain the governing guidelines, as are Israeli standards and import regulations[10].

2.4. Disillusionment with the Protocol (Disillusion after Hope)

The Economic protocol however did not give the PA all the necessary means to achieve economic growth, however the Palestinians were expect, the new economic environment under the Protocol will enable them to return to pre-1987 intifada growth rates. But the years following the signing of the Paris Protocol reveal exiguous economic growth in the WBGS and trade has not developed in the way expected. The Numbers and Estimates which calculated by

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[8] Pissarides, Christopher, "Evaluating the Paris Protocol: Lessons learned and Future prospects", 1999.

[9] The major exceptions of agricultural goods were five exports (eggs, poultry, potatoes, cucumbers and tomatoes).

[10] United Nation Conference on Trade and development, "The Palestinian Economy: Achievement of the Interim Period and Tasks for Future", 2001.

the Palestinian Central Bureau of Statistics (PCBS) and Israeli Central Bureau of Statistics (ICBS) indicate that the period after 1994 witnessed fluctuation in the performance of Palestinian Economy. According to IMF estimates, the overall GDP growth over 1994-98 has reached a disappointing average of 2.8 percent. The yearly profile of economic performance has largely followed the cycle of closures. An initially better performance in domestic output in 1993-94 (+ 3.8%) was led by a surge in private and public investment (+37%) as well as in exports of goods and services (+39.8%), while private consumption was stagnating. In the following years, the Palestinian economy has witnessed a sluggish GDP growth (+2.1%). Investment, notably private, has strongly declined over 1996-98 (-6.9%), fortunately relayed by a strong increase in public consumption (6.9%). Growth in export of goods and services has then slackened, together with growth in imports of goods and services after the 1995 boom[11]. These recent trends in exports and private investment are particularly worrying since they are key to future overall growth, income and external balance prospects.

Table (2): West Bank and Gaza Strip Macroeconomic Performance (1994 to 1998)

Growth Rates in % (1986 constant prices)	1994-98	1994-95	1996- 98
Gross Domestic Product (GDP)	2.8	3.8	2.1
Imports of goods and services	12.2	16.9	9.1
Exports of goods and services	19.5	39.8	7.6
Consumption	6.1	1.0	9.6
Private	3.2	-2.1	6.9
Public	19.2	18.1	19.9
Gross Fixed Investment	8.7	37.1	-6.9
Private	5.4	35.1	-10.6
Public	13.2	28.4	4.1
Net factor income	0.3	-9.3	7.3
Gross National Income (GNI)	2.4	1.5	2.9
Net transfers in % of GNI per. Average	14.4	15.7	13.6
Gross Disposable Income (GDI)	1.9	2.3	1.6

Source: Kessler, V. (1999)"Palestine's External Trade performance under the Paris Protocol: Hopes and Disillusions

[11] Kessler, V. "Palestine's External Trade Performance under the Paris Protocol: Hopes and Disillusions", 1999.

The PCBS estimate of total exports in 1997 and 1998 where in the vicinity of $450 million. While exports in general, and to Israel in particular, increased compared to the low rate of 1993, the expected significant surge did not take place[12]. However, Israel is the main market for Palestinian exports and imports, while the Palestinian exports to Israel from 1994 to 1998 ranged between 84 percent and 94 percent respectively, did not exceed 13 percent to Arab countries and 4 percent to rest of world. Also imports from Israel ranged between 87 percent and 81 percent from 1994 to 1998 respectively, while it not exceeded 15 percent from the rest of world[13]. But an important thing is the exports represented approximately 9 percent of GDP among 1994 to 1998, while the imports represented 51 percent of GDP at the same years[14]. Thus, this mean there is trade deficit of Palestinian economy. Clearly, the hoped for trade diversion did not take place, neither in exports nor in imports.

On the other hand, the Protocol does not address natural resources at all. It was agreed that there will be no change in sovereignty over land and settlements in the transnational period. This situation affected negative by the viability of economic sectors and composition of WBGS exports. For instance, agricultural production was clearly affected by limited water supplies, which largely remained subject to Israeli control. Citrus exports, in earlier years the major export of Gaza, declined due to salinity of the soil. Industrial exports, though relatively large, remained small absolutely. So this reflects deteriorated condition in the agricultural sector. However, the commodity composition of WBGS exports in 1998 consisted of some 64 percent manufactured goods and only 20 percent agricultural products[15].

2.5. The Protocol: The Main Economic Blocks

The establishment of PA attracted more attention for many issues which consider the main economic blocks in the Palestinian economy. Labor issues, trade relations, fiscal issues and monetary arrangements are the most important elements in the economic relations between WBGS and Israel. They play a major role in achieving economic growth and attaining economic viability. However, the evaluation of these economic blocks began with signing of the Paris Protocol.

Notwithstanding the terms of the Israel-Palestine accords that give the PA the right for exercising its functions and of economic decision-making in accordance with its own

[12] Halevi, N., "Trade and the Paris Protocol", 1999.
[13] United Nation Conference on Trade and development, "The Palestinian Economy: Achievement of the Interim Period and Tasks for Future", 2001.
[14] Ibid
[15] Halevi, N., "Trade and the Paris Protocol", 1999.

development plans and priorities, the economy remains largely influenced by external political and economic imperatives. The chief characteristics of that imperative has been demonstrated most notably by the increased restrictions and constraints on movement of goods and people imposed since 1994, the use of natural resources, production orientation, mobilization and allocation of financial resources, and composition and direction of trade activities.

2.5.1 Trade Relations

In the period 1967 to 1994 Palestinian trade policy was completely determined by the Israeli trade policy. All tariffs, other levies, requirements of standards etc. applied to imports from third parties adopted by Israel were automatically in effect for the West Bank and Gaza Strip too. Since 1994, the guiding principles for the West Bank and Gaza trade policy have been defined in the *Protocol on Economic Relations between Israel* and *the PLO,* signed in Paris on April 29 1994. The Palestinian trade sector currently depicts a weak and deteriorating situation. The pattern of trade has been greatly skewed toward one market, and merchandise trade suffers from a large and increasing deficit, which results from the long-term trends of declining exports and unconstrained imports. Naturally, these two trends in exports and imports have resulted in a substantial and increasing trade deficit, which reached about 40[16] percent and 60[17] percent of GDP in 1993 and 1998 respectively. The bulk of the deficit has been with Israel, reflecting its growing relative significance as an export market and predominant role as a source of imports.

As backbone of the Palestinian economy, the trade sector has been tasks in the transition period and beyond. The task of revitalizing the trade sector involves policies to increase the capacity for production, and re-establish entry into neighboring markets and access to new ones. The trade relationship between Israel and the Palestinian economy remains, generally maintained by the interim period economic accords, so these tasks cannot be completed during the interim period which is insufficient to affect such a profound and comprehensive transformation of production and trade structures. Furthermore, the economic policy environment of the interim period limits the possibilities for bringing about complimentary changes which are a prerequisite for successful transformation. According to a number of studies, the poor trade performance of the Palestinian economy since 1993 is primarily the result of an imperfect implementation of the Paris Protocol, caused mainly by restrictions on

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[16] United Nations Conference on Trade and development (1996)," Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development".
[17] World Bank (2001), "Trade Options for the Palestinian Economy, some Orders of Magnitude".

movement of goods and people at borders and within West Bank and Gaza as a result of security measures implemented by Israel[18] or may be understood as an interplay between restrictions on production and barriers to trade existed by Israel.

Furthermore, the protocol does not give the Palestinian Authority full control over natural resources. Restricted use of land and water will continue to hamper the regaining of full capacity utilization. Therefore, the protocol has been negative impacts on Palestinian trade performance, along with the PA which could not begin its tasks to improving economic conditions. Negotiating trade agreements with neighboring countries is also not free of obstacles. Nevertheless, the Protocol does have some positive elements that allow Palestinian trade to become more vibrant, and allow the PA to reap some benefits. In the trade area, many new provisions were quite positive, especially when seen in the overall context of much larger autonomy of the Territories over their economic, financial and administrative organization and policy. Meanwhile, some important changes have been agreed and implemented in the trade policy environment since 1994, but the scope for developing Palestinian external trade remains hocked by political and security considerations. Exactly, this happened when the political situation changed with outbreak of Al-Aqsa Intifada, where PA achievements became in windward.

2.5.1.1 Trade Regime and Trade Issues

Before the signing of the Paris Protocol, trade between Israel and the Palestinian territories could be described as a one-way customs union. Israeli goods had free access to Palestinian markets but Palestinian agricultural goods had only limited access to Israeli markets. The Protocol on Economic Relations created a trade regime between areas under PA control and Israel that is something of a hybrid between a free trade area and a customs union. In view of political signing agreements and under Israeli inordinate desire of hegemony, the quasi-customs union was the only possible compromise among different trade regimes. If we refer to the past: What were indeed the trading arrangements alternatives? They were, in a decreasing order of economic integration and achieving trade viability: a common market, a customs union and a free trade agreement.

A common market was rejected, because both sides, neither the Palestinians nor Israel wanted a deeper integration[19]. To the Palestinian Authority, the best alternative was probably a free trade agreement, because it would have allowed her to pursue its own independent

[18] The World Bank, "Trade Options for the Palestinian Economy, some Orders of Magnitude, 2001.
[19] A common Market means that in addition to the customs union, member states allow labor and capital (as well as goods) to flow freely across borders (Coldstein, J., "International Relations" second edition, p 395).

import policy. But such agreements would have required borders between the Territories and Israel to check the origin of the goods passing the borders, and would have required an agreement on rules of origin to decide on which goods were incorporating enough "local" value added to be exempted from tariffs and regulations applying to imports from the rest of the world. An alternative could have been to implement notional borders. In the text of the Protocol, the articles defining the external trade regime of the "Areas" were quite central to the overall agreement. The main thrust was to pursue with the previously implicit customs union while getting rid of its major asymmetries and providing substantial customs revenues to the Palestinian Authority (PA).

2.5.1.2 Trade Arrangements: Difficulties and Constraints

Israeli goods have free access to Palestinian markets, but also Palestinian goods, with some minor and temporary exceptions and restrictions, have free access to Israeli markets. Article III of the Paris Protocol's provisions have been complex: For products on Lists A1 and A2 and in quantities agreed upon by the two sides. These goods (mostly food products and construction material) can be imported from Jordan and Egypt in particular, and from other Arab and Islamic countries in general, instead of Israel. However, while PA can exercise complete discretion over tariffs (customs duties, purchase taxes, levies, excises and other charge) on imports for limited quantities of commodities from specified sources identified in List A1 and List A2 and on imports with no restrictions on quantities in List B. Products not on lists A1, A2, or B, or those on lists A1 and A2 but exceeding the quotes, will be subjected to the minimum of Israeli tariffs.

For other products, such as fuel and automobiles, special import regime and standards are adopted. "The PA will determine its own rates of customs and purchase tax on motor vehicles imported as such, to be registered with the Palestinian Authority" (paragraph 11a). The PA is also allowed to import used passenger cars up to three-years-old, subject to approval by a joint Palestinian-Israel committee, and is free to determine the price of petrol derivatives, except gasoline, as long as the price derivatives does not exceed 15% of the consumer price in Israel[20].

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[20] United Nations Conference on Trade and development, "Palestinian Merchandise Trade in the 1990s: opportunities and Challenges", 1998.

Box 1: Trade Arrangements in the Paris Protocol

The Protocol has provided the Palestinian economy with a trade regime characterized by:

- free and unrestricted trade with Israel, except for temporary quotas for the access of five agricultural Palestinian products to the Israeli market (poultry, eggs, potatoes, cucumbers, tomatoes) while exports of Israeli melons to the Palestinian territories were symmetrically limited.
- the Israeli import policy for all goods imported from third parties and not specified in Lists A1, A2, and B (see below). This means that the Palestinian Authority (PA) has to employ the same regulations as Israel regarding classification, valuation and other import procedures, the same policies of import licensing and standards requirements, and has to use the Israeli rates of customs duties, purchase tax, levies, excises and other charges as a minimum basis for these imports.

However, the PA has some power over the import policy for certain goods and certain origins. Exceptions fall into four categories:

a) the PA can exercise complete discretion over tariffs (customs duties, purchase taxes, levies and excises), and over conditions of importation (licensing, procedures and standards requirements) for certain goods of certain origin, but in limited quantities (list A1[21] and A2[22]). To avoid large-scale smuggling to the Israeli markets, the quantities are limited to the Palestinian market needs estimated by a joint sub-committee of experts, agreed upon by the two sides, and reviewed and updated very six months.

b) the PA can exercise some discretion over tariff rates for certain goods crucial to the Palestinian development program, in unrestricted quantities (list B[23]). Note that if the PA was to decide to lower tariffs on these items, Israel would have no other choice but to follow suit.

c) the PA can determine its own rate of customs and purchase tax on motor vehicles to be registered with the PA. Israeli standards will however apply. Imports of used passengers cars (forbidden in Israel) are allowed in the P. Territories, provided they are no more three years and comply with the standards;

d) The PA can freely import petroleum products provided they meet the Jordanian standards and in quantities according to markets needs. However, to avoid smuggling into Israel, gasoline will have to be marked in a distinctive color, and its final price will not be lower than 15% of the official final consumer price in Israel.

The other prominent features of the trade-related articles pertain to the issuance of import licenses, to potential changes in standards requirements, to the role of the JEC, to the entry/exit points and responsibility over customs procedures, and to the clearance of revenue from customs. It is worth noting that:

- Each side can issue import licenses to its own importers;
- Israel may change any aspect of its import policy, provided that changes in standards requirements do not constitute a non-tariff barrier;
- in the entry points of the Jordan River and the Gaza Strip, the PA has full responsibility and powers in the customs points for freight (in the presence of Israeli customs officials who are entitled to ask for inspection), and full administration of their own passengers customs procedures (with the invisible presence of Israeli customs officials entitled to request inspection).

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[21] The list A1 initially consisted of 29 tariff items of goods locally produced in Arab countries, with 2/5 of them restricted even further by having to have been produced in Egypt or in Jordan.

[22] The list A2 initially consisted of 18 tariff items which could be imported from all Arab, Islamic, and other countries without having necessarily been produced there.

[23] List B consist mainly of machinery, equipment, tools, and some semi-processed pharmaceuticals and raw materials for the wood industry.

All goods imported from third parties and not specified in Lists A1, A2, and B will subject to the Israeli imports policy. This means that the Palestinian Authority (PA) has to employ the same regulations as Israel regarding classification, valuation and other import procedures, the same policies of import licensing and standards requirements, and has to use the Israeli rates of customs duties, purchase tax, levies, excises and other charges as a minimum basis for these imports and this means also that the valuation of all PA imports is based on the General Agreement on Tariffs and Trade (GATT) 1994 agreement, while classification of goods for customs purposes is in line with the principles of the Harmonized Commodity Description and Coding System (HS)[24]. However, these trade arrangements present obstacles to negotiating suitable trade arrangements between the Palestinian economy and its other neighbors.

2.5.1.3 Trade Arrangements: Failure by Limitations

Since 1994, the Protocol has been the subject of growing analysis and debate, from different conceptual and policy viewpoints. Many of these examinations have highlighted some of the major omissions or shortcomings of the Protocol, aspects which are considered to diminish the trade viability for Palestinian economy. The Protocol aimed to confer upon the Palestinian economy significant benefits, in respect of viability for the trade sector, as addressed in the Preamble and relevant articles, namely: Strengthening the base of the Palestinian economy and the PA's independent and institutional economic decision-making processes, in accordance with its own development plan and priorities; facilitating regional trade diversification by establishing direct economic links with Arab countries, particularly Jordan and Egypt; Opening up the Israeli market to Palestinian agricultural and manufactured products by allowing goods to move freely, not subject to customs duties, taxes or quotas. Allowing the PA to receive tax revenues for goods imported by the West Bank/Gaza Strip via Israeli channels, and establishes its own import policy and tariff structure for certain products.

According to many studies which were accomplished by UN Conference on Development and Trade, World Bank and other research institutes reveal that economic developments hampered by the protocol limitations. These limitations resulted from omissions and shortcomings in the Protocol which have effects on trade activities, some of key limitations are:

[24] United Nations Conference on Trade and development, "Palestinian Merchandise Trade in the 1990s: opportunities and Challenges", 1998.

- **Limitations by "market needs",** the quantitative restrictions placed on Palestinian imports, which limit the latter to amounts that are expected to be sold within the Palestinian economy according to "market needs". Imports from Arab Countries are limited by "market needs" as determined by the Joint Economic Committee established under the Protocol. However, there are no reliable data for making accurate estimates of "market needs", limiting imports to the West Bank and Gaza Strip by this measure is seen as interference in the operation of market mechanisms. Disagreement can arise over actual market needs if imports from alternative sources begin to replace imports from Israel; conversely, these quantitative limits can act as effective incentives to monopolistic or price distorting practices by Palestinian importers with favored links with Jordanian or Egyptian markets[25].

- **Limitations for accessibility,** Barriers to trade are one of the most important factors which restricted accessibility to foreign Markets. Loss of accessibility to foreign markets reduces the demand for Palestinian goods, and reduces both production and efficiency. The limitations by protectionist quotas on the import of Palestinian agriculture products in neighboring markets, lifting them only when there are severe shortages that can be met by allowing imports beyond specified quotas[26].Barriers like these have resulted in the loss of profitability for Palestinian farmers, and brought a decline in their investment and production.

- **Facilitating fiscal leakage**: the "re-export" clause (paragraph 15) should ensure that the PA will receive customs revenues on goods sold in the West Bank/Gaza Strip by Israelis that are not of Israeli origin, but are imported from outside Israel with little or no transformation in their value taking place in Israel[27]. In theory, customs revenues generated from these goods should accrue to the PA since they are classified as non-Israeli or Israeli re-exports, but Israel does not receipt PA by that. However, the PA's inability to adequately monitor imports from Israel has resulted in a fiscal leakage between $166 million and $275 million a year during the period from 1994 to 1996[28].

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[25] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998) (UNCTAD/GDS/SEU/1).

[26] El-Jafari, Mahmoud, "Non-tariff barriers: the case of the West Bank and Gaza Strip agriculture exports", Journal of world trade, vol. 25. No. 3, June 1991.

[27] Paris Protocol,, Article III Paragraph 15.

[28] Muna Jawhary, "The Palestinian-Israeli trade agreements: searching for fair revenue sharing" Ramalla, Palestine Economic Policy Research Institute, (MAS), December 1995.

- **Limitations on subsidies:** The Protocol does not address the wide range of subsidies and other non-tariff barriers that benefit some Israeli sectors and products leaving Palestinian industry and agriculture at a disadvantage. Although support measures are gradually being phased out as Israeli trade is liberalized, they continue to operate in some areas with a bearing on the Palestinian similar productive branches[29].

- **Limitations on movement:** While the Protocol calls for free movement of goods between Israel and Palestinian self-rule areas, such movement is subject to the "security measures", thereby constraining the quantities of Palestinian goods exported to Israel, interrupting the smooth flow of imports and of course preventing Palestinian labor flows to Israel[30].

As noted above, the Protocol on economic relations between PLO and Israel creates many limitations which reduced trade viability for the Palestinian economy. The economic base of WBGS still weak, characterized by imbalance, weak infrastructure and poor performance of trade sector. However, negotiating trade agreements with neighboring countries is not free of limitations and obstacles; it is limited by "market needs" as determined by joint economic committee established under the Protocol. And also the trade arrangement, presents obstacles to negotiating suitable trade arrangements between the Palestinian economy and its Arab neighbors, prevents PA to give duty-free treatment to imports from the most countries, except Jordan and Egypt, and restricted accessibility to foreign markets. On the other hand, the protocol subjected movements of goods to "security measures" and failing to capture all the trade tax on goods imported from outside. Along with the Article III Paragraph 15 facilitates fiscal leakage though the PA's inability to adequately monitor imports from Israel. However, the trade arrangement of Protocol works on opposite direction to re-integrate the Palestinian economy with its neighbors.

2.5.2 Labor Issues

For decades, the West Bank and Gaza Strip have been subjected to difficult circumstances. Both the 1948 and 1967 wars led to demographic changes that in turn changed supply and demand conditions in the labor market of the territories. Following the 1967 Six-Day War, dependence on employment in Israel and elsewhere has become the main feature of

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[29] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998).
[30] Paris Protocol, Annex 1, Articles IX and X.

the Palestinian economy[31]. In the last 20 years, outside employment has contributed substantially to the West Bank and Gaza Strip (WBGS) GNP, and played a key role in the Palestinian economy's integration with Israel. Palestinian employment in Israel grew very rapidly after the borders opened in 1968 to between 30 and 35 per cent of the Palestinian work force. Employment in Israel was particularly important for the poorer and less educated sections of the population, predominantly male from rural areas and refugee camps. Since 1993, because of Israeli restrictions, the predominant group has been over 25, male and married. Before 1993, the Israeli labor market was the main destination of first time Palestinian job seekers[32].

In the eighties the Palestinian economy as a whole experienced growth due to that were not a consequence of sustained growth in domestic output. Rather, the payment for labor employed in Israel and emigrants transfers constituted the motor for economic growth of the Palestinian economy[33]. So, the Palestinian labor force constitutes one of the main bases for economic viability of Palestinian economy. The deterioration in the economic conditions of the Palestinian territory owing to the unstable political situation, the absence of a Palestinian planning authority and the restrictions imposed under occupation constrained the ability of the Palestinian economy to absorb its growing labor force, resulting in widespread unemployment. This process also resulted in a growing dependence of Palestinian labor on employment in Israel. With the initiation of peace process, the hope of the official actors in the peace era was that domestic job creation by an export-oriented private sector would expand domestic employment quickly, transforming the Palestinian economy from labor-exporting to commodity-exporting[34], but this hope disappeared when the close policy is implemented, Palestinians workers, business men, and merchandise can be delayed suddenly and for long derived at the borders.

On the local level, the demand for labor in the Palestinian territories fluctuated dramatically in response to economic upheavals and the close policy imposed by Israel. The performance and the role of agriculture sector have declined in peace era, in addition the share

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[31] Kleiman, Ephraim, "The Flow of Labor Services from the West Bank and Gaza to Israel". Working paper The Hebrew University, 1992

[32] Pissarides, Chr.,"Evaluating the Paris Protocol: Lessons Learned Future Prospects", 1999. {Evaluating the Paris Protocol : Economic Relations between Israel and Palestinian Territories, Chapter1 }

[33] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998) (UNCTAD/GDS/SEU/1).

[34] Diwan, I., And R. Shaban, "Development under Adversity: The Palestinian Economy in Transition": Summary, MAS-World Bank Joint Report, 1999.

of industrial labor fell in both the west bank and Gaza strip, but labor has risen in the construction sector[35]. However, the Palestinian labor force estimates about 683,000 in the second half of 1999, Palestinians worked in the Israel labor market estimated by 143,400 in 1999[36], (about 21 percent total Palestinian employment). PCBS surveys indicate that, approximately 20 percent of the labor force is unemployed during "normal periods". However, this rate suddenly jumps to 30 percent during border closures[37]. This means the Palestinian economic sectors was employing about 59 percent of total labor force in Palestinian territory. During the interim period, the Palestinian economy was suffering from chronic incapacity to create enough jobs to employ the labor force.

The size of the labor force in an economy is directly correlated to that of its population, which constitutes the main source of labor supply. Furthermore, the age structure of the population is an important indicator of growth in the labor force. However, the Palestinian society is characterized by high level of fertility, where the annual rate of population growth is estimated to have reached 5.4 percent in 2000[38], this means more numbers of labor force in labor market.

2.5.2.1 The Paris Protocol and Labor Issues

The protocol on economic relations sets out the framework for economic relations between the economies of Israel and the West Bank and Gaza Strip in the interim period pending final status negotiations. The question of the labor flows to Israel was central to the economic negotiations and therefore to successful implementation for the agreement. In its preamble the protocol used for-reaching and optimistic terms like cooperation of the parties in building a sound economic base, reciprocity, equity and fairness.... in addition to parties will recognize each other's need to create better economic environments for their people.

The protocol covers three central issues relating to the labor flows to Israel, these concern the access of workers to the Israeli labor market, the regulation of labor flows and the social security contributions made by legal workers employed in Israel. The access of workers is dealt within Article seven (labor) refer to labor mobility between the WBGS and Israel should be normal state of affairs, but it leaves a lot to the discretion of either side. It stipulates

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[35] Makhool, Basim, "Analysis of Palestinian Labor Supply and Demand" 2000.
[36] Palestine Economic Policy Research Institute (MAS), " Economic Monitor Issue No. 7", 2000.
[37] Diwan, I., And R. Shaban, "Development under Adversity: The Palestinian Economy in Transition": Summary, MAS-World Bank Joint Report, 1999
[38] United Nations Conference on the Least Developed Countries (May 2001),"Information Note on the Economy of the Occupied Palestinian Territory (West Bank and Gaza Strip) Brussels, Belgium Prepared by the Palestine National Authority Ministry of Economy and Trade

that "Both sides will attempt to maintain the normality of movement of labor between them, subject to each side's right to determine from time to time the extent and conditions of the labor movement into its area. If the normal movement is suspended temporarily by either side, it will give the other side immediate notification...."[39] The protocol also gives the Palestinians the right to participate in the regulation of labor flows and to reclaim social contributions made by workers to the Palestinian economy.

The general spirit of the protocol is in the cooperation and mutual respect of each other's economic interest. But the Israel's security priorities became over the signed agreements. On the one hand, the key sentence with respect to labor movements was designed to emphasize the Palestinian's need to have access to Israeli labor market, but on the other, the protocol did not preclude closures and permits that restricting Palestinian employments in Israel. However, there was to be "normal" movement of labor, but the protocol left it to the discretion of the Israeli and Palestinian authorities as to when and how many Palestinians are admitted.

2.5.2.2 The Implementation of Labor - Related Articles in the Protocol.

The Israeli labor market has been a central employment outlet for more than one third of the WBGS labor force since the 1970s. It has been a major fact linking Palestinian economy to that of Israel[40]. In practice, the labor – related articles have only partially been implemented. This is largely because security priorities, as defined unilaterally by Israel, were given precedence over all economic priorities. The normality of labor movements has been maintained only in so far as Israel determined that it was desirable politically and compatible with security. Israel policies of closures and permits halted the access of Palestinian workers to Israel. Between 1994 and 1998 there were more than 400 days of closure[41]. According to the protocol, the wages equalization deductions levied by Israel will be transferred to the Palestinian authorities and used for social benefits and health services of Palestinians employed in Israel and their families. But, pension and national insurance deductions are still being held by Israel[42].

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[39] The Protocol on Economic Relations, Article 7.

[40] United Nations Conference on Trade and Development, "Review of labor and Employment Trends in the West Bank and Gaza Strip" 1995.

[41] Pissarides, Christopher "Evaluating the Paris Protocol: Lessons learned and Future prospects" 1999.

[42] De Motiloa, E. Garcia, "Pressing Issues of the Palestinian Labor Force" 1999.

2.5.3 Fiscal Issues

The **fiscal issues** are of a more urgent in nature because they have a strong and direct bearing on development and viability of Palestinian economy. During the direct occupation, from 1967 to 1994, Israel used ***the principle of origin*** for allocating import and other indirect taxes[43]. According to a quasi customs union that established by the Israeli - PLO accord of 1994 on economic relations, the tax distribution principle was reversed from the origin principle to the **principle of destination**[44]. This means, Taxes are paid to the authority that has jurisdiction over the territories where final consumption takes place. Thus, the PA has the right to receive the international tax collected in Israel on behalf of WBGS. There are two types of fiscal transfers from the Israeli authorities to the Palestinian Authority. The first includes general fiscal revenue arising from income tax deductions of Palestinian workers in Israel, Value Added Tax (VAT), and excise (purchase) tax and import duties. The second pertains to the social security contributions of Palestinian workers in Israel[45].

For sustain economic viability, revenues from general fiscal revenue and the social security contributions of Palestinian workers in Israel constitute large proportion from fiscal transfers from Israel to PA. In 1995-98, fiscal transfers from Israel to the PA averaged about 60 percent of all fiscal revenues of 1998[46]; such transfers amounted to US$500 million, or 60% of total revenue of the WBGS budget and 15% of the Palestinian GDP[47].

2.5.3.1 The Paris Protocol and Fiscal Issues

The Protocol addressed itself to the harmonization of tax rates and the clearance of tax revenues and also the question of revenue sharing. The Protocol allows the PA to set up its own domestic tax system (income tax, property tax, municipal tax and fees[48]. There are three types of transfers, in addition to the ones related to social security contributions.

I. Regarding income tax, the Israeli tax authorities are required by the agreements of the Paris Protocol to transfer to the Palestinian Authority 75 per cent of all income tax collected from Palestinian workers in Israel, and the full amount for the Palestinians employed in the settlements[49].

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[43] El-Jafari, Mahmoud, "Non-tariff barriers: the case of the West Bank and Gaza Strip agriculture exports
[44] Dumas, Jean-Pierre. " Fiscal leakage in the West Bank and Gaza Strip" 1999
[45] Pissarides, Christopher "Evaluating the Paris Protocol: Lessons learned and Future prospects" 1999.
[46] Ibid
[47] Dumas, Jean-Pierre. " Fiscal leakage in the West Bank and Gaza Strip" 1999.
[48] Paris Protocol on Economic Relations, appendix 2, V, 1.
[49] Paris Protocol on Economic Relations, appendix 2, VI, 1.

II. In the case of VAT, According to the Paris protocol, the VAT rate in WBGS may be two percent lower than the Israeli one. As a matter of fact, this flexibility has not been used by the Palestinian side, and the same rate applies as in Israel (17%)[50]. VAT is paid according to the place of final consumption. So, any VAT on goods and services consumed in the Palestinian territories and paid to the Israeli authorities in earlier stages in the production and distribution chain has to be transferred by the Israeli authorities to the Palestinian Authority. As well as, in the case of purchase tax which was not mentioned in the Paris Protocol but added later, also is transferred from the Israeli authorities to the Palestinian Authority[51].

III. The clearance of revenues from all import taxes and levies, between Israel and the Palestinian Authority, will be based on the principle of final destination[52]. Namely, the principle of tax clearance is the place of final consumption of the goods. Duties collected on goods imported in Israel but destined for the Palestinian territories should be transferred in their entirety from the Israeli Treasury to the Palestinian Treasury only if the final destination is explicitly mentioned (WBGS) in the import document. The problem is that an important amount of WBGS imports comes from Israel and therefore no tax transfer is made[53]. However, the Protocol required customs duties and excise taxes to be levied in the Palestinian territories at the same (identical) or, at least, at not lower rates than in Israel. The exception were the lists A1 & A2, which apply to a limited quantity of goods produced locally in Jordan, Egypt and other Arab countries, as well as motor vehicles, where registration requirements provide a *notional* border (as opposed to a physical one), at which tax differences can be collected.

Palestinian workers in Israel (but not in the settlements) are subject to the same social security deductions and their employers to the same taxes as Israeli workers, to avoid any competitive advantage that Palestinian workers may accrue from lower non-wage labor costs. But because Palestinian workers are non-resident in Israel and they are not entitled to the majority of social security benefits, the Paris Protocol stipulates that the revenue from contributions and taxes should be transferred to Palestinian institutions, who will then use it to finance the benefits to Palestinian workers in Palestinian territory. In 1997, worker

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[50] Ibid
[51] Paris Protocol on Economic Relations, appendix 2, VI, 6.
[52] Paris Protocol on Economic Relations, Article III, Paragraph 15.
[53] Dumas, Jean-Pierre. "Fiscal leakage in the West Bank and Gaza Strip" 1999.

contributions amounted to about 8.6 per cent of their wages and employer contributions to about 29 per cent[54].

2.5.3.2 Fiscal Leakage

According to the Paris Protocol, Taxes are paid to the authority that has jurisdiction over the territories where final consumption takes place, or will be based on the principle of final destination. But this principle doesn't work, because there is no official border between Israel and West Bank and less degree with Gaza Strip. As well as there are no statistics kept on goods that are imported for consumption in Israel but are subsequently sold to Palestinian Territories. Additionally, almost all points of entry to the WBGS are under the control of Israel, thus there is a problem in tax collection, for customs tax and domestic indirect tax such as excise (purchase tax)[55]. Tax revenues, according to this principle, belong to WBGS but collected by Israel at the point of entry, are transferred by the Israeli Treasury to the PA. Taxes are thus allocated according to the point of final consumption.

There is a *problem* when goods are *imported* first to Israel and then *re-exported* from Israel to WBGS ("**indirect imports**"). In this case, there is no tax transfer from Israel to WBGS. Since these indirect imports account for the biggest share of WBGS imports, the Palestinian Authority is losing potentially large amounts of revenue called "l*eakage*". Estimates for Fiscal Leakage are not possible because of the absence of real statistic on goods crossing from Israel to the Palestinian Territories. According to some methods calculating fiscal leakage, the total leakage in 1997 is estimated at US$112 million or 3% of WBGS GDP[56].

2.5.4 Monetary Arrangements

Restructuring the Palestinian economic sectors and reviving investments and trade flows depend on rejuvenating the monetary sector, which suffered severely during 27 years of Israeli direct occupation. The Palestinian economy has no national currency, after its occupation for WBGS of 1967; Israel introduced its currency Israeli Shekel and then NIS (New Israeli Shekel) for circulation instead of circulated currencies (Jordanian Dinar in WB and Egyptian Pound in GS) as legal tender in the Palestinian Territories. Three currencies circulate in WBGS, Egyptian Pound, Jordanian Dinar (JD) and US dollar as foreign currency. Because of the continued commercial contacts with Jordan, the JD has continued to enjoy

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[54] Pissarides, Christopher ,"Evaluating the Paris Protocol: Lessons learned and Future prospects" 1999.
[55] Dumas, Jean-Pierre. "Fiscal leakage in the West Bank and Gaza Strip" 1999.
[56] Ibid

wide circulation in the Palestinian territories[57]. On the other hand, the WBGS was subject to Israeli foreign exchange restrictions, which included a ban on foreign currency deposits at the WBGS banking system except for the Jordanian Dinar in the West Bank. When the Monetary Authority assumed responsibility over the banking system, it stopped enforcing the Israeli ban on foreign currency deposits. In the Post-Oslo period, West Bank and Gaza Strip had become a three-currency economy, with the NIS, Jordanian Dinar and US dollar circulating freely. The NIS remained the dominant currency for everyday transactions, while the US dollar and Jordanian Dinar became the dominant currencies for bank deposits or a repository for savings[58].

2.5.4.1 Monetary Arrangements during the Transition Period

The Israeli- PLO accord on economic relations (Paris Protocol) allowed for setting up a Palestinian Monetary Authority (PMA), which was given the traditional responsibilities of a central bank. Article IV, Item 4, states that the PMA will act as the sole financial agent (locally and internationally) to the Palestinian Authority, as well as being its financial advisor. It also holds and manages the foreign currency reserves of all public sector entities. Article IV, Item 5, of the Protocol states that the PMA should operate a discount window to advance loans to commercial banks, and act as a lender of last resort. Along with supervisor and controller of the financial system, the Protocol designating the PMA as a banker to both the Palestinian Authority and the commercial banks, the PMA is thus entrusted with the job of licensing all banks operating in the West Bank and Gaza Strip, holding their reserves, and regulating their operations with regard to solvency, liquidity, and stability[59]. But, because reserve ratios are one of the determinants of the quantity of money, the reserve requirements on NIS deposits were to remain under the supervision of the Bank of Israel[60]

The Paris Protocol did not grant the PMA the right to issue currency, because it considered a prerogative of sovereignty, and gave Israel an effective veto power against the issue of a Palestinian currency[61]. And also the protocol required the circulation of NIS in the WBGS as a legal tender.

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[57] Kleiman, E. "Evaluating the Fiscal and Monetary Arrangements of the Paris Protocol – a Counterfactual Analysis with Suggestions for the Future". 1999

[58] United Nation Conference on Trade and development (1998)."The Palestinian Economy and prospects For Regional cooperation", Geneva

[59] United Nations Conference on Trade and development (1996), Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development.

[60] Kleiman, E. "Evaluating the Fiscal and Monetary Arrangements of the Paris Protocol – a Counterfactual Analysis with Suggestions for the Future". 1999

[61] Ibid

2.5.4.2 The Reflections of the Absence of National Currency

The absence of a Palestinian currency deprives the Palestinian Monetary Authority of seigniorage revenue. During the period 1970-1987, the NIS seigniorage generated in the WBGS and was retained by the Bank of Israel averaged 1.6 percent to 4.2 percent of WBGS GNP. Using 1990 dollars, it ranges from $0.7 billion to $1.8 billion[62]. However, the Period 1994-1998, WBGS NIS seigniorage in this period averaged .31 percent to 1.68 percent of WBGS Gross National Income (GNI). Using 1998 dollars, it estimated at dollars, $247.8 million[63]. On the other hand, the existence of a dual currency standard has the potential for increasing the costs associated with fluctuations in exchange rates. In addition, a dual currency tends to reduce the ability of commercial banks to perform their function of transforming debt maturities, because of currency mismatching of assets and Liabilities.

This can discourage them from extending long-term loans, which are essential for investment and growth. Furthermore, the existence of a dual currency standard renders the Palestinian economy vulnerable to shocks originating both in Jordan and in Israel. A Jordanian monetary shock will be transmitted to the Palestinian economy through the capital account since there is almost free mobility of capital between the two economies and very little trade[64]. On the other hand, an Israeli monetary shock will affect the Palestinian current account, which is composed mainly of trade with Israel in both goods and labor services.

2.6. Summary

The wording of the Economic Protocol, and some resulting ambiguities, were the result of an attempt to compromise between the Palestinian and Israeli positions. The Palestinians were expect, the new economic environment under the Protocol will enable them to return to pre-1987 Intifada growth rates, but the Economic protocol did not give the PA all the necessary means to achieve economic growth. According to many studies which were accomplished by UN Conference on Development and Trade, World Bank and other research institutes reveal that economic developments are hampered by the protocol limitations.

In the Trade sector, Lists A1, A2 and B as well as the term of market needs created limitations that, in practice, constrained movement of goods and products. The agreement

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[62] Hamed, Osama and Shaban, Radwan, "One - Sided Customs and Monetary Union: the Case of the West bank and Gaza strip", 1993.

[63] Hamed, Osama, "Current Monetary Arrangements between Israel and the West Bank and Gaza Strip and Possible Alternatives", 1999.

[64] Hamed Osama, "Monetary Policy in the Absence of a National Currency and under a Currency Board". Ramallah, Palestine Economic Policy Research Institute (MAS).

facilitating fiscal leakage where there principles doesn't working, because there is no official border between Israel and West Bank and less degree with Gaza Strip. However, the agreement did not assure the continuation of Palestinian labour flow to Israeli market. Moreover, the agreement denied PA from issue its own national currency; this deprives the Palestinian Monetary Authority of seigniorage revenue. On the other hand, the existence of a dual currency standard has the potential for increasing the costs associated with fluctuations in exchange rates, as well as renders the Palestinian economy vulnerable to shocks originating both in Jordan and in Israel. The economic protocol sought to lay down a mechanism that could allow for economic viability in the West Bank and the Gaza Strip, but this mechanism hampered by the protocol limitations.

CHAPTER 3

WATER PROBLEM IN WBGS AND ITS REPERCUSSIONS ON ECONOMIC VIABILITY

3.1. Overview

Water is the most basic source for human existence. It is vital for human life itself and for human activities in general. Water is an issue that has been widely debated about both for its importance in potential development and for its bringing about conflict. Throughout the Middle East, the natural fact of water supply and the socio-political fact for water control, consumption and demand interplay to form complex hydro-political boundaries of the Middle East, therefore, it is a highly politicized issue in the Middle East conflict, with the Palestinian-Israeli conflict at its core. To date, all negotiation attempts on the reallocation of the water supply have failed because they were not based on the right of the equitable and reasonable utilization principle. Water resources are an important material aspect of the question of Palestine and relevant to any lasting peaceful solution to the Palestinian – Israeli conflict.

The key question that this chapter will seek to address is whether the West Bank and Gaza strip is an economically viable entity and whether it can survive without full sovereign control over own water resources. Water is a precious resource not only for economic growth but for survival. So, water has been of significant importance for development and reconstruction. Economic sectors are affecting by a scarce and sufficient supply of water, agriculture sector is very sensitive for the scarcity and abundance of water, and it is the engine of growth in the Palestinian economy. It does mean, however, that improvements in agriculture are a prerequisite for the proper functioning of that engine, which is the combination of manufacturing and service sectors. Although, water is naturally a scarce resource nonetheless, water crisis is not chiefly one of insufficient supply, but of uneven and inequitable distribution. While water is stringy resource in West Bank, it is very scarce resource in Gaza strip. Briefly, the chapter will focus on current water situation in WBGS as an engine of economic growth and as a viable resource for development and reconstruction of Palestinian economy.

3.2. Control of the Water Resources

Attempts to control the water resources started with the beginning of the twentieth century. After the defeat of the Ottoman Empire in the course of world war I. Britain and France splitted up the territory of Ottoman Syria between them. Zionists movement by its leaders Lobbied the two European powers to incorporate within what was to become mandate Palestine the head waters of the Jordan River as well as segments of Yarmuk River and the Litany River (in Lebanon), In 1923, France and Britain drew the boundaries of their mandated territories such that Palestine bounded some of these water sources but not others. Thus, Palestine's borders excluded the Litany River and important segments of the Banyas, al-Hasbani, And the Yarmuk River. On the other hand the boundaries included key components of the basin, notably Lake Tiberias, the largest fresh water reservoir of the basin and the entire aboveground channel of the Dan River[1].

After the establishment of Israel over the Palestinian land, in 1948, Israel prevailed over some of these resources. As a result of the 1967 war, Israel came to control entire Palestine and with it the water resources as well. Moreover, though the Occupation of the Golan Heights and West Bank, Israel added to occupied area of control the headwaters of the Jordan River basin and three major aquifers. After its seizure of WBGS, Israel promptly took over the management of the water supply and distribution systems in both places. It instituted a severely restrictive policy with respect to Palestinian access to the resources. The Israel objective to expand control over land and water resource is to get millions of Jews to immigrate to Palestine. Security of sufficient quantities of water to irrigate the land is very important for the economic viability of Israel.

3.3. Water Supply Sources in WBGS:

There are three main water resource areas pertaining to the occupied Palestinian territory (WBGS) that have attracted international concern: **First,** the Mountain Aquifer that is a system of ground water basins in the West Bank, this system is extending over approximately 130 km, from Mount Carmel in the north to Nagap in the south. The aquifer is some 35 km. wide from the Dead Sea and Jordan valley on the east, to the western border of the costal strip on the west[2]. The Mountain Aquifer is composed of three basins:

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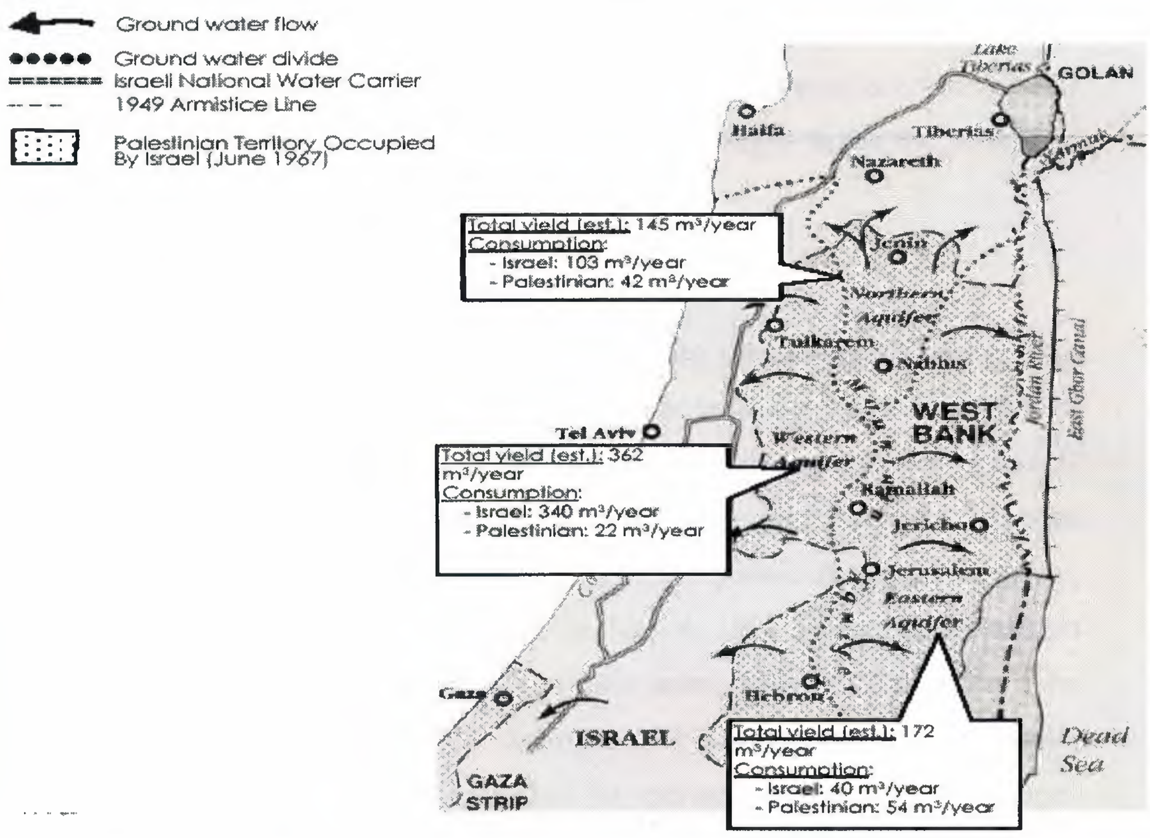
[1] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.

[2] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Disputed Water: Israel's Responsibility for the Water Shortage in the Occupied Territories", !998.

- The Western Basin, which, while supplied and recharged from the West Bank Mountains, its area hits about 1300 km2 and recharged by approximately 380 to 400 MCM per year. While the annual fed rate is not exceeding 370 MCM, the water deficit reached to 40 MCM annually[3].
- The North Eastern Basin, which is located inside the West Bank , near Nablus-Jenin Basin, which located on area hit about 500 km2, its annual pumping waters estimate between 92-104 MCM, while its annual feed range between 80-95 MCM, and the other composed Jerusalem, Betlehem and Hebron areas, it is used by the Israeli settlements[4].
- The Eastern Aquifer Basin contains number of aquifers located within the West Bank and the springs from which represent 90 percent of spring discharge in this area[5].

Figure (1): Water Supply Sources In Palestine



Source: PASSIA, Palestinian Academic Society for the Study of International Affairs, Jerusalem.

[3] http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
[4] http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
[5] Isaac, Jad, "A sober Approach to the Water Crisis in the Middle East", ARIJ, Bethlehem.

The **second**, Gaza Aquifer, it is a part from Coastal Aquifer, and its groundwater is the only natural source of waters[6] the Gaza aquifer replenished both by direct rain water infiltration, particularly in the sand dunes along with the coast, which estimated at 40 MCM /y, and by underground flows from the east at 10-20 MCM/y[7].

The **third** is the surface water, which contributes 30 percent of the water in Palestine[8]. One of the most important surface water is Jordan River. Its water resources originate in north Palestine, south Lebanon and Golan Heights in Syria respectively. By its pre 1967 war, Israel accounts for only 3 percent of the Jordan Basin area; yet it currently has control of the greater part of its waters. Palestinians are currently utilizing less than 0.5% of the Jordan River's water. While its pre 1967 riparian area, accounts for 10 percent of the Jordan basin area[9]. The second important surface water in Palestine is the springs. In the West Bank, there are 310 springs or spring groups, the vast majority of the 310 springs surveyed yielded a small, seasonal discharge and were scattered a cross the territory of the West Bank, inside or near villages. Many of them need rehabilitation after long neglect or road-building that led to the loss of water and dispersion of the flow[10]. In Gaza strip, there is only one surface water source that is Wadi Gaza, which is currently impounded upstream in Nagap under the control of Israel[11].

3.4. Water Issues under the Oslo Accords

Water issues between Israelis and Palestinians, has been on the agenda of the joint peace talks since the meeting in Madrid. Despite progress in the talks that led to declaration of principles in Washington on 13, September 1993 and then signing of the Oslo I and II Agreements, the water problem still is unsolved. Declaration of Principles referred to the need for cooperation between the two sides in managing and developing water resources. However; the Cairo Agreement on Gaza and Jericho, signed on May 4, 1994 grants the Palestinian Authority full control over water resources in both of these areas, which shall continue to be operated by the water Planning Authority (Mekerot). Under this agreement terms, water systems and resources in Gaza and Jericho area shall be operated, managed and developed (included drilling) by the Palestinian Authority[12].

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6 Roy, S., "The Gaza Strip: the Political Economy of Development", 1995.
7 Shawa, R., "Water Situation in the Gaza Strip".
8 Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
9 http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
10 Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
11 Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
12 Cairo Agreement on Gaza and Jericho," Annex II. Article II paragraph 31.9"

The interim agreement that Israel and the Palestinian authority signed in September 1995 (Oslo II) includes the most updated understanding on water issues that has been reached in the peace process framework. It is also more detailed than previous documents. The main principle of this agreement is that the future allocation of water "the amounts each side pumps from the aquifer, including water for Israeli settlements" will be based on situation at the time the accord was signed[13]. The water increase, according to the "Taba Agreement", was to be 70-80 MCM/y, including an immediate 28.6 MCM/y for household use. 10 MCM/y of which was to be reserved for Gaza and 18.6 for the West Bank[14]. Responsibility for development and supply was divided between Israel and Palestinian Authority. However, Israel was to bear the capital cost of only 9.5 MCM/y (five to Gaza and 4.5 to the West Bank) for the remaining 19.1 MCM/y, the costs were to be borne by the PA[15].

Table (3): Allotment to Each Side - in Millions of Cubic Meters per Year in West Bank

Mountain Aquifer (Regions)	**Israel ***	**Percentage**	**Palestinians**	**Percentage**
North Eastern Aquifer	103	71	42	29
East Basins	40	42.5	54	57.5
West Aquifer	340	94	22	6
Total	**483**	**80**	**118**	**20**

Source: Israeli -Palestinian Agreement on the West Bank and the Gaza Strip, Annex III, Schedule 110, Data Concerning Aquifers (Washington, 1995).
* The total amount of water drawn by Israel for use in Israel and the Israeli settlements in the Occupied Territories, except for water Mekorot sells to Palestinians

Projects for the extraction, pumping and distribution of the above mentioned water supplements as well as the licensing and drilling of new wells were given to a bipartite joint water committee (JWC) which created by the agreement for the approval of the geo-hydrological and technical details and specifications[16]. This committee was to consist of an equal number of members from each side, and its decisions were to be taken by consensus[17].

3.4.1 Following the Oslo Accords: Prejudice and Ambiguity

The declaration of principle failed to make clear the extent to which water should be under Palestinian control during the interim period. It is not made explicit whether autonomy includes limited control of water resources or whether, on the other hand, control of water

[13] Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs Article 40, 31".
[14] Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs , Article 40,6"
[15] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[16] Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs, Article 40, Schedule 8.7.
[17] Ibid, Article 40.12.

resources is a permanent status issues. Moreover, the accords forced the Palestinian authority to purchase its own water from Israel[18], while in the West Bank; Palestinians would continue to be prevented from utilizing their rightful water resources. Such a situation would, however, deepens the dependency on Israel to provide the WBGS increasing water needs, and also deepens the linkage of Palestinian water system with Israel, especially since Mekorot already provided about one-fourth of the municipal water in the West Bank[19].

Although, Taba Accord allows the Palestinian to carry out the development necessary to supply an additional 41-51 MCM/y over the long term from the eastern aquifer. But it doesn't set a timetable for producing this water, and also this additional water will not be realized in the near future because most of it is saline and requires desalination, as well as a complicated and costly procedures . According to the Agreement, this increase will result entirely from drilling of new extraction wells not from a redivision of existing sources. Responsibility for new drillings is divided between the two sides – 19 percent by Israel and 81 percent by the PA. Israel performed its part of the agreement within the time allotted to it. As of today, more than four years after the interim period ended, the PA produces and supplies approximately two-thirds of the amount of water that it undertook in the Agreement[20].

However, the accord does not address the possibility of supplying this additional water from other sources, like Jordan River and the springs, on the other hand, Israel handed over to the Palestinians an extremely deteriorated water system, the agreements do not hold Israel responsible for this, and do not obligate Israel to cover the cost of their repair[21]. The interim agreement stipulates that, regarding water resources the Gaza strip will constitute a separate sector. Other than the small quantity that Israel undertook to sell, population of Gaza Strip will have to meet their needs, solely from resources located within Gaza's borders[22], also the agreement does not allow to obtain water from the West Bank. However, as of 1996, Mekorot supplied 60 percent (on a yearly average) of all the water for household needs in the West Bank, the remainder came from municipal wells. Fifty-five percent of the water provided by Mekorot in the West Bank comes from wells drilled by Mekorot[23].

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[18] Israeli-Palestinian Agreement on West Bank and Gaza strip, "Annex III protocol on civil Affairs , Article 40,6

[19] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.

[20] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Not Even a Drop, the Water Crisis in Palestinian Villages without a Water Network".

[21] Ibid

[22] Nassereddin, Taher, "legal and administrative responsibility of Domestic Water Supply to the Palestinians"

[23] Ibid

The interim agreement fails to protect the water resources in WBGS from over-pumping and to put the water resources in WBGS under the Palestinian control. In addition, the failure to re-distribute the water resources that prevented any "surplus" of water in the West Bank that could increase the supply of water to Gaza Strip. As a result, the severance of Gaza strip and West Bank continued. However, the Palestinian water authority donated administrative functions, but denied anything other than symbolic control. On the other hand, the joint water committee (JWC), which is comprised of an equal number of representatives of both sides. All its decisions are made by consensus and there is no mechanism for mediation or arbitration for resolving disputes. Such an arrangement effectively granted Israel veto power over decision-making because it was the Palestinian who needed the new wells, Moreover, these agreements left settlement water supply at the pre-agreement levels. It thus legitimized the blatant discrimination between Palestinians and Jewish settlers and left the improvement and expansion of the Palestinian water sector in the WBGS to Israeli good will[24].

In summary it can be said that the agreement signed by the parties eliminated the restrictive Israeli policy that sweepingly prohibited the drilling of new wells, and significantly increased the water quotas available to the PA. On the other hand, in practice indirect but tighter Israeli control continues. There are still quotas on the water available to Palestinians, and the Palestinian's dependence on Mekorot was even increased.

3.5. Restrictions on Palestinian Water Resources

Since the beginning of the Israeli occupation in 1967, Israel instituted restrictions and prohibitions over the water use that had not existed before the occupation, and emphasized that by legal and institutional changes in the water sector[25]. These restrictions and prohibitions are principal reason for the water shortage and the resultant water crisis. By other wards, they have created a severe water shortage for the Palestinian people.

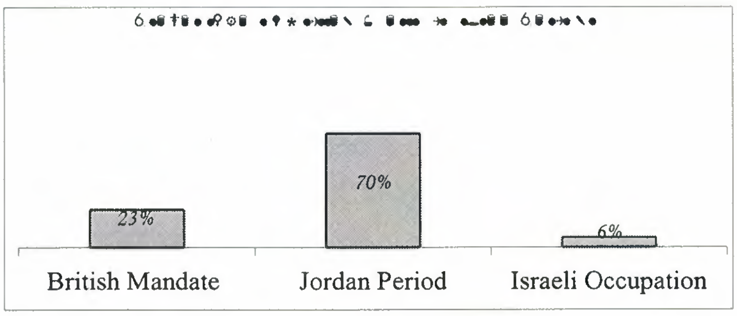
3.5.1 Drilling Wells

The primary result of the change in the law and transfer of powers over water sector was the drastic restrictive on drilling new wells to meet Palestinian water needs. In order to drilling new wells, the Palestinians in WBGS a permit must be obtained from the Israeli military Authorities according to Israel's water law, because it considers the water resources as public property. Currently, some 350 Palestinian wells are operating in the West Bank. The

[24] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[25] Ibid

vast majority of the drilled and operating wells were developed in the 1950-67 period, when the West Bank was under the rule of Jordan. Only 6 percent of the operating wells in 1990 were drilled under Israeli rule; the rest were the Jordanian period (70 percent) or the British mandate (23 percent). Not only were drilling licenses denied and abstraction quotas fixed, but these wells had been no longer functioning because technical and /or maintenance problems. Israel did not allow their owners to use those again, and the few permits Israel granted were not even renew the operation of wells that had not been functioning However, to obtain a permit, an applicant must pass eighteen stages of approval in various departments of civil administrative, Mekorot, and the Ministry of Agriculture[26].

Figure (2): Percentage of Drilled wells in Three Period



3.5.2 Expropriations

According to the Military Order on Abandoned Property (Order No. 58, of 1967), property whose owners left the region is transferred to the Custodian of Abandoned Property. This Order also applies to property whose owners are unknown, with the burden of proof as to the status of the property falling on the owners, and not the government.[27] Shortly after occupying the territories, Israel declared these lands "absentee property," thereby expropriating an unknown number of Palestinian-owned wells that had been used for irrigation.[28]

3.5.3 Water Quotas by Surprise

When the West Bank was under the Jordanian rule, there were no limits and restrictions whatsoever on the amount of water drawn from the wells, and owners made the decision on the basis of agronomy, economics, and the technical requirements of their wells. In 1975, Israel changed this practice by instituting for each well quotas limiting the amount of water drawn from each well, and has enforced compliance by means of meters that it installed, with

[26] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[27] Benvenisti, M., "West *Bank Lexicon,* Jerusalem", 1987.
[28] Baskin, G.,, 'The West Bank and Israel's Water Crisis", 1993.

heavy fines imposed for exceeding the quota[29]. Whereas settlers pay $ 0.40 for domestic consumption and a highly subsidized rate of $0.16 for agricultural use, Palestinians pay a standard rate of $1.20 for their piped water[30], these rates are per cubic meter.

3.5.4 Springs: Diversion and Control

According to the Palestinian Hydrology group, there are more than 310 springs or spring groups, in West Bank. In 1967 and 1969 Israel declared the headwaters of five spring groups from them to be "natural reserves" or "protected natural areas" and changed fees for entrance to their perimeters. In effect, the declaration of natural reserve signifies the transfer of the area to Israeli control. Additionally, from 1970-71 to 1993-94, of 113 springs within the boundaries of the West Bank were kept by the water Department[31], many of these springs are feed by the Yarmuk River and Lake Tiberias which recharge the West Bank aquifer by infiltration. Israel is drawing an annual 70-100 MCM from the Yarmuk and is piping 1.5 MCM per day from Lake Tibarias in its National Water Carrier. Consequently, the River Jordan, which in 1953, had an average flow of 1250 MCM per year at the Allenby Bridge, now records annual flows of just 152-203 MCM[32].

3.5.5 Diversion and Depletion

According to a 1981 United Nations report, which was prepared by a team of experts found that, Israeli authorities are in a position to transfer water from one basin or an aquifer to another, both within the West Bank and from the West Bank to other areas. Water of Jordan basin is diverted into the Israel National Water carrier and distributed to other basins under the control of Israeli Authorities. These waters are transferred from the National Water Carrier back to Jewish settlements in other basins located in Golan Heights and the West Bank[33], Furthermore, the Israeli diversion of these water resources, including the interference by Israel with the rainfall above the northern part of the basin, is a major concern regarding this resource area[34].

In Gaza strip, Israel, impounded the water of Wadi Gaza upstream in Nagap, which used to replenish Gaza's a aquifer. Moreover, Israel drilled so many wells in the outskirts of Gaza to draw the eastern water flows to Gaza's aquifer. Then re-pump this water into other

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[29] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[30] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[31] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[32] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem
[33] UN," Water Resources of the Occupied Palestinian Territories", 1992. Prepared for, and under the guidance of, the Committee on the Exercise of the Inalienable Rights of the Palestinian People
[34] Ibid

aquifers. On top of this, Gaza Palestinians have to contend with the 7000 settlers having access to the only supplies of sweet water in the strip[35]. Israel utilized its military power for controls and overrules of these resources to promote Israeli interests, almost completely ignoring the right and needs of the Palestinian population, which was left to face a growing water shortage, alongside, more saltwater intrusion in groundwater.

3.5.6 Lack of Water Infrastructure

Among those particularly suffering from the water shortage are Palestinians of villages, towns and refugee camps in WBGS not connected to a running-water network. The existence of these communities without a water network resulted from Israel's policy of neglecting infrastructure and investment throughout the period of occupation. Immediately following the 1967 war, from the mid-1970s Mekorot began expansion of water systems through building an extensive water network in WBGS to supply the water needs for military areas and settlements within West Bank and Gaza strip, this expansion was not linked to a water system of Palestinians[36]. Although the condition of the municipal water systems most of them built before the occupation had deteriorated, Israel made no effort to improve them or maintain them in a reasonable condition[37]. Ignoring the municipal water systems is only part of Israel's neglect of infrastructure in WBGS.

According to two comprehensive studies on the Palestinian economy in WBGS conducted by the World Bank examined Israel's fiscal policy from the occupation to the beginning of peace process in 1993. They indicate unequivocally that, throughout that period, Israel's expenditures for the public investment in economic and social infrastructure in WBGS (not including expenditures for security and settlements) was significantly less than the taxes it collected from Palestinians in WBGS. The gap between revenues and expenditures over those years made its way to the Israeli treasury and was expended inside Israel[38]. This policy resulted in un-development of the Palestinian economy; including significant delay in development of water infrastructure.

As a result, in 1995 on the eve of the signing of the Oslo II, one-fifth of the population of the West Bank lived in communities without any water infrastructure. There are communities of three West Bank districts which did not receive piped water relied on traditional methods. In the Tulkarm district, rain fed cisterns were the only source of water for

[35] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[36] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[37] Nassereddin, Taher, "legal and administrative responsibility of Domestic Water Supply to the Palestinians"
[38] The World Bank, "Developing the Occupied Territories: An Investment in Peace, Washington, D.C., 1993.

42 communities, spring-fed cisterns for 11, nonpiped spring water for four communities[39]. Since 1995, the PA, with the help of donor states and organizations, connected many communities to a water network. However , the primary problem was and remains the lack of Palestinian access to the water sources, on the other hand, such a situation of neglect and poor conditions of the pipes and water systems result in a substantial loss of water.

3.6. The Gap in Consumption:

The severe shortage suffered by Palestinians is evident in the enormous gap in water consumption between Palestinians and Israel, in general and Jewish settlers in particular. Present availability of renewable water resources (based on Oslo II Agreement) for Palestinians in the West Bank is only 118 MCM annually[40]. Palestinians in the WBGS are currently using 246 MCM annually to supply their domestic, industrial and agricultural needs, while Israel's to supply their domestic, industrial and agricultural needs , while Israel's residents, consumes 1,959 MCM. In addition Jewish settlers consume 75 MCM of WBGS's water per year[41]. It should be emphasized that, 40 percent of water consumed in Israel comes from the two water resources shared by Israel and Palestinians.

Figure (3): Relative Percentage Productivity from the Groundwater Aquifers

According to Israel's annual allocation, Palestinians have 93 MCM for industrial use, 155 MCM for agriculture use and only some 26 cu m per capita domestic consumption per year, while Israelis have 128 cu m per year[42]. According to the Palestinian water authority, the current water supply to the WBGS totals 279 MCM/y (WB: 146; GS: 108), of which 174 MCM is consumed for agricultural (WB: 89; GS: 85) and 107 MCM for municipal and industrial uses (WB: 57; GS: 50)[43]. Annual per capita consumption, according to Israel' annual allocation (the average household consumption) of Israel is five times that of a

[39] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[40] Israeli -Palestinian Agreement on the West Bank and the Gaza Strip, Annex III, Schedule 110, 1995.
[41] Jssac, Jad, "the Palestinian water crisis", center for policy analysis, and B'T selem, "thirsty for a solution", July 2000.
[42] Ibid
[43] PWA (Palestinian Water Authority), "Water Sector Strategic Plan", 2000.

Palestinians in WBGS. For all purposes, water consumption in Israel is four times higher than in WBGS[44], On the other hand, the agricultural sector is the largest consumer of water in Israel. This fact has historic roots related to Zionist movement, where agriculture was perceived for political, economic, and ideological reasons, as crucial to the sources of Zionist project, this perception led to creation of a complicated system of subsidies for irrigation water, which encourages continuously increased consumption. The subsidies continue although agriculture is much less important now than it was in the 1960s[45]. Agriculture consumption in WBGS takes up some 60-70 percent of the water resources; it should be emphasized, that less than 5 percent of the total land area in WB is irrigated, while Israel irrigates more than 50 percent of cultivated land inside the green line[46]. This situation is particularly problematic in light of the water shortage, where water has been great importance of agriculture for the limited economy of the Palestinians.

3.7. Poor Water Quality: Creeping contamination?

Water quality and quantity are indivisible and the relationship between water, on the one hand, and economy, on the other, is complex and irrepealable. Unlike the West Bank, the worst problem in the Gaza strip's water sector is not the shortage or irregular supply during the summer, but the poor quality of water flowing through pipes. The poor condition of the water seriously affects, on the one hand, the quality of life of the local people and exposes them to server health risks, on the other, the economy through reduce crop yields.

In the case of economy, saline contamination can be injurious to agriculture. Chlorides may reduce crop yields, depending on the crop's salt tolerance, and high sodium adsorption ratio (SAR), or roughly a high tendency for sodium ions to stick to the soil, may damage clay texture of the soil. In most of the central area, where the population is concentrated, salinity exceeded 500 mg/1 chloride, in 1991, 11 of the 17 wells supplying water to Gaza city contained chloride exceeding that of WHO'S guidelines (250 mg/1), as much as 6-8 times in three of the wells. In fact, two of these wells had to be abandoned because of salinity. On the whole, it has been estimated that 60 percent of Gaza well water contained 600 mg/1 chloride by the early 1990's and that its overall range of chloride concentration was 380 mg/1, or 50

[44] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Disputed Water: Israel's Responsibility for the Water Shortage in the Occupied Territories", !998.
[45] Kahhaleh, Subhi, "The Water Problem in Israel and its Repercussions on the Arad-Israeli Conflict.
[46] The World Bank, "From Scarcity to Security: Averting a Water Crisis in the Middle East", 1997.

percent greater than the WHO guidelines[47]. On the other hand, in Israel, Pesticide application is one of the most intensive in the world and contamination by those chemicals may be heavy.

The overuse of pesticide application effect negatively on the land cultivated by settlers in the west Bank and Gaza, in Gaza, nitrate concentration resulted from overuse of Pesticide of agriculture, was found to be high, averaging 45 mg/1, close to the maximum permissible limit of the 54 standards. In the densely populated areas, especially in the refugee camps, where nearly two-thirds of Gaza population dwell, the concentration reached 90 mg/1 and in some instance 159 mg/1. It has been conjectured that 30-60 mg/1 nitrate are abase-level contamination from agriculture. The higher levels devise from domestic waste water[48]. Finally, the main reasons for the contamination and salinization of the aquifer are over – extraction (over pumping), penetration of untreated sewage, and penetration of pesticide and fertilizers.

More potentially serially salinity problems these occurring naturally have been in the making in some parts of the mountain aquifer, because of Israel's overexploitation[49]. The Israel's overexploitation of mountain aquifers led to the accumulation of water deficit and decline in water table to the point where "red lines". This accumulation in turn led to the leakage of brine rock formations, causing salinity to rise. An example of such a sequence happened in the western basin in the 1950s and early 1960 as Israel over pumped the aquifer to expand the irrigated areas, increasing irrigation water supply from 413 MCM/y in the crop year 1950-1951 to 1,047 MCM/y a decade later[50]. Overpumping recurred during the drought period, 1985-1990, causing an accumulated water deficit in the western aquifer of 1,100 MCM with respect to the red lines. The deficit translated into a drop of water table to 10 m below sea level. The designated red line of that basin, similar developments also occurred in the northern basin. However, the coastal aquifer's natural outlet in the Mediterranean Sea, the interface between the waters of the two poses an ever present salinity threat to the aquifer. The water level, in turn, depends on the balance between replenishment and pumping[51].

In Gaza strip, the water levels declined sharply in the 1950s and 1960s due to Israel's overexploitation, as happened in the mountain aquifers. Overexploitation of Gaza's coastal aquifer led to intensive decline in the water table which allowed sea water intrusion and

[47] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[48] Ibid
[49] Isaac, J. and Hosh, L. "Roots of the Water Conflict in the Middle East", 1992.
[50] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[51] Ibid

increased that salinity of the water extracted from the wells. Whereas, water quality in the Gaza Strip that is much worse with only 4 MCM out of 44.1 MCM supplied by municipal wells being of an acceptable standard[52]. Furthermore, overexploitation was more intensive in some areas of aquifer than in others. This overexploitation led to water depressions below sea level in several parts of the aquifer. Salinity is much more acute in some areas of Gaza strip than in others, but in general, reached alarmed proportions.

3.8. Water and the Palestinian Economy

Undoubtedly, water is a motor of economic growth, and forms the base which relies on it economic sectors. Water is a scarce resource in the West Bank, and a very scarce resource in Gaza Strip where the groundwater resources are over-exploited and becoming increasingly contaminated. The signed agreements between PLO and Israel gave the West Bank only 118 MCM per year (See table 4), which is among the lowest in the World. This limited renewable water will pose a serious constraint for the economy. This challenge requires re-thinking economic growth patterns and changing attitudes vis-à-vis water. Agriculture is clearly very important to the Palestinian economy and plays a unique role in the life of the Palestinian people in the West Bank and Gaza Strip. Furthermore, agriculture plays a pivotal role in the economy by virtue of its strong intersectoral linkages. But the peculiar role of agriculture in the West Bank and Gaza Strip extends in effect far beyond above mentioned roles. As a people whose survival on their own land has always been in jeopardy, Palestinians realize that their sustained struggle for survival is over land and water. So agriculture is one of struggle's means for survival.

Agriculture comprised 24 percent of the Palestinian GDP in 1966, the same percentage as in 1980-85[53]. Presently, WBGS agriculture uses, on average, 70 percent of all extracted water (strikingly, in Gaza Strip, it uses 150 percent of annually renewable water resources) [54], and the sector contributes about 8.2 percent to GDP[55], employs 20 percent of the work force,

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[52] PWA, (Palestinian Water Authority), " Water Sector Strategic Planning Study", volume III: Specialist studies Part B, Focal areas, May 1999

[53] Foundation for Middle East Peace, *"Special Report: The Socio-Economic Impact of Settlement on Land, Water and the Palestinian Economy"*, Washington, DC:, July 1998

[54] Diwan, I. And A. Shaban, R., "Development under Adversity: The Palestinian Economy in Transition", World Bank and MAS.

[55] PMA, Palestinian Monetary Authority, "Annual Report 1998".

and accounts for 25 percent of exports[56]. By comparison, industry and construction consume about 13 percent of available water resources and contribute about 25 percent to GDP[57].

Table (4): Water Resources and Use – Regional Comparison

	Israel	Jordan	WBGS[58]	Syria	Lebanon
Resources (billion m3/year)	2.1	0.8	0.2	5.5	4.8
Consumption (billion m3/year)	1.9	1.0	0.2	3.2	0.8
Per capita consumption (m3/year)	375	213	115	385	1,200
[59]Renewable resources (m3/capita/year)	290	229	134	1,861	1,199
Groundwater (% renew resources)	60	28	94	16	63
Groundwater use (% of recharge)	n.a	155	200(GS)/ 88(WB)	143	n.a
Dependency ratio (% from outside the country)	15	20.7	5.73[60]	80	0.8
Water use ' (% of water resources)	122	91	88	48	27
Agricultural use (% of total)	65	69	82	98	68

Source: World Bank. "West Bank and Gaza Update, Second Quarter 1999; World Bank./ From Scarcity to Security – Averting a Water Crisis in the Middle East and North Africa", Washington, DC, 1995.

Since the sector suffers from restricted water resources, over 90% of the cultivated WB area depends on rain fed farming methods. In contrast, Israel irrigates over 50% of its cultivated land, although the agricultural sector contributes less than 3% to its GDP [61]. Industrial and agricultural production is impossible without water. The water consumption per produced unit of crops is high, especially for vegetables and fruit. In West Bank and Gaza Strip, intensive agriculture is dependent on irrigation but there is little access to irrigation water. The volume of irrigation water fluctuated in the West Bank, staying in the range of 70-90 MCM/y. It declined over time in Gaza, falling from 85 MCM/y in 1967, to 75 MCM/y in 1993. However, limited quantity and poor quality of water have negatively been effects on

[56] World Bank, "West Bank and Gaza-Agriculture Sector", Report No. PID5988, 1997.
[57] Diwan, I. And A. Shaban, R., "Development under Adversity: The Palestinian Economy in Transition", World Bank and MAS, 1999.
[58] Based on Oslo II
[59] Global average = 7,500 m3/cap/year
[60] Global average = 7,500 m3/cap/year
[61] MOPIC, "*Valuable Agricultural Areas in the West Bank Governorates*", Ramallah, 1998)

cropping patterns, where individual crops within agricultural fields, are influenced by a variety of factors that ultimately translate into prices of produce. These factors include (among other things), in particular Gaze, the increasing salinity of water. To illustrate, Gaza's citrus area had declined to 55,000 dunums by 1993 from what had been 70,000 dunums by 1980 due to the increasing salinity of water and the spread of plant disease[62].

A wide range of industries depend on water. For some industrial uses, the quality of the water is less important. But for others, like food processors, the adherence to high standards for water quality is vital in order to access national and international markets.

3.9. Summary

The impact of the prolonged Israeli occupation caused severe damage to Palestinian economy, the currently water deficit is moving the Palestinian community into a situation where development and economic viability will not only unsustainable, but rather impassible. Israel continue to overuse and overexploit of Palestinian water resources both surface and groundwater. This level of Israeli overexploitation leaves the Palestinians with the lowest consumption rate and one dangerously beneath recommended levels by world health organization. Israel over-pumping has already caused pollution and long-term damage to the coastal and mountain aquifer. It becomes apparent that, if the water shortage continues as it is, Palestinian will be left with increasingly limited water resource. This water shortage is inadequate to build an economically sustainable Palestinian community in the coming decades.

The water resources available for building a viable economy in the West Bank and Gaza Strip are limited , existing agreements between Israel and the PLO on water are unjust and inequitable and do not go beyond temporary solutions for crises nor not do they create a sustainable and permanent solution.

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[62] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.

CHAPTER 4

TERRITORIAL FRAGMENTATION AND ECONOMIC VIABILITY

4.1. Overview

Since Madrid conference of 1991 until the failure of Camp David summit of 2000, over eight years of negotiations Israel and the PLO are no longer in conflict, per se, about the prospect of a Palestinian state, but about the area of its sovereignty and about the land that Israel intends to annex from the West Bank, Jerusalem and Gaza Strip. The core issue is that of Israeli settlements, which Israel began to establish - in blatant violation of international law - after it occupied the West Bank and Gaza Strip and imposed its military rule over both regions in 1967. Ever since, consecutive Israeli governments have pursued a policy to change the status of the occupied territory or parts of it and to change the demographic character of the territory through illegal confiscation of land... as well as impose realities on ground through settlement activities. The Palestinian Liberation Organization (PLO) accepted the Interim Agreement as a step towards a final peace treaty between Israelis and PLO. Its temporary interim nature needs to be respected by both parties. In particular, the agreement states that "neither side shall initiate or take any step that will change the status of the West Bank and the Gaza Strip pending the outcome of the permanent status negotiations." Yet, in reality Israel has and continues to violate and manipulate the Interim Agreement by creating de facto realities on the ground, Israel has pursued its settlement activities intended to disrupt the integrity of the Palestinian community and create ghettos, based on the presumption that the Jewish presence of settlements will make it more difficult to surrender territory. This will not only affect the outcome of the final status negotiations, but also will render a future sustainable Palestinian entity unattainable and, more immediately, cause intolerable hardship and suffering. Clearly, the specific goal is to render the emergence of an independent Palestinian state virtually impossible.

What is to become of the Palestinians?" "Oh," Sharon said, we'll make a pastrami sandwich of them." I said, "What?" He said, Yes, we'll insert a strip of Jewish settlement, in between the Palestinians, and then another strip of Jewish settlement, right across the West Bank, so that in twenty-five years time, neither the United Nations, nor the United States, nobody, will be able to tear it apart". Winston S. Churchill III (journalist, former Member of

Parliament, and grandson of the British prime minister) at the National Press Club, October 10, 2001, recalling his conversation with then- General (res.) Ariel Sharon in 1973.

4.2. The geopolitical integrity of the West Bank and Gaza Strip

Under there pretext of its security and by means of over 1.500 military order , Israel has control over the West Bank and Gaza Strip's natural resources and rendered large tracts of Palestinian land available only for its own use. Presently, over 73% of the West Bank and 22% of the Gaza strip lands are inaccessible to Palestinians (PASSIA) these lands are used for construction of Israeli settlements or have even declared by Israel as "state land " nature reserves, military bases or closed military areas. These tracts of land declared (close military area) alone encompasses approximately 100,000 hectares of the west bank (20% of the West Bank area) and are mainly located in its eastern region (Jordan valley)[1]. As a result, the eastern part of the West Bank is currently empty of any substantial Palestinian communities.

Territorial Fragmentation of West Bank

4.2.1 Territorial Fragmentation by Areas A, B, C: The "Oslo II" Agreement, signed in Washington in September of 1995, sets out the interim stage for Palestinian Autonomy in the West Bank and Gaza, pending "final status negotiations" which were scheduled to begin in May 1996 and finish by May 1999. The Interim Agreement divided the West Bank into three main zones, which are not always interconnected and separated from each others.

Areas A, are presently limited to main parts of eight major cities of the West Bank, and cover a total area of 1,004 sq. km, comprising approximately 18.2 percent of the total West Bank land. The Palestinian Authority has full control over these areas except on matters to be discussed in the final status negotiations, such as the water[2].

Areas B, in which the Palestinian Authority has partial control, limited to land and providing civil services such as education and health, while all security issues are under the sole control of Israel, these Areas comprise 400 Palestinians villages and hamlets [3]. they cover a total area of 1,204 sq. km, and constitute almost 21.8 percent of the West Bank[4].

[1] Hosh, Leonardo and Isaac, Jad, "Environmental challenges in Palestine and peace process", 1996.
[2] ARIJ (Applied Research Institute-Jerusalem), Monitoring Israeli Colonizing Activities in the Palestinian West Bank and Gaza, "An Overview of the Geopolitical Situation in the Palestinian Areas", May 2001.
[3] ARIJ (Applied Research Institute-Jerusalem), Geographic Information System (GIS) Database, Bethlehem, 2000.
[4] ARIJ (Applied Research Institute-Jerusalem), Monitoring Israeli Colonizing Activities in the Palestinian West Bank and Gaza, "An Overview of the Geopolitical Situation in the Palestinian Areas", May 2001.

Area C, in which, Israel retains full control over land, security, people and natural resources, they cover a total area 4.327.9 Sq km[5] comprising the remaining 60 percent of the West Bank land. The majority of Israeli settlements in the west bank lie within these areas.

In addition, Israel retains under its control a small area of the city of Hebron according to Hebron protocol signed in 1997. This area covers 15%, of the city, designates as area H2, include around 20,000 Palestinian and 400 Jewish colonists housing the settlement of Qariyat Arba.

In practice, owing to ambiguities and shortcomings of Oslo accords, Israel translates them into the physical fragmentation of Palestinian communities, this distribution of areas A, B, and C has partitioned the West Bank into isolated cantons of areas A and B which are physically separated from each other by areas C.

Because areas C are totally under the Israeli control, the Oslo II interim agreement, on the one hand, grants Israel the authority to block access to all Palestinian Communities and prevent free movement between them by simply closing off areas C to Palestinians, on the other, prevents the Palestinian Authority to build roads joining the various villages nor ensure market access of goods in all of the West Bank. Since 1996 Israel uses its authority in areas C on several occasions to grave up the Palestinian villages, towns and cities from each other thus confines the Palestinians within their small and isolated communities. As a result of this division, there are 161 distinct "islands" of Palestinian control (i.e. Area A or Area B) surrounded by a sea of Area C, as well as 105 Palestinian villages that are still completely within area C and 216 that have parts in area C[6].

This action has proved to be an effective tool for consecutive Israeli governments to collectively punish Palestinians and prevent their movement in and between the West Bank and Gaza Strip whenever Israel feels that its security necessitates it.

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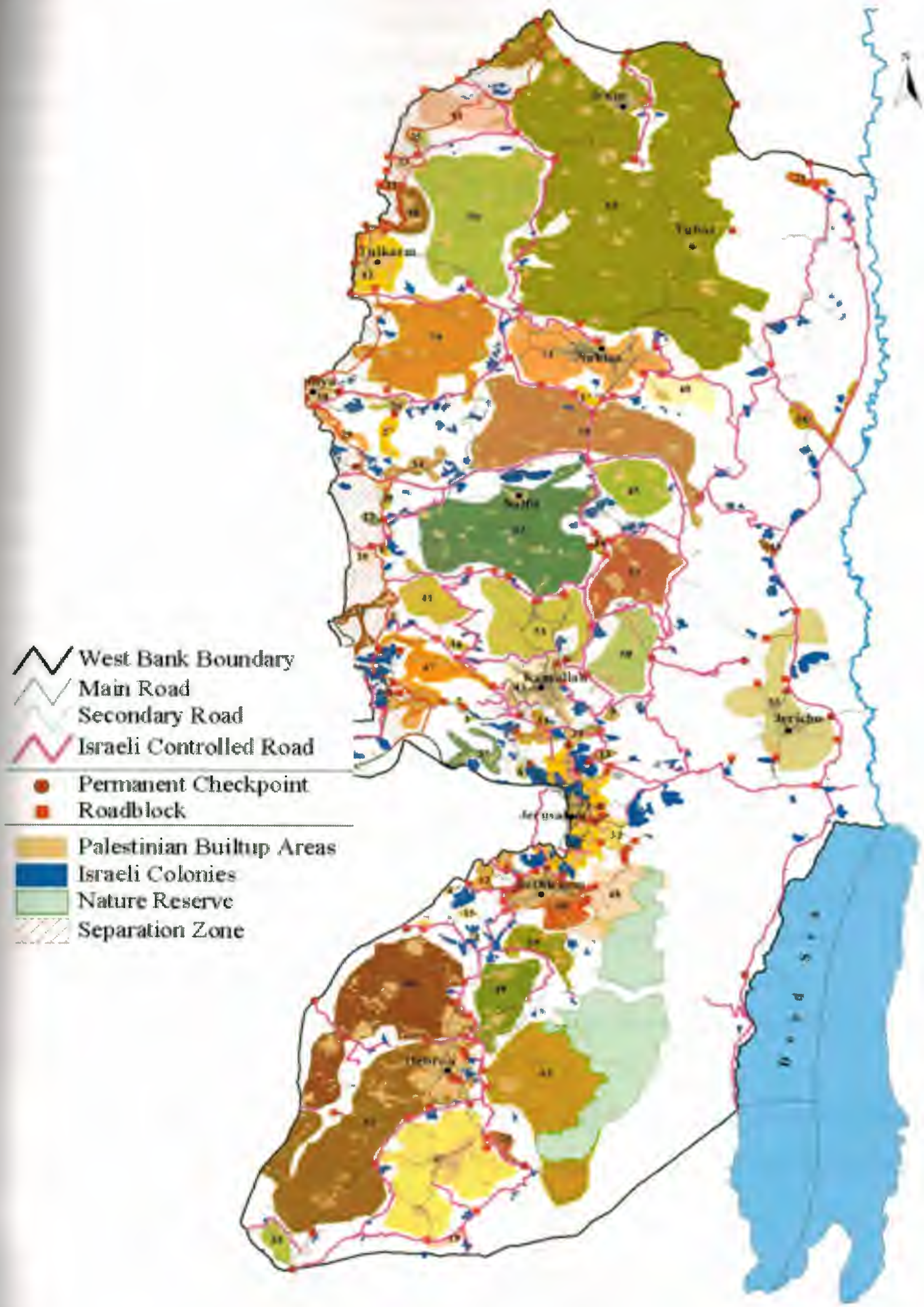
[5] ARIJ (Applied Research Institute-Jerusalem), Monitoring Israeli Colonizing Activities in the Palestinian West Bank and Gaza, "An Overview of the Geopolitical Situation in the Palestinian Areas", May 2001.
[6] ARIJ (Applied Research Institute-Jerusalem), Geographic Information System (GIS) Database, Bethlehem, 2000.

Figure (4): Territorial Fragmentation of West Bank



Source: Applied Research Institute-Jerusalem

4.2.2 Territorial Fragmentation by Bypass Roads

When Israel signed the Oslo II agreement, it stipulates that, redeployment from certain areas in the west bank contingent upon building lateral roads (bypass roads) to secure "a safe passage" for Jewish colonists (settlers). These post Oslo II bypass roads have been designed to link settlements with each others and with Israel as well as to serve only Jewish settlers traveling in the West Bank. These roads are of course under Israel control and entail a 50 to 75 meter buffer zone on each side of the road in which no construction is allowed[7]. These bypass roads along the west bank and Gaza strip have military checkpoints which filter traffic and prevent Palestinian owned vehicles from using the roads. Moreover, existing Palestinian houses located in areas close to newly planned bypass roads are being demolished[8].

4.2.3 Bypass Road's Impact on the Ground,

Bypass roads encircle every major Palestinian city and community in the West Bank (figures) and therefore create boundaries which limit the expansion and developments of the Palestinian communities which they encircle, and further disconnect Palestinian communities from each other. Thus, land currently available to Palestinians does and will not accommodate their natural population growth, the absorption of Palestinian refugees, nor the development of a strong economic infrastructure. The planning system on the West Bank implemented by Israel is one of the most powerful mechanisms of Israeli occupation.

The main goals for these bypass roads are as following:

- Enabling Israel to divide the west bank into small isolated cantons where geographic unity and integrity is impassible. Therefore, the creation of a Palestinian state on Palestinian land with economic and geographical viability becomes unattainable. This objective has been clearly affirmed by the new Israeli Likud government in its political platform which states that "government of Israel will oppose the establishment of a Palestinian state or any foreign sovereignty west of the Jordan River"[9].
- To establish a new green line border, farther within the West Bank, reinforced by the demolition of Palestinian homes along the west and south of the West Bank, and south

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[7] Isaac, Jad, Ghanyem, Moh. , "Environmental Degradation and the Israeli Palestinian Conflict" , ARIJ
[8] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Israeli settlement in the occupied territories as a violation of human rights legal and conceptual aspects". 1997
[9] (http://www.israel-mfa.gov.il)

and east Jerusalem[10], to facilitate the annexation of these lands to Israel proper. Thus Israel is using bypass roads unilaterally re-draw the geographical map of the West Bank and Gaza Strip.

- Provide the means to reserve large parcels of Palestinian land for the expansion of Israeli settlements.

The construction of by-pass roads commonly occurs along the West Bank, these roads exceed 276 km in length while the planned roads are estimated at 452 km[11]. With the safety buffer zone they enjoy (75 meter on each side), the construction of these by-pass roads requires the confiscation and destruction of approximately 67.8 sq km of Palestinian land, mostly of which is agricultural.

4.2.4 Territorial Fragmentation by Settlements

Before 1967 occupation, West Bank and Gaza Strip represent only 22 percent of the total area of Palestine[12]. Nonetheless, Israel has either confiscated or declared as closed areas over 41 percent of West Bank's land in 1984. This percentage increased to 60 percent by 1991 and to 73 percent by 1998[13], in addition to 25 percent of Gaza Strip[14]. Presently, as of February 2002, there are 19 Jewish settlements in the Gaza Strip housing an estimated 7,000 setters control 25 percent of this 365 sq Km amidst about 1.15 million Palestinians, and over 200 settlements in the West Bank with a residents of more than 400,000 settlers; half of whom occupying East Jerusalem[15]. However, Jewish settlers comprise less than 8 percent of the total Israeli-Jewish population and less than 4 percent, if the settlers in occupied East Jerusalem are excluded[16]. Israeli settlers constitute 9-10 percent of the total West Bank population, and only 0.6 percent of the Gaza population[17]. About 50 percent of the settlers live in only 8 settlements[18]. Israel's structural plan for the year 2020 foresees an increase in the settler population in the West Bank (excluding East Jerusalem) which will reach 310,000.

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[10] Isaac, Jad, Ghanyem, Moh. , "Environmental Degradation and the Israeli Palestinian Conflict". ARIJ.
[11] Hosh, L., Isaac, J., "Environmental Challenges in Palestine and peace process", 1996.
[12] PASSIA (The P Palestinian Academic Society for the Study of International Affairs) Fact Sheet – Land and Settlements.
[13] PASSIA (Palestinian Academic Society for the Study of International Affairs), Israeli Settlements in the Occupied Palestinian Territories, 2000.
[14] ARIJ (Applied Research Institute – Jerusalem) Monitoring Israeli Colonization activities in the West Bank and Gaza Strip, 2002.
[15]FMEP (Foundation for Middle East Peace), Report on Israeli Settlement in the Occupied Territories, Mar.-Apr. 2001. (Online: http://www.fmep.org).
[16] PASSIA (Palestinian Academic Society for the Study of International Affairs), Settlements- Special Bulletin, March, 2001.
[17] Ibid
[18]FMEP, "Report on Israeli Settlement in the Occupied Territories" (Nov.-Dec. 2001).

On the other hand, settlement's existence is in direct violation to international laws, especially the Fourth Geneva Convention, Article 49, item 6, which states that: "The occupying power shall not deport or transfer part of its own civilian population into the territory it occupies".

4.2.5 Settlements and the Oslo Agreements

The Israeli settlements were not mentioned in the articles of the Oslo II interim agreement, rather it was left for the final status negotiations. However, the full implementation of the Oslo II interim agreement demands that Israel freezes its settlements activities in WBGS until the final status negotiations. In violation of international law and signed agreements, Israeli settlement activities have continued. Consecutive Israeli governments have followed a policy of creating de facto realities on the ground to affect the geopolitical map of the West Bank and Gaza Strip. Israel has accelerated its settlement activities by confiscating more Palestinian land to establish new settlements on hilltops and build a comprehensive network of by-pass roads. These activities and other Israeli violations have been a main source of the political instability in Palestine proper.

4.2.6 The Geographical Dispersion of the Israeli Settlements

The geographical dispersion of the settlements and their ramifications for the Palestinian population is based on a division of the West Bank into four areas: three longitudinal strips extending from north to south, and the Jerusalem area, which has its own unique characteristics. Within each of these areas, a distinction must be made between three types of land: land actually occupied by the built-up area of the settlements; open land surrounding the settlements and included within the area of jurisdiction of a specific settlement; and land included within the area of jurisdiction of a regional council, but not attached to any particular settlement. However, the Concentration of Israeli settlements had been in three regions as follow:

4.2.6.1 The Jordan Valley Region

Along the Jordan River, includes the Jordan valley and the shore of the Dead Sea. This Strip is separating the West Bank from Jordan and serving as "security border" for Israel from the East. According to Israeli Data approximately 5,400 settlers live in this area and occupy over 1.2 million dunum[19]. The harm of the Palestinian population caused by the settlements in this area relates mainly to the restriction of possibilities for economic development in general, and agriculture in particular.

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[19] ICBS (Israeli Central Bureau of Statistics), Statistical Abstract of Israel, 1999.

4.2.6.2 The Western Hills strip, along the Green Line, extends from north to south, and is ten to twenty kilometers wide. The proximity of this area to the Green Line and to the main urban centers of Israel has created great demand among Israelis for the settlements in this area. The seizure of land limits the potential for urban and economic development in the Palestinian communities. The transfer of powers to the Palestinian Authority under the Oslo Accords has led to the creation of over fifty enclaves of area B in this area, as well as a small number of enclaves defined as area A[20]. These areas are completely surrounded by area C, which remains under full Israeli control. As a result, these settlements interrupt the territorial contiguity of the Palestinian villages and towns located out along this strip.

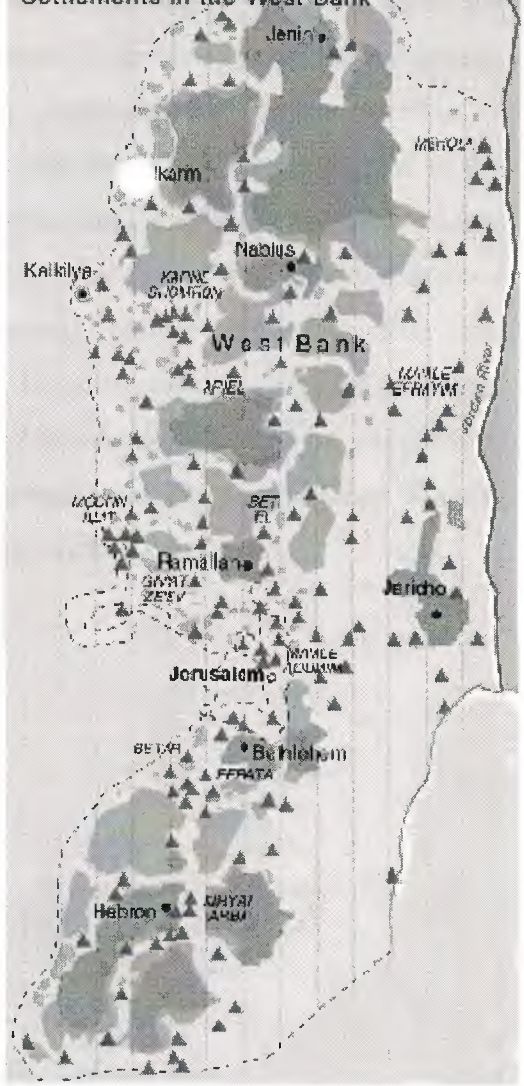

Figure 5: Dispersion of the Israeli Settlements in the West Bank

4.2.6.3 The Mountain Strip is situated along the central mountain ridge that crosses the West Bank from north to south. Most of the settlements in this area were initiated by Gush Emunim settlement block. Some of the settlements are dispersed in a string formation along Road No. 60 - the main north-south traffic artery in the West Bank[21]. With the goal of protecting the safety of settlers in this area, the Israeli occupation forces impose severe restrictions on the freedom of movement of Palestinians along this road, making it impossible to maintain normal everyday life. In addition, these settlements prevent, to a lesser or greater extent, the potential for urban development in the major Palestinian cities situated along the mountain ridge (Hebron, Ramallah, Nablus and Jenin)[22].

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[20] FMEP, Foundation for Middle East Peace. Report on Israeli Settlement in the Occupied Territories.
[21] ARIJ (Applied Research Institute-Jerusalem), Geographic Information System (GIS) Database, Bethlehem, 2000.
[22] Matar, Ibrahim, "Jewish Settlements, Palestinian Rights, and Peace", Washington, DC: Center for Policy Analysis on Palestine, 1996.

NEAR EAST UNIVERSITY

INSTITUTE OF APPLIED AND SOCIAL SCIENCE

ECONOMIC VIABILITY OF A PALESTINIAN STATE IN THE WEST BANK AND GAZA STRIP

MASTER THESIS

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DEPARTMENT OF INTERNATIONAL RELATIONS

SUPERVISOR: PROF. DR. JOUNI SUISTOLA

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Malath Alagha: Economic Viability of a Palestinian State in the West Bank and Gaza Strip: Is it Possible without Territorial Integrity and Sovereignty?

Approval of Director of Graduate School of Applied and Social Sciences

Prof. Dr. Fakhraddin Mamedov

We certify that this thesis is satisfactory for the award of a degree of Master of Arts in International Relations

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IN THE NAME OF GOD THE MOST GRACIOUS AND MERCIFUL

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Firstly, I would like to thank my supervisor Prof. Jouni Suistola for his great help he gave to me during my research.

I dedicate my thesis to my parents who insured me the suitable environment for study at the periods of my life, with the grace of Allah.

It is my pleasure to dedicate this thesis to my honorable teachers who provide me the guideline where I felt difficulty. I feel no hesitation to say that they are really capable and kind enough to mold every student toward study.

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LIST OF ABBREVIATIONS

CU	Custom Union
DOP	Declaration of Principle
EP	Economic Protocol
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HS	Harmonized Commodity Description and Coding System
IMF	International Monetary Fund
ICBS	Israeli Central Bureau of Statistics
JD	Jordanian Dinar
JWC	Joint Water Committee
MCM	Million of Cubic Meters
NIS	New Israeli Shekel
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PLO	Palestine Liberalization Organization
PT	Palestinian Territory
SAR	Sodium Adsorption Ratio
Sq Km	Square Kilometer
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSCO	Office of the United Nations Special Co-ordinator
USD	United State Dollar
WBGS	West Bank and Gaza Stripe
WHO	World Health Organization

ABSTRACT

Peace process makers had promised the West Bank and Gaza Strip's Population with an economic recovery and stability within the context of peace. The Economic Protocol between Israel and PLO signed in Paris in 1994 has maintained that it is possible to establish economic growth in the West Bank and Gaza Strip without defining territorial integrity and sovereignty. Nine years after the signing of this agreement, though, the situation in the Palestinian areas has deteriorated rather than improved. However, Water resources are an important material aspect of Palestinian existence and relevant to any lasting peaceful solution to the Palestinian-Israeli conflict. This thesis argues that this deterioration is in large part due to the failure of the Oslo agreement, which is signed to protect Palestinian territorial rights and to resolve questions of sovereignty and control over natural resources.

INTRODUCTION

In many centuries, Palestine was conquered by many entities; from 640 to 1917 it was under Islamic rule. In 1917 the British captured the area, Palestine from the Ottoman Empire. Concurrently, a Zionist movement for a Jew homeland arose. In 1917 the (British foreign secretary) Balfour Declaration promised the Jews a national home in Palestine. The Jewish migrants to the region began to increase slowly, and then it expanded dramatically during the British Mandate. Soon after World War II, the Jewish migrants to Palestine stood at 650,000; the Arab population was 1,350,000. Zionists increasingly agitated for an independent Jewish state. Conflict increased, and London turned it to the UN for a solution in 1947.

The UN plan to divide the area between Jewish migrants and Palestinians never went into effect. Instead, when the British withdrew in 1947, war immediately had broken out between Jewish belligerents and the region's Arabs. The Jews won the war, establishing their Zionist entity in 1948 and doubling their territory. Most Palestinian population fled (or was driven) from their homelands to refugee camps in neighbor countries, and Gaza Strip and the West Bank of the Jordan River), the West Bank and Gaza Strip had been part of Palestine but were under Egyptian and Jordanian rule respectively. As a result of the 1967 Six Day War, the West Bank and Gaza Strip came under Israeli Occupation. Also in this period the Palestine Liberation Organization (PLO) became the major representative of Palestinian Arabs. Peace was not possible because the PLO and the Arab states would not recognize Israel's legitimacy.

In 1987, the first Palestinian Intifada erupted against Israeli aggression. During the first Intifada in 1987, Israel concluded that the status quo then was unsatisfactory. This conclusion as well as the Gulf crisis and Gulf war were among important factors that led to open the door to Oslo peace process. Israel hoped that the PLO would be a partner in assuring Israel's security interests in the West Bank and Gaza Strip, and in Israel proper. Israelis and Palestinians met in Spain and held public talks for the first time in 1991. Bilateral secret peace talks between the Israelis and PLO in Norway led to an agreement. In September of 1993, PLO and Israel signed in Washington, the Declaration of Principle, which called for the five-year interim period for Palestinian Autonomy in the West Bank and Gaza Strip. PLO gained limited control over parts of the West Bank and Gaza Strip, and established the Palestinian Authority.

The Oslo II agreement divided the West Bank into three classifications: areas A, B, and C. Until the last redeployment in March 2000, Palestinian Authority have full control in area A (18.2 %) and in area B (21.8 %), it have full control over civil society except that Israel continues to have overriding responsibility for security. The formation of an Israeli Labor Government in 1999, led to resumption of interim and permanent status negotiations at "Camp David" in July 2000. Palestinians want viability, independence, and choice, all of which were missing from Camp David's proposals, thereby it failed.

The establishment of the Palestinian Authority (PA) generated widespread hopes and expectations for economic recovery within a context of peace, political stability and economic integration of the West Bank and Gaza Strip. But, the existence of settlements which left to final status negotiation and the inexact implementation of the interim accords by Israel led to a de facto fragmentation of the West Bank and Gaza Strip, thereby undermining all the hopes above. After 1995, the Oslo Accord segmented Palestinian Land between two authorities control (Palestinian Authority and Israel), since it divided the West Bank into three zones A, B and C, this division has partitioned the West Bank into 64 isolated cantons of areas A and B which are separated from each other by areas C, and Gaza Strip to four cantons by Israeli settlements. However, the issue is not establishment of a State- the issue is one of viability, integrity and independence.

According to Camp David's Proposals, the Palestinians were to get a state, cut up by settlements, fragmented by Bypass roads economically dependent on foreign assistances, above all of this, it would have had less sovereignty and viability than the Bantustans created by the South African apartheid government.

HYPOTHESIS

Since the onset of the Israeli occupation in 1967 of the West Bank and the Gaza Strip (WBGS), Israel has used its dominance as a belligerent occupier to create an economic environment in these areas that has forced Palestinian society into a severe economic dependency on the Israeli economy. Furthermore, it has to change the status and the demographic character of the West Bank and the Gaza Strip as well as creation of de facto realities on ground through settlement activities, based on what Sharon announced in 1973. He said, "we'll insert a strip of Jewish settlements, in between the Palestinians, and then another strip of Jewish settlements, right across the West Bank, so that in twenty-five years time, neither the United Nations, nor the United States, nobody, will be able to tear it apart".

The occupation itself and the means by which Israel created these realities on ground are violations of the principles of international law, especially Article 46 of the 1907 Hague Regulations, in conjunction with Article 49, Article 51, Article 52 and Article 64 of the Fourth Geneva Convention of 1949. On the other hand, Oslo accords called for freezing of settlement activities that started since the occupation in 1967. But, ten years after the initiation of the peace process (1993-2003), we find that the settlement activities of occupation became facts on ground, and peace process failed to stop these activities and became these settlements as acquired right for occupation.

The key question that this thesis will seek to address is whether the West Bank and Gaza Strip constitute an economically viable entity, and whether the PLO can establish independent and viable state on it, and whether it can survive under territorial fragmentation and without full sovereign control over land and resources. Sovereignty is important for economic growth since it defines a state's jurisdiction and its scope of intervention. It is also important because it allows actors, be it individuals, firms or governments, to evaluate the resources they can count, where they can invest and with whom they can trade. However, sovereign borders are important for a State since they determine its economic and political viability, its access to natural resources, its capacity for economic development, and its ability to defend itself from external threats. Moreover, the question of territorial contiguity would result in more predictability, allowing Palestinians to make arrangements for travel and the transfer of goods without worrying about checkpoints and closures.

METHODOLOGY AND STRUCTURE

The thesis is structured into six Chapters. The first chapter (West Bank and Gaza strip: Geography, Resource Endowment and Economy) depicts the geographical aspects and resource endowment of WBGS, as well as pinpoints economic performance of the Palestinian domestic economy. In addition it will be compared with the economies of neighbor countries. The second chapter (Paris Protocol and Economic Viability) pinpoints shortcomings and ambiguities of the Economic Protocol and depicts its oppressive and restrictive arrangements against the Palestinian economy. In this chapter, discussion is relied to a large extent on Protocol Articles and analysis that has been previously addressed by research institutions, and international organizations.

The third chapter (Water problems in WBGS) depicts general data on water supply in WBGS, including the locations of groundwater aquifers and their water qualities, as well as

the surface water and its percentage of the water in Palestine. However, it pinpoints water issues under the Oslo accords, Israeli policies and measures that restrict Palestinian's use of their own water resources, and the importance of water for economic growth as well as its repercussions on economic viability.

The fourth chapter (Territorial Fragmentation of WBGS) describes the fragmentation of WBGS and the changes of its geographic character. This includes terms of bypass roads, closed military areas and green areas in Jerusalem. However, it explicates the Oslo II land classification scheme of the West Bank and Gaza Strip, which that translated into the physical fragmentation of Palestinian communities. Furthermore, it also pinpoints the impact of Jewish settlements and bypass roads on a daily life of Palestinians. In the both chapters, arguments are relied to a large extent on data and information that has been previously investigated by other regional non-governmental organizations and specialist research institutions (such as Applied Research Institute-Jerusalem), as well as international organizations

The fifth chapter (Mobility Restrictions, Closures) on the one hand, describes the impact on economic Viability of Israeli permit and closure policies, mobility restrictions, and Territorial Control. On the other hand, it illustrates how these policies have lead to a severe dependency of the Palestinian labor market on the Israeli labor market (in Israel and in Israeli settlements). The data and information for this chapter based on UNSCO reports on the Palestinian Economy.

The sixth chapter (Camp David Proposals) pinpoints the main lines of Barak's verbal proposals of the final settlement and its implications on ground. However, it provides some analysis of causes that led to the failure of Camp David and the collapse of peace process. In this chapter, we had to deal with the availability of leaked data and information.

CHAPTER 1

WEST BANK AND GAZA STRIP: GEOGRAPHY, RESOURCE ENDOWMENT AND ECONOMY

1.1. Geography of the West Bank and Gaza Strip

As a geographic unit, Palestine extended from the Mediterranean on the west to the Arabian Desert on the east and from the lower Litani River in the north to the Gaza Valley in the south. The Palestinian territory of the West Bank and Gaza Strip is constituting 22 percent of the area of the pre-1948 British Mandate Palestine, The West Bank is 5,800 square kilometers in area, 130 km long and ranges 40 to 65 km in width; The West Bank is divided into three main districts with eight sub-districts, each of which is named after one of the main cities. The northern region comprises the sub-districts of Jenin, Tulkarem, and Nablus, while the central region includes Jerusalem, Jericho, Ramallah and Bethlehem; and the southern region is constituted by Hebron.

The Gaza Strip covers 365 square kilometers, running at 45 km length and between 5 and 12 km in width; it borders Nagap desert to the north and east, the Egyptian Sinai Peninsula to the south, and the Mediterranean Sea to the West; and is divided into three districts: Northern Gaza, Central Gaza, and Southern Gaza. The Gaza Strip is mainly coastal plain and sand dune while the West Bank is more diverse, featuring four topographic zones. These include a fertile plain of around 400 sq. km. in the Jordan Valley and the Jordan River; a rocky semi-arid area of 1,500 sq. km. covering the eastern slopes and leading down to the dead sea; the central highlands constituting the largest zone with a total area of 3,500 sq. km. while rising 1000 meters above sea level in places; and the semi coastal zone consisting of 400 sq. km in the west and north-west.[1]

Since 1967, and especially since the late 1970s, Israel has pursued a policy of building settlements in the West Bank and Gaza Strip, mainly on expropriated public and private Palestinian land. In 1994, the number of Israeli settlements within West Bank and Gaza Strip had reached 194 settlements; most of them are in the West Bank, including 28 constructed since 1967 within the expanded Jerusalem municipal boundaries. Moreover, there are 18

[1] Palestinian Academic Society for the Study of International Affairs, (PASSIA), Yearbook, Jerusalem, 1996.

Israeli settlements in the Gaza Strip[2] in addition to 40 new settlements founded since the beginning of the second Intifada. The total population of the Israeli settlements in both regions is estimated to have reached around 150,000 by 1995, excluding settlements in the east Jerusalem area[3]. These settlements make intensive and disproportionate use of scarce natural resources. For instance, Israeli settlers constitute 9-10 percent of the West Bank population and some 6900 settlers in the Gaza Strip, equivalent to less than one per cent (only 0.6 percent) of the area's Palestinian population, yet they use 79 percent of the West Bank and Gaza Strip Territory (approximately 25% of the Gaze Strip's Area). In the West Bank, Israeli settlements account for one third of the total water consumption although their population is equivalent to fewer than 10 per cent of the Palestinian population[4].

1.2. Population: a young nation

The Palestinian population of the West Bank and Gaza Strip is estimated to have reached 3.15 million in 2000, approximately 64 percent of who live in the West Bank and the rest in Gaza Strip. It is estimated that over 5 million Palestinians live outside the West Bank and Gaza Strip, including those living in Green line (Israel). The population density differs markedly between the two areas. In the West Bank population density is 342 persons per sq km, whereas in the Gaza Strip the comparable figure is 2,933. In Gaza city, population density is 14,000 persons per sq km, which is one of the highest in the world. The youth represent the largest percentage of the population, where the percentage of population aged 14 years and below is 46.6 percent at the end of 2001. The age group (0-4) constitutes the second largest proportion (19%), while the age group (60 and above) constitutes 3.4 percent of the population only. However the annual rate of population growth is estimated to have reached 5.4% in 2000[5]. Almost 40 percent of the resident population is registered as refugees from the wars of 1948 and 1967 (26 percent of the West Bank population and 64 percent of the Gaza Strip population)[6]. Most of the refugees live in over crowded camps with substandard housing and sanitation conditions representing the disadvantaged stratum in Palestine.

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[2] Palestinian Academic Society for the Study of International Affairs, (PASSIA), Yearbook, Jerusalem, 1996.
[3] Roy, S., The Gaza Strip: the Political Economy of Development, Washington, D.C., Institute for Palestine Studies, 1995, p. 176.
[4] Palestinian Academic Society for Study Of International Affairs (PASSIA), "Fact Sheet – Land and Settlements", Jerusalem, 2001. www.passia.org.
[5] Third United Nations Conference on the Least Developed Countries (May 2001),"Information Note on the Economy of the Occupied Palestinian Territory (West Bank and Gaza Strip) Brussels, Belgium Prepared by the Palestine National Authority Ministry of Economy and Trade.
[6] Palestinian Central Bureau of Statistics (PCBS), Demographic Survey of the West Bank and Gaza Strip, Ramallah, 1996.

1.3. Resource Endowment

1.3.1 Land and water: Notwithstanding the small size of the Palestinian territory, just one quarter of Palestinian land is under cultivation - around 1,500 sq km in the West Bank and 160 sq km in the Gaza Strip. However, Palestinians do not control the totality of the available land in the West Bank and Gaza Strip. By 1995, Israel had confiscated or otherwise controlled 73 percent of the total land area of the West Bank and Gaza Strip combined. The West Bank and Gaza Strip depend to a large extent on groundwater sources for irrigation and drinking water. The annual renewable water that is available as ground and spring water is estimated at around 600-800 million cubic meters (MCM) in the West Bank, and between 50-70 MCM in the Gaza Strip. Use of water by Palestinians in the two regions is estimated at about 200 to 230 MCM annually[7]. The rest is used in Israeli settlements and in Israel proper. From calculation of last numbers, Israel steals about 73 percent of Palestinian water.

1.3.2 Human Resources: It is widely considered that the most impressive asset of the Palestinian economy is its human resources. Throughout 54 years of conflict, dispersion and occupation, Palestinians have exhibited resilience and resourcefulness, and sustained a strong commitment to education. Palestinians are considered to be relatively well-educated, as measured by literacy rates, years of schooling completed, and enrolment rates[8]. The Palestinian territory suffers from three major problems in the area of human resources. The *first* is the failure of the economy to generate enough employment, leading to one third of the labor force working in Israeli labor market and to severe domestic unemployment. The *second* is a labor participation rate that is considerably below the rate in neighboring countries. The *third* problem is low labor productivity, especially in the manufacturing sector[9].

The overall labor force participation rate (the proportion of the labor force to total population) has not risen above 21 per cent over the last five years from 1990 to 1996, whereas it stands at 25 percent in Jordan and 40 percent in Israel[10]. However, according to Palestinian Central Bureau of Statistics, the percentage of population aged 15 years and over is 53.4 percent at the end of 2001, this playing a major role of labor force participation rate.

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[7] United Nation Conference on Trade and development, “The Palestinian Economy and prospects For Regional cooperation”, Geneva, 1998.
[8] International Labor Office, "Report of the Director-General, Appendix" International Labor Conference, 82nd Session, 1995.
[9] United Nations Conference on Trade and development, “Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development”, 1996.
[10] The World Bank ,“World *Development Report”*, 1995, Washington, D.C.

1.3.3 Capital: During the 1970s and 1980s, the Palestinian economy witnessed a relatively large movement of capital inflows and outflows. The former arose from incomes of Palestinian workers in Israel, remittances from Palestinian workers in the Gulf States, and from Arab and foreign financial assistance. Incomes of workers in Israel and remittances from workers in the Gulf region have declined significantly since 1990, owing to the dramatic drop in the number of Palestinians working in these two major markets (where 400, 000 Palestinians return back From Gulf states and to WBGS as a result of the Gulf crisis in 1990-91), which together employed almost half of the manpower from the territory by the end of 1980[11]. On the other hand, foreign assistance has increased with the establishment of the PA. Between October 1993 and September 1998, donors (around 48 countries, 13 of them Arab) responded to the call for resources by committing a total of US$3.66 billion in assistance to the Palestinian people and disbursing about US$2.5 billion[12]. Donor support has been intended to help the Palestinians achieve sustained economic growth and develop a sound economic and sociopolitical base that would contribute to peace and stability in the region.

International financial aid between 1994-2000 fluctuated in commitment and disbursement according to the status of the political settlement process. International aid to the PNA fell from $506 million in 1994 to $369.3 million in 2000 (27%). The peak of grants and international aid was in 1995 ($554.4 million) and the lowest level was in 2000[13].

1.4. The Palestinian Economy (Constraints and Impediments)

The Palestinian economy is one of the main issues, which has long haunted economists and politicians. The Palestinian economy is almost entirely dependent on Israel and is therefore vulnerable to Israeli measures. This dependence uphold by the Declaration of Principles on Interim self-Government Arrangements, commonly known as Oslo Accords, which kept the border crossings under the Israeli control and divided the Palestinian territories into cantons separated between the Israeli and Palestinian Authorities. Since the occupation of the West Bank and Gaza strip (Occupied Territories) in 1967, many Palestinian economy sectors suffered from stagnation because of the lack of political stability and Israeli impediments to investment in the main sectors:

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[11] United Nations Conference on Trade and development, "Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development", 1996.

[12] The World Bank and the United Nations Office of the Special Coordinator in the Occupied Territories, "Donor Investment in Palestinian Development 1994-1998", A Jointly- Report, 1999.

[13] MAS- Palestine Economic Policy Research Institute, " Economic Monitor Issue No. 8", 2001

1.4.1 Agriculture and Industry: Agriculture plays a vital role in the Economy of the West Bank and Gaza Strip; it generates about 25 percent of Gross Domestic Product (GDP), employs 20 percent of the work force and account for 25 percent of exports. However, Palestinian farmers have demonstrated their competitiveness in high, quality fresh fruits vegetables, and flowers in west Europe by exports through Israel[14]. However, the industrial sector has suffered from very low level of industrialization, and currently faces a number of serious obstacles; one of them is the shortage of water. Movement of goods and services is often blocked by border closures. On the other hand, its contribution to Palestinian economy account for 8 percent of GDP and 16 percent of total employment.[15] Compared to other economies with similar income levels and at the same stage of development, the share of industry to GDP in the West Bank and Gaza Strip has been consistently low its share in GDP has not exceed 10 percent in other economics reached to more than 30 percent[16].

1.4.2 Construction and Housing: Notwithstanding the constraints of occupation, construction and housing have evolved into a major sector of the Palestinian economy, playing an important role in the generation of employment and income. Whereas the construction contribution to GDP has exceeded 6 percent before 1967, it rose to around 17 percent by the end of the 1970s, it remained over 15 percent during the 1980s until the Intifada in 1987, when it declined to around 12-14 percent[17]. This percentage of contribution of domestic production remained fluctuating among 15 to 17 percent from the start of peace process in 1993 until the beginning of Al-Aqsa Intifada in September 2000[18]. Meanwhile, the sector's share of employment also increased from about 14 percent in 1970s to 27 percent in 1993 it remained approximately 22 percent during 1993 until 2000 with the starting Al-Aqsa Intifada[19].

In view of the overpopulations in Gaza Strip and refugee camps and some cities in West Bank, whereas the Palestinian population estimated to have reached 3.15 million, approximately 36 percent of them live in Gaza Strip which covers 359 sq km. The housing situation constitutes one of most serious economic and social problems confronting the Palestinian people in West Bank and Gaza Strip. As we know the percentage of population

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[14] The World Bank, "West Bank and Gaza-Agriculture Sector" Rehabilitation project , 1997.
[15] MAS-Palestine Economic Policy Research Institute, " Opportunities and Possibilities For Industry in the West Bank and Gaza Strip". Issue No. 9, 1997.
[16] The World Bank, "Developing the Occupied Territories: an Investment I Peace". Volume3 Washington, 1993.
[17] Abdul Hadi, R. "Construction and Housing in the West Bank and Gaza Strip", 1994.
[18] Palestine Monetary Authority, "Annual Report", 1998.
[19] Ibid

aged 15 years and over is 53.4 percent at the end of 2001, as well as the birth rate is very high among the Palestinian families.

1.4.3 Tourism: The West Bank and Gaza Strip have great potential as a tourist destination because of its religious, historical, archeological, natural, and cultural attractions. Although, the annual number of visitors to the church of nativity in Bethlehem and archeological sites of Jericho are approximately 1.3 million the limited contributed contribution of the tourism sector to the economy is not surprising, given it's stagnation in the last three decades of political uncertainty and Israeli restrictions[20]. The contribution of the tourism sector exceeds not 2 percent of GDP since 1967, for 0.5 percent of excluded Jerusalem city and only one percent of labor force[21].

1.4.4 Labor Market: As direct result of occupation, the Palestinian economy is tied directly with Israel through many channels. Labor market and foreign trade are important channels with Israel. Structural imbalance within the Palestinian economy makes it unable to absorb the growth of the labor force, creating a large surplus of workers and dangerous growth in unemployment in the West Bank and Gaza Strip. Since the occupation, Palestinian have depend on Israeli labor market to absorb a large portion of surplus labor force, between 1975-1990, the Israeli labor market absorbed 25-40 percent of the Palestinian labor force, and their income constituted 25 percent of the (GNP)[22]. In 1991 nearly 40 percent of Gaza's labor force and over 30 percent of the West Bank's labor force worked in Israel[23].

However, following the Oslo Accords the number of workers employed in Israel dropped from 120.000 in 1992 to 36.000 in 1996, although, the number later rose again to 70.000 by 1997 and of 135.000 by 1999[24]. At the same time unemployment rates reached 20.3 percent in 1997 and declined in 1998 to 14.4 percent. However, the estimations indicate that it is added to the labor market 30.000 person annually, and the necessary investments are estimated to engage one person by 15.000 dollar, which means that the Palestinian authority is in need to annual investment of 450 million dollar to keep on the same unemployment level and also in need of 2 billion dollar to delimit from the unemployment problem[25]. After the outbreak of Al-Aqsa Intifada, the number of the Palestinian workers in Israel declined

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[20] Diwan, I. and R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary. MAS-World Bank Joint Report, 1999.
[21] Palestine Monetary Authority, "Annual Report", 1998.
[22] Farsakh, L, "Palestinian Employment in Israel 1967-1997: A Review", Ramalla, MAS, 1997.
[23] The World Bank, "Developing the Occupied Territories: an Investment I Peace", 1993.
[24] Farsakh, L, "Palestinian Employment in Israel 1967-1997: A Review", Ramalla: MAS, 1997.
[25] Palestine Monetary Authority, "Annual Report ", Ramalla, 1998.

precipitously from an estimated 146.000 in the third quarter of 2000 to 44.000 workers in the fourth quarter of 2000, representing a 70 percent declined. Between the third quarter of 2000 and the third quarter 2001, overall Palestinians employment in Israel has declined by some 57 percent. Gaza strip suffering by the border closures more than the West Bank, whereas, the declined number of workers in Israel from west Bank and Gaza strip was 42 percent and 90 percent respectively[26].

1.4.5 Foreign Trade: The West Bank and Gaza Strip as a result of prolonged occupation are heavily depending on Israel for infrastructure services of Trade (Ports and Airports); Palestinian foreign trade is largely tied to Israel. Some 95 percent of West Bank and Gaza Strip (WBGS) total exports are to or via Israel and also around 90 percent of WBGS total imports come from Israel or through Israeli ports and are subject to Israel customs[27]. Unlike the normal procedure applied in foreign international trade, the Palestinian goods exported to Israel or to other countries via Israel are subject to special procedure. These Israeli measures are implemented under pretext of security and standards, but aim to delay the goods in ports, to increasing costs and reducing competitiveness with Israeli and foreign products. As a direct result of Israeli measures, the estimates of international monetary fund, World Bank and Palestinians ministry of finance reveal merchandize exports were nearly cut in half between 1992 and 1996, from 11 to 6 percent of GDP and imports fell from 46 to 38 percent of GDP[28]. While Israel controls and overrules of the Palestinians natural resources, the Palestinian economy sectors (Agriculture, industry and construction) depends largely on Israeli and imported raw materials. The vast majority of Palestinian exports and imports go and come from Israel or via Israeli ports, thereby the Palestinian economy becomes hocked of the Israeli measures.

The Palestinian economy is suffering from trade deficit since the occupation in 1967 the trade deficit of West Bank rang between 34 - 37 percent of it GDP in the years 1972 to 1990, while the trade deficit of Gaza strip was 54 percent of GDP in 1972, reached 61 percent GDP in 1980, but in 1990 as a result of Israeli border closures amounted to 93 percent of GDP[29]. On the one hand, West Bank and Gaza Strip ran a trade deficit in 1998 approximately 60 percent of GDP. However, after outbreak of second Intifada in September, 2000, Palestinian

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[26] UNSCO, The Impact on the Palestinian Economy of the Recent Confrontations, Border Closures and Mobility Restriction (1October 2000-30 September 2001), 2000.
[27] MAS-Palestine Economic Policy Research Institute, " The Economic Monitor, No. 7." Ramallah, 2000.
[28] Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary. MAS-World Bank Joint Report, 1999.
[29] United Nation Conference on Trade and development, "Prospects for Sustained Development of the Palestinian Economy in the West Bank and Gaza Strip, 1990-2010", 1994.

imports from Israel declined by more than 33 percent, while exports declined by more than 17 percent in the first half of the year 2001 compared to the same period of 2000[30].

Table (1): Estimated Palestinian Foreign Trade Patterns in 1998

	Imports Mill. S$	(%)	**Exports** Mill. US$	(%)
Arab League Members	35	1.1	25	3.4
Free Trade Countries[31]	423	13	35	0.7
Israel	12,422	75.9	697	95.8
Rest of the World	312	9.8	0	0.0
Total	3,192	100.0	727	100.0

Source: United Nation Conference on Trade and development, "trade options for the Palestinian Economy, Some Orders of Magnitude", 2001.

1.4.6 Macro Level: The Palestinian economy is characterized by its limited size and large macroeconomic imbalances, the Gross National Product (GDP) of the West Bank and Gaza Strip was estimated at $4,954 million in 1999. East Jerusalem accounted for 6.7 percent of total Palestinian GDP, while the West Bank (excluding East Jerusalem) contributed 63.9 percent and the Gaza Strip accounted for 29.4 percent[32]. Unlike all positive expectancies, the economic situation in West Bank and Gaza Strip is worse than what it used to be in 1992. The Gross National Income (GNI) of the West Bank and Gaza Strip totaled $6,124.7 million, 23.6 percent higher than GDP[33]. This is a reflection of Palestinian dependence on foreign markets, especially Israeli economy.

However, real Gross National Product (GNP) per capita income dropped by more than 17 percent between 1994-1996, and unemployment soared to over 28 percent in 1996, GDP growth was negative in 1996 and 1997 at -5.1 percent and -0.7 percent respectively[34]. Despite the advance of Palestinian economy during 1998 to 2000, unless GDP growth is not exceeded 2 percent[35]. However, real per capita average expenditure in the 1995-96 survey periods is about 15 percent below its average for the years 1992-93. By 1998, government consumption was almost 25 percent of GDP (compared to 15 percent in 1995), which is among the highest

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30 UNSCO, "the Impact on the Palestinian Economy of the Recent Confrontations, Border Closures and Mobility Restriction (1October 2000-30 September 2001)", 2000.
31 The Free Trade Area Countries group includes: EU counties, USA, Canada, The Czech and Slovak republics, Turkey, Hungary, Poland and Slovenia
32 Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary", MAS-World Bank Joint Report, 1999.
33 MAS-Palestine Economic Policy Research Institute, "The Economic Monitor, No. 6". Ramallah, 2000,
22 Diwan, I. And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition: Summary", MAS-World Bank Joint Report, 1999.
35 Palestinian Monetary Authority, "Annual Report", 1999.

in the Middle East, however Private investment in productive activities remains low, around 14 percent of GDP, while public investment amounts to 8 percent of GDP. Furthermore, GNP exceeded GDP by more than 20 percent, and the trade deficit is about 50 percent of GDP[36].This is a reflection of Palestinian dependence on foreign markets, especially Israel.

1.5. Peace Process and Economic Viability

When the Palestinian Authority began to exercise its function in May 1994, as envisioned in the Declaration of Principles signed between Israel and Palestine Liberalization Organization (PLO) in Washington, in September 1993, was expected to be accompanied by a significant transformation of economic conditions in the West Bank and Gaza Strip. And also the Palestinian People expected that, the new situation engendered by the peace process may be able to bring about rapid economic change and create a new enabling environment for economic development. Contrary to all hopes, the economic situation reflected deterioration and fragmentation in all markets, coupled with virtual paralysis of the public sector. Although, one of the main aim of the peace process is establishing strong economic infrastructure of the visible Palestinian State, Some political pundits believe that during the movement for Freedom, economic issues seldom attract much attention. They argue that economic problems can be confronted after. But surprisingly, ten years after the initiation of peace process, the question of the economic viability of a Palestinian state still unresolved.

It is generally understood that an economy is viable if it is able to use and exploit its resource endowment, e. g. the land and water, other natural resources like raw materials, the capital, energy resources, and the people (the human capital and the size of work force and consumer market) to grow, sustain itself and increase the welfare of the inhabitants living within its area. To be sure, the people (the human resource) are the most critical variable in any economy. It is not only the will and determination of a people to survive, but also their dynamism in transforming the natural resources into wealth.

The success of the East Asian Tigers and Western states, in attaining prosperity has revealed the power of outward oriented policies in enhancing growth. In particular, openness to world trade and to financial flows has proved to be a viable vehicle for prosperity, since it induces economies to specialize in areas of their comparative advantage and to attract needed capital and inputs[37]. Regional integration projects are also looked upon as a supportive means

[36] The World Bank, "Poverty in West Bank and Gaza", 2000.

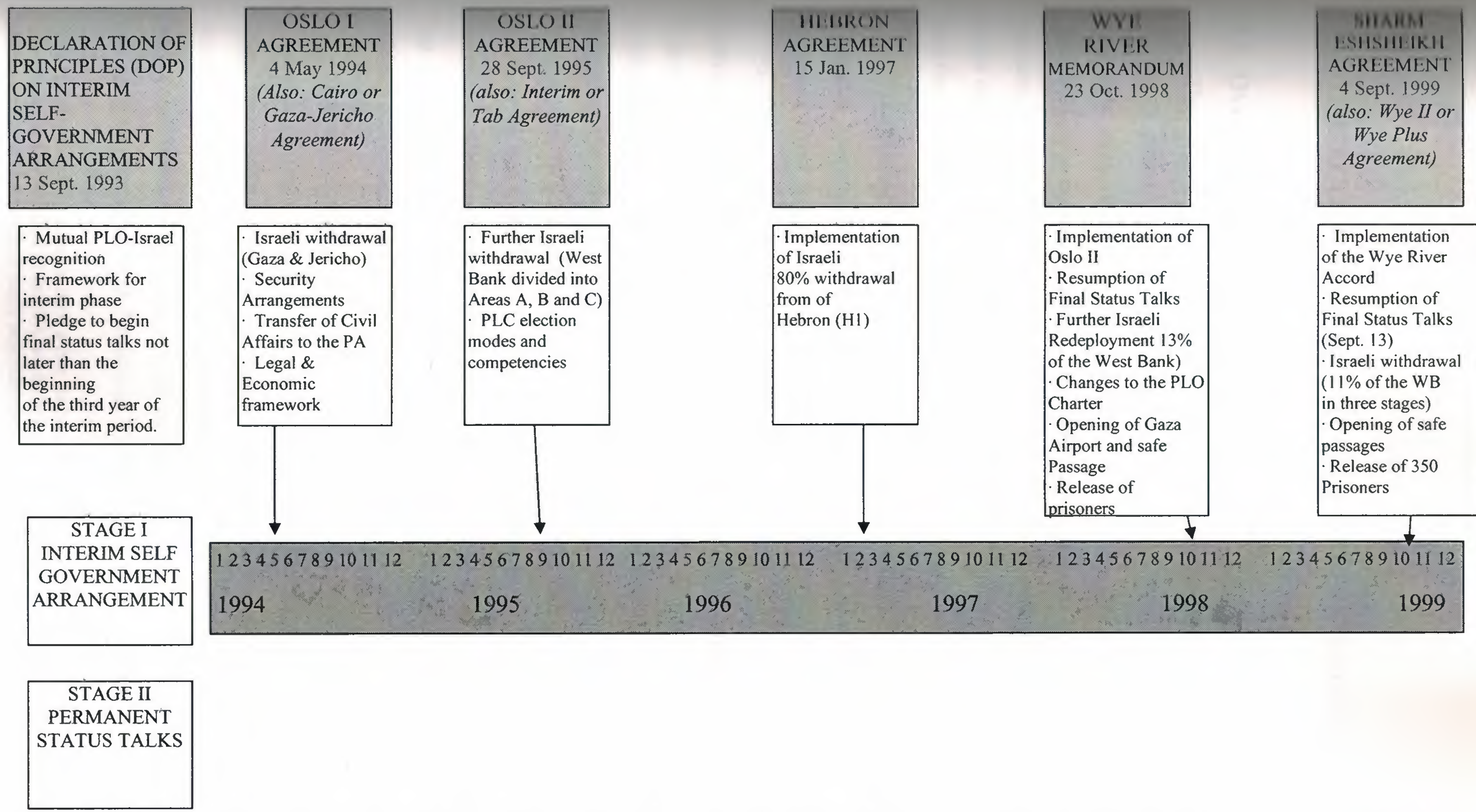
[37] Oman, C., "Globalization and Regionalization: The challenge for developing countries", Paris, 1994.

for integrating into the world economy and for sustaining growth. In the Palestinian context, it is difficult to talk about economic viability or the means to achieve it due to the absence of a workable definition of what is a Palestinian economy. While it is generally agreed that the Palestinian economy covers the West Bank and the Gaza Strip, the territories and borders delineating these areas are not well defined. In addition, the Palestinian Economy has been subjected to a number of handicaps:

Disintegration, under the absence of any territorial link between the WB/GS territories: Are the West Bank and the Gaza Strip really one and the same economy? **Settlements,** while over 200 Israeli settlements are entrenched in different parts of the West Bank and Gaza Strip, is it possible to talk about the economy of Palestine? **Confiscated Land**, while the Israel Occupation confiscating more and more from the Palestinian land under the pretext of security, bypass roads and natural growth for settlements, is it possible to talk about economic integrity? **Jerusalem**, can there be growth and prosperity in Palestine while Jerusalem -which is the physical and economic link between the North and the South of the West Bank is not included? **Trade;** can trade be a vehicle for Palestinian growth before borders are clearly defined with Israel, Jordan and Egypt, as well as with the rest of the world? Can regional integration be a motor for growth while Palestinian territorial sovereignty is not clearly demarcated? **Water**, is it possible to talk about useful utilization for Palestinian natural resources, while Israel controls and overrules about 73 percent of Palestinian water resources?

1.6. Summary

It is clear that, the Palestinian economy is operating substantially below its potential, this situation due a mainly to more than 27 years of direct military occupation, which subject the WBGS economy to a severe fiscal and financial repression, and inhospitable environment featuring infrastructure gap (roads, ports, ...etc), weak public services, absolute institutional frame works, as well as weakened its industrial and agriculture base. Therefore, the Palestinian economy characterized by limited size, a large macro economic imbalance and high and available unemployment rates. So this situation led to many economic and social troubles, for instance, the Palestinian economy is increasingly less able to generate and sustain enough jobs and incomes for its people, as well as the standard of living has continued to fall in the midst of massive unemployment and rising poverty.



OVER ALL FRAMEWORK FOR THE INTERIM PERIOD AND PALESTINIAN SELF-GOVERNMENT

CHAPTER 2

THE ECONOMIC PROTOCOL AND ECONOMIC VIALABILITY

2.1. Overview

The Protocol on Economic Relations between the Government of the State of Israel and the P.L.O. (Paris Protocol) was signed on April 29, 1994, which is the document governing economic relations between Israel and the West Bank and Gaza Strip (WBGS).The Paris Protocol is the economic wing of the political agreements of so-called Middle East peace process, which was initiated in Oslo on 1993. It pertained to the five-year interim period that came to an end on May 4, 1999, and then a move to "final status". This has not yet happened and the situation now is one of a de facto extension of the interim period.

This discussion will spotlight the success and failures of the protocol with respect to economic viability, with reference to four main economic blocks that are *labour issues, trade relations, fiscal issues and monetary arrangements.* In the preamble, it declares that its aim is to "lay the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plans and priorities". The *means* to attain this aim is through two main measures: the establishment of a Palestinian National Authority in the WBGS, which is responsible for managing the economy, and the establishment of a peculiar form of custom union (CU) between the WBGS and Israel[1]. The domain of the Palestinian national authority (PA), however, is not to be territorial but functional. This means that it could run the civil and economic affairs of 93% of the Palestinians living in WBGS (excluding East Jerusalem) but has no sovereign control over land and resources, which is, of course, the core issue to achieve economic viability for a Palestinian state.

Recent economic performance reveals that the operation of fundamental political processes continues to govern the development Palestinian economy in the West Bank and Gaza Strip (WBGS), namely economic transactions are often determined by political or security considerations. The establishment of the Palestinian Authority (PA) generated widespread hopes and expectations for economic recovery within a context of peace, stability and economic integration of Palestinian Territory (WBGS). While important steps have been

[1]The Palestinian team wanted to have a free trade agreement rather than a custom union agreement. However Israel rejected their demand as an FTA would have led to a de facto recognition of borders; an issue which both parties agreed to settle in final status negotiations.

taken in that direction, political uncertainty and uncertainty about future in the period since 1993 have reinforced a declining trend in Palestinian Economy to attain the Economic Viability.

2.2. The Pre-Protocol Situation

The Israeli Occupation of the Palestinian Territories in 1967 severed all links with Egypt and Jordan and Brought annexation with the Israeli economy. As a part of its strategy to annex the Palestinian Territories and incorporate the Palestinian People in its society, Israel opened the door to Palestinian workers who look for jobs in construction, agriculture and other labor intensive activities, which was mainly because of the economic benefits of Israel.

In addition to free access to the Israeli labor market, Palestinians had access to the oil rich economies of the Gulf. During the economic expansion in the Gulf States in the 1970s, many Palestinians were sending back large amounts of money. As a result, between 1969 and 1980 per capita GNP in the Palestinian territories grew at an astonishing 9.7% per year (per capita GDP grew at 7.1%). Between 1981 and 1992 Palestinian GNP growth collapsed to 1.9% per year (and per capita GDP growth to 1.5%)[2]. On the other hand, the onset of the *Intifada* in 1987 brought more political uncertainties and strikes of economic activity. Coupled with this, the outbreak of the Gulf War in 1991 made the Palestinians unwelcome in the Gulf. Under pretext of security, Israel imposed its own restrictions on Palestinian labour, through permit policies and unpredictable border closures. Consequently, Palestinians had access to two rich labour markets, in Israel and the Gulf; they were left with neither, no source of outside funds and no domestic employment[3].

The trade relations between Israel and the West Bank and Gaza Strip were and still are under the Israeli control. There was no customs border between Israel and the WBGS. Exports from Israel to the WBGS were in principle completely free (though there was a voluntary boycott of Israeli goods during the Intifada), but Palestinian Exports to Israel from the WBGS were subject to restrictions. Agricultural and industrial Exports were partially restricted, while officially unrestricted, were limited by standards requirements and by bureaucratic limitations placed on the development of industry in the WBGS[4]. Still, the WBGS did not have access to foreign markets except through Israeli controlled borders.

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[2] Pissarides, Christopher, "Evaluating the Paris Protocol: Lessons learned and Future prospects", 1999.
[3] United Nation Conference on Trade and development, "The Palestinian Economy and prospects For Regional cooperation", Geneva, 1998.
[4] MAS- Palestine Economic Policy Research Institute, " Economic Monitor Issue No. 8", 2001

2.3. The Paris Protocol: Hopes and Disillusions

Among the various accords, the Paris Protocol, signed in April 1994 after six-month-long negotiations, established the new rules governing economic relations between Israel and the Palestinian territories. As stated in its Preamble, the "spirit" of the Paris Protocol was to "view the economic domain as one of the cornerstone in the mutual relations" between the two parties "with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace". The Protocol was "to lay the ground for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plan and priorities". Along with, the two parties were to "cooperate to establish a sound economic base for their relations, who will be governed in various economic spheres by the principles of mutual respect of each other's economic interests, reciprocity, equity and fairness". As well as, the two parties were "recognizing each other's economic ties with other markets and the need to create a better economic environment for their peoples and individuals"[5].

In effect, the Protocol reflects the political situation, the peace process was in its early stages, and negotiations were clearly between two parties of unequal standing. The wording of the agreement, and some resulting ambiguities, were the result of an attempt to compromise between the Palestinian and Israeli positions. On the other hand, the general aim is to pinpoint the areas in which the Protocol presents a radical departure away from the economic environment prevailing until 1994 and the areas in which it still retains the restrictive elements of that environment[6].

However, the tow parties (Palestinians and Israelis) had very opposite views on their political future and, to a less extent, on their specific economic interests. On the political side, the views were particularly contrasted. *The Palestinians wished to* attain maximum symbols of sovereignty, *namely, they wished to see the entity envisaged by the Declaration of Principles as the precursor of a future sovereign Palestinian state and the interim period as inevitably leading to it,* Israel objected to granting the Palestinians rights which implied political sovereignty[7]. On the economic side, the contrast between the objectives was less striking, although the Palestinian side being much smaller, much poorer and much less developed, , the

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[5] The Protocol on Economic Relations, "preamble".
[6] United Nations Conference on Trade and development (1996), "Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development".
[7] Kleiman, Eph., "The Economic Provisions of the Agreement between Israel and the PLO", in the Israel Law Review, 1994.

Palestinians had an evident interest in retaining and even broadening their access to Israeli markets, both the goods market and the labor market. At the same time, they were eager to strengthen their relations with the neighboring countries.

Moreover, on the trade side the Palestinians expected the Protocol to have two important trade effects; the elimination of the prevalent impediments of exports to Israel would be a major stimulus to the exports, particularly of agricultural products, and the Free Trade Area type (FTA) additions would lead to considerable trade diversion. Meanwhile, Israel wanted to secure its import policy and therefore was keen to avoid open or porous external borders in the Territories that could provide a tax- and regulation-free import channel[8].

Essentially, the Protocol replaced what was in effect a one sided custom union (CU) with a more bilateral one. The Economic Protocol binds the WBGS in a custom union with Israel, which give the Palestinian National Authority some Limited means to achieve viable economic environment for its entity. The Custom Union with Israel allows for the free movement of capital and goods except for a list of agricultural goods to be phased out by the year 1998[9]. Free movements of labor flows between the two economies are not guaranteed, but the economy of the West Bank and the Gaza Strip is allowed to trade directly with Arab and foreign countries for a limited list of goods. Moreover, the CU gives the Palestinians the right to decide on their economic priorities, to determine the nature of their employment, industrial and agricultural policies, as well as to impose tax and to invest in areas under its control. It also gives the Palestinians limited leeway in monetary and trade policy. However, Palestinian trade remains bound by Israel trade policy. Israeli tax rates, both direct and indirect, also remain the governing guidelines, as are Israeli standards and import regulations[10].

2.4. Disillusionment with the Protocol (Disillusion after Hope)

The Economic protocol however did not give the PA all the necessary means to achieve economic growth, however the Palestinians were expect, the new economic environment under the Protocol will enable them to return to pre-1987 intifada growth rates. But the years following the signing of the Paris Protocol reveal exiguous economic growth in the WBGS and trade has not developed in the way expected. The Numbers and Estimates which calculated by

[8] Pissarides, Christopher, "Evaluating the Paris Protocol: Lessons learned and Future prospects", 1999.

[9] The major exceptions of agricultural goods were five exports (eggs, poultry, potatoes, cucumbers and tomatoes).

[10] United Nation Conference on Trade and development, "The Palestinian Economy: Achievement of the Interim Period and Tasks for Future", 2001.

the Palestinian Central Bureau of Statistics (PCBS) and Israeli Central Bureau of Statistics (ICBS) indicate that the period after 1994 witnessed fluctuation in the performance of Palestinian Economy. According to IMF estimates, the overall GDP growth over 1994-98 has reached a disappointing average of 2.8 percent. The yearly profile of economic performance has largely followed the cycle of closures. An initially better performance in domestic output in 1993-94 (+ 3.8%) was led by a surge in private and public investment (+37%) as well as in exports of goods and services (+39.8%), while private consumption was stagnating. In the following years, the Palestinian economy has witnessed a sluggish GDP growth (+2.1%). Investment, notably private, has strongly declined over 1996-98 (-6.9%), fortunately relayed by a strong increase in public consumption (6.9%). Growth in export of goods and services has then slackened, together with growth in imports of goods and services after the 1995 boom[11]. These recent trends in exports and private investment are particularly worrying since they are key to future overall growth, income and external balance prospects.

Table (2): West Bank and Gaza Strip Macroeconomic Performance (1994 to 1998)

Growth Rates in %	1994-98	1994-95	1996- 98
(1986 constant prices)			
Gross Domestic Product (GDP)	2.8	3.8	2.1
Imports of goods and services	12.2	16.9	9.1
Exports of goods and services	19.5	39.8	7.6
Consumption	6.1	1.0	9.6
Private	3.2	-2.1	6.9
Public	19.2	18.1	19.9
Gross Fixed Investment	8.7	37.1	-6.9
Private	5.4	35.1	-10.6
Public	13.2	28.4	4.1
Net factor income	0.3	-9.3	7.3
Gross National Income (GNI)	2.4	1.5	2.9
Net transfers in % of GNI per. Average	14.4	15.7	13.6
Gross Disposable Income (GDI)	1.9	2.3	1.6

Source: Kessler, V. (1999)"Palestine's External Trade performance under the Paris Protocol: Hopes and Disillusions

[11] Kessler, V. "Palestine's External Trade Performance under the Paris Protocol: Hopes and Disillusions", 1999.

The PCBS estimate of total exports in 1997 and 1998 where in the vicinity of $450 million. While exports in general, and to Israel in particular, increased compared to the low rate of 1993, the expected significant surge did not take place[12]. However, Israel is the main market for Palestinian exports and imports, while the Palestinian exports to Israel from 1994 to 1998 ranged between 84 percent and 94 percent respectively, did not exceed 13 percent to Arab countries and 4 percent to rest of world. Also imports from Israel ranged between 87 percent and 81 percent from 1994 to 1998 respectively, while it not exceeded 15 percent from the rest of world[13]. But an important thing is the exports represented approximately 9 percent of GDP among 1994 to 1998, while the imports represented 51 percent of GDP at the same years[14]. Thus, this mean there is trade deficit of Palestinian economy. Clearly, the hoped for trade diversion did not take place, neither in exports nor in imports.

On the other hand, the Protocol does not address natural resources at all. It was agreed that there will be no change in sovereignty over land and settlements in the transnational period. This situation affected negative by the viability of economic sectors and composition of WBGS exports. For instance, agricultural production was clearly affected by limited water supplies, which largely remained subject to Israeli control. Citrus exports, in earlier years the major export of Gaza, declined due to salinity of the soil. Industrial exports, though relatively large, remained small absolutely. So this reflects deteriorated condition in the agricultural sector. However, the commodity composition of WBGS exports in 1998 consisted of some 64 percent manufactured goods and only 20 percent agricultural products[15].

2.5. The Protocol: The Main Economic Blocks

The establishment of PA attracted more attention for many issues which consider the main economic blocks in the Palestinian economy. Labor issues, trade relations, fiscal issues and monetary arrangements are the most important elements in the economic relations between WBGS and Israel. They play a major role in achieving economic growth and attaining economic viability. However, the evaluation of these economic blocks began with signing of the Paris Protocol.

Notwithstanding the terms of the Israel-Palestine accords that give the PA the right for exercising its functions and of economic decision-making in accordance with its own

[12] Halevi, N., "Trade and the Paris Protocol", 1999.
[13] United Nation Conference on Trade and development, "The Palestinian Economy: Achievement of the Interim Period and Tasks for Future", 2001.
[14] Ibid
[15] Halevi, N., "Trade and the Paris Protocol", 1999.

development plans and priorities, the economy remains largely influenced by external political and economic imperatives. The chief characteristics of that imperative has been demonstrated most notably by the increased restrictions and constraints on movement of goods and people imposed since 1994, the use of natural resources, production orientation, mobilization and allocation of financial resources, and composition and direction of trade activities.

2.5.1 Trade Relations

In the period 1967 to 1994 Palestinian trade policy was completely determined by the Israeli trade policy. All tariffs, other levies, requirements of standards etc. applied to imports from third parties adopted by Israel were automatically in effect for the West Bank and Gaza Strip too. Since 1994, the guiding principles for the West Bank and Gaza trade policy have been defined in the *Protocol on Economic Relations between Israel* and *the PLO,* signed in Paris on April 29 1994. The Palestinian trade sector currently depicts a weak and deteriorating situation. The pattern of trade has been greatly skewed toward one market, and merchandise trade suffers from a large and increasing deficit, which results from the long-term trends of declining exports and unconstrained imports. Naturally, these two trends in exports and imports have resulted in a substantial and increasing trade deficit, which reached about 40[16] percent and 60[17] percent of GDP in 1993 and 1998 respectively. The bulk of the deficit has been with Israel, reflecting its growing relative significance as an export market and predominant role as a source of imports.

As backbone of the Palestinian economy, the trade sector has been tasks in the transition period and beyond. The task of revitalizing the trade sector involves policies to increase the capacity for production, and re-establish entry into neighboring markets and access to new ones. The trade relationship between Israel and the Palestinian economy remains, generally maintained by the interim period economic accords, so these tasks cannot be completed during the interim period which is insufficient to affect such a profound and comprehensive transformation of production and trade structures. Furthermore, the economic policy environment of the interim period limits the possibilities for bringing about complimentary changes which are a prerequisite for successful transformation. According to a number of studies, the poor trade performance of the Palestinian economy since 1993 is primarily the result of an imperfect implementation of the Paris Protocol, caused mainly by restrictions on

[16] United Nations Conference on Trade and development (1996)," Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development".
[17] World Bank (2001), "Trade Options for the Palestinian Economy, some Orders of Magnitude".

movement of goods and people at borders and within West Bank and Gaza as a result of security measures implemented by Israel[18] or may be understood as an interplay between restrictions on production and barriers to trade existed by Israel.

Furthermore, the protocol does not give the Palestinian Authority full control over natural resources. Restricted use of land and water will continue to hamper the regaining of full capacity utilization. Therefore, the protocol has been negative impacts on Palestinian trade performance, along with the PA which could not begin its tasks to improving economic conditions. Negotiating trade agreements with neighboring countries is also not free of obstacles. Nevertheless, the Protocol does have some positive elements that allow Palestinian trade to become more vibrant, and allow the PA to reap some benefits. In the trade area, many new provisions were quite positive, especially when seen in the overall context of much larger autonomy of the Territories over their economic, financial and administrative organization and policy. Meanwhile, some important changes have been agreed and implemented in the trade policy environment since 1994, but the scope for developing Palestinian external trade remains hocked by political and security considerations. Exactly, this happened when the political situation changed with outbreak of Al-Aqsa Intifada, where PA achievements became in windward.

2.5.1.1 Trade Regime and Trade Issues

Before the signing of the Paris Protocol, trade between Israel and the Palestinian territories could be described as a one-way customs union. Israeli goods had free access to Palestinian markets but Palestinian agricultural goods had only limited access to Israeli markets. The Protocol on Economic Relations created a trade regime between areas under PA control and Israel that is something of a hybrid between a free trade area and a customs union. In view of political signing agreements and under Israeli inordinate desire of hegemony, the quasi-customs union was the only possible compromise among different trade regimes. If we refer to the past: What were indeed the trading arrangements alternatives? They were, in a decreasing order of economic integration and achieving trade viability: a common market, a customs union and a free trade agreement.

A common market was rejected, because both sides, neither the Palestinians nor Israel wanted a deeper integration[19]. To the Palestinian Authority, the best alternative was probably a free trade agreement, because it would have allowed her to pursue its own independent

[18] The World Bank, "Trade Options for the Palestinian Economy, some Orders of Magnitude, 2001.
[19] A common Market means that in addition to the customs union, member states allow labor and capital (as well as goods) to flow freely across borders (Coldstein, J., "International Relations" second edition, p 395).

import policy. But such agreements would have required borders between the Territories and Israel to check the origin of the goods passing the borders, and would have required an agreement on rules of origin to decide on which goods were incorporating enough "local" value added to be exempted from tariffs and regulations applying to imports from the rest of the world. An alternative could have been to implement notional borders. In the text of the Protocol, the articles defining the external trade regime of the "Areas" were quite central to the overall agreement. The main thrust was to pursue with the previously implicit customs union while getting rid of its major asymmetries and providing substantial customs revenues to the Palestinian Authority (PA).

2.5.1.2 Trade Arrangements: Difficulties and Constraints

Israeli goods have free access to Palestinian markets, but also Palestinian goods, with some minor and temporary exceptions and restrictions, have free access to Israeli markets. Article III of the Paris Protocol's provisions have been complex: For products on Lists A1 and A2 and in quantities agreed upon by the two sides. These goods (mostly food products and construction material) can be imported from Jordan and Egypt in particular, and from other Arab and Islamic countries in general, instead of Israel. However, while PA can exercise complete discretion over tariffs (customs duties, purchase taxes, levies, excises and other charge) on imports for limited quantities of commodities from specified sources identified in List A1 and List A2 and on imports with no restrictions on quantities in List B. Products not on lists A1, A2, or B, or those on lists A1 and A2 but exceeding the quotes, will be subjected to the minimum of Israeli tariffs.

For other products, such as fuel and automobiles, special import regime and standards are adopted. "The PA will determine its own rates of customs and purchase tax on motor vehicles imported as such, to be registered with the Palestinian Authority" (paragraph 11a). The PA is also allowed to import used passenger cars up to three-years-old, subject to approval by a joint Palestinian-Israel committee, and is free to determine the price of petrol derivatives, except gasoline, as long as the price derivatives does not exceed 15% of the consumer price in Israel[20].

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[20] United Nations Conference on Trade and development, "Palestinian Merchandise Trade in the 1990s: opportunities and Challenges", 1998.

Box 1: Trade Arrangements in the Paris Protocol

The Protocol has provided the Palestinian economy with a trade regime characterized by:

- free and unrestricted trade with Israel, except for temporary quotas for the access of five agricultural Palestinian products to the Israeli market (poultry, eggs, potatoes, cucumbers, tomatoes) while exports of Israeli melons to the Palestinian territories were symmetrically limited.
- the Israeli import policy for all goods imported from third parties and not specified in Lists A1, A2, and B (see below). This means that the Palestinian Authority (PA) has to employ the same regulations as Israel regarding classification, valuation and other import procedures, the same policies of import licensing and standards requirements, and has to use the Israeli rates of customs duties, purchase tax, levies, excises and other charges as a minimum basis for these imports.

However, the PA has some power over the import policy for certain goods and certain origins. Exceptions fall into four categories:

a) the PA can exercise complete discretion over tariffs (customs duties, purchase taxes, levies and excises), and over conditions of importation (licensing, procedures and standards requirements) for certain goods of certain origin, but in limited quantities (list A1[21] and A2[22]). To avoid large-scale smuggling to the Israeli markets, the quantities are limited to the Palestinian market needs estimated by a joint sub-committee of experts, agreed upon by the two sides, and reviewed and updated very six months.

b) the PA can exercise some discretion over tariff rates for certain goods crucial to the Palestinian development program, in unrestricted quantities (list B[23]). Note that if the PA was to decide to lower tariffs on these items, Israel would have no other choice but to follow suit.

c) the PA can determine its own rate of customs and purchase tax on motor vehicles to be registered with the PA. Israeli standards will however apply. Imports of used passengers cars (forbidden in Israel) are allowed in the P. Territories, provided they are no more three years and comply with the standards;

d) The PA can freely import petroleum products provided they meet the Jordanian standards and in quantities according to markets needs. However, to avoid smuggling into Israel, gasoline will have to be marked in a distinctive color, and its final price will not be lower than 15% of the official final consumer price in Israel.

The other prominent features of the trade-related articles pertain to the issuance of import licenses, to potential changes in standards requirements, to the role of the JEC, to the entry/exit points and responsibility over customs procedures, and to the clearance of revenue from customs. It is worth noting that:

- Each side can issue import licenses to its own importers;
- Israel may change any aspect of its import policy, provided that changes in standards requirements do not constitute a non-tariff barrier;
- in the entry points of the Jordan River and the Gaza Strip, the PA has full responsibility and powers in the customs points for freight (in the presence of Israeli customs officials who are entitled to ask for inspection), and full administration of their own passengers customs procedures (with the invisible presence of Israeli customs officials entitled to request inspection).

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[21] The list A1 initially consisted of 29 tariff items of goods locally produced in Arab countries, with 2/5 of them restricted even further by having to have been produced in Egypt or in Jordan.

[22] The list A2 initially consisted of 18 tariff items which could be imported from all Arab, Islamic, and other countries without having necessarily been produced there.

[23] List B consist mainly of machinery, equipment, tools, and some semi-processed pharmaceuticals and raw materials for the wood industry.

All goods imported from third parties and not specified in Lists A1, A2, and B will subject to the Israeli imports policy. This means that the Palestinian Authority (PA) has to employ the same regulations as Israel regarding classification, valuation and other import procedures, the same policies of import licensing and standards requirements, and has to use the Israeli rates of customs duties, purchase tax, levies, excises and other charges as a minimum basis for these imports and this means also that the valuation of all PA imports is based on the General Agreement on Tariffs and Trade (GATT) 1994 agreement, while classification of goods for customs purposes is in line with the principles of the Harmonized Commodity Description and Coding System (HS)[24]. However, these trade arrangements present obstacles to negotiating suitable trade arrangements between the Palestinian economy and its other neighbors.

2.5.1.3 Trade Arrangements: Failure by Limitations

Since 1994, the Protocol has been the subject of growing analysis and debate, from different conceptual and policy viewpoints. Many of these examinations have highlighted some of the major omissions or shortcomings of the Protocol, aspects which are considered to diminish the trade viability for Palestinian economy. The Protocol aimed to confer upon the Palestinian economy significant benefits, in respect of viability for the trade sector, as addressed in the Preamble and relevant articles, namely: Strengthening the base of the Palestinian economy and the PA's independent and institutional economic decision-making processes, in accordance with its own development plan and priorities; facilitating regional trade diversification by establishing direct economic links with Arab countries, particularly Jordan and Egypt; Opening up the Israeli market to Palestinian agricultural and manufactured products by allowing goods to move freely, not subject to customs duties, taxes or quotas. Allowing the PA to receive tax revenues for goods imported by the West Bank/Gaza Strip via Israeli channels, and establishes its own import policy and tariff structure for certain products.

According to many studies which were accomplished by UN Conference on Development and Trade, World Bank and other research institutes reveal that economic developments hampered by the protocol limitations. These limitations resulted from omissions and shortcomings in the Protocol which have effects on trade activities, some of key limitations are:

[24] United Nations Conference on Trade and development, "Palestinian Merchandise Trade in the 1990s: opportunities and Challenges", 1998.

- **Limitations by "market needs"**, the quantitative restrictions placed on Palestinian imports, which limit the latter to amounts that are expected to be sold within the Palestinian economy according to "market needs". Imports from Arab Countries are limited by "market needs" as determined by the Joint Economic Committee established under the Protocol. However, there are no reliable data for making accurate estimates of "market needs", limiting imports to the West Bank and Gaza Strip by this measure is seen as interference in the operation of market mechanisms. Disagreement can arise over actual market needs if imports from alternative sources begin to replace imports from Israel; conversely, these quantitative limits can act as effective incentives to monopolistic or price distorting practices by Palestinian importers with favored links with Jordanian or Egyptian markets[25].

- **Limitations for accessibility,** Barriers to trade are one of the most important factors which restricted accessibility to foreign Markets. Loss of accessibility to foreign markets reduces the demand for Palestinian goods, and reduces both production and efficiency. The limitations by protectionist quotas on the import of Palestinian agriculture products in neighboring markets, lifting them only when there are severe shortages that can be met by allowing imports beyond specified quotas[26].Barriers like these have resulted in the loss of profitability for Palestinian farmers, and brought a decline in their investment and production.

- **Facilitating fiscal leakage**: the "re-export" clause (paragraph 15) should ensure that the PA will receive customs revenues on goods sold in the West Bank/Gaza Strip by Israelis that are not of Israeli origin, but are imported from outside Israel with little or no transformation in their value taking place in Israel[27]. In theory, customs revenues generated from these goods should accrue to the PA since they are classified as non-Israeli or Israeli re-exports, but Israel does not receipt PA by that. However, the PA's inability to adequately monitor imports from Israel has resulted in a fiscal leakage between $166 million and $275 million a year during the period from 1994 to 1996[28].

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[25] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998) (UNCTAD/GDS/SEU/1).
[26] El-Jafari, Mahmoud, "Non-tariff barriers: the case of the West Bank and Gaza Strip agriculture exports", Journal of world trade, vol. 25. No. 3, June 1991.
[27] Paris Protocol,, Article III Paragraph 15.
[28] Muna Jawhary, "The Palestinian-Israeli trade agreements: searching for fair revenue sharing" Ramalla, Palestine Economic Policy Research Institute, (MAS), December 1995.

* **Limitations on subsidies:** The Protocol does not address the wide range of subsidies and other non-tariff barriers that benefit some Israeli sectors and products leaving Palestinian industry and agriculture at a disadvantage. Although support measures are gradually being phased out as Israeli trade is liberalized, they continue to operate in some areas with a bearing on the Palestinian similar productive branches[29].

* **Limitations on movement:** While the Protocol calls for free movement of goods between Israel and Palestinian self-rule areas, such movement is subject to the "security measures", thereby constraining the quantities of Palestinian goods exported to Israel, interrupting the smooth flow of imports and of course preventing Palestinian labor flows to Israel[30].

As noted above, the Protocol on economic relations between PLO and Israel creates many limitations which reduced trade viability for the Palestinian economy. The economic base of WBGS still weak, characterized by imbalance, weak infrastructure and poor performance of trade sector. However, negotiating trade agreements with neighboring countries is not free of limitations and obstacles; it is limited by "market needs" as determined by joint economic committee established under the Protocol. And also the trade arrangement, presents obstacles to negotiating suitable trade arrangements between the Palestinian economy and its Arab neighbors, prevents PA to give duty-free treatment to imports from the most countries, except Jordan and Egypt, and restricted accessibility to foreign markets. On the other hand, the protocol subjected movements of goods to "security measures" and failing to capture all the trade tax on goods imported from outside. Along with the Article III Paragraph 15 facilitates fiscal leakage though the PA's inability to adequately monitor imports from Israel. However, the trade arrangement of Protocol works on opposite direction to re-integrate the Palestinian economy with its neighbors.

2.5.2 Labor Issues

For decades, the West Bank and Gaza Strip have been subjected to difficult circumstances. Both the 1948 and 1967 wars led to demographic changes that in turn changed supply and demand conditions in the labor market of the territories. Following the 1967 Six-Day War, dependence on employment in Israel and elsewhere has become the main feature of

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[29] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998).
[30] Paris Protocol, Annex 1, Articles IX and X.

the Palestinian economy[31]. In the last 20 years, outside employment has contributed substantially to the West Bank and Gaza Strip (WBGS) GNP, and played a key role in the Palestinian economy's integration with Israel. Palestinian employment in Israel grew very rapidly after the borders opened in 1968 to between 30 and 35 per cent of the Palestinian work force. Employment in Israel was particularly important for the poorer and less educated sections of the population, predominantly male from rural areas and refugee camps. Since 1993, because of Israeli restrictions, the predominant group has been over 25, male and married. Before 1993, the Israeli labor market was the main destination of first time Palestinian job seekers[32].

In the eighties the Palestinian economy as a whole experienced growth due to that were not a consequence of sustained growth in domestic output. Rather, the payment for labor employed in Israel and emigrants transfers constituted the motor for economic growth of the Palestinian economy[33]. So, the Palestinian labor force constitutes one of the main bases for economic viability of Palestinian economy. The deterioration in the economic conditions of the Palestinian territory owing to the unstable political situation, the absence of a Palestinian planning authority and the restrictions imposed under occupation constrained the ability of the Palestinian economy to absorb its growing labor force, resulting in widespread unemployment. This process also resulted in a growing dependence of Palestinian labor on employment in Israel. With the initiation of peace process, the hope of the official actors in the peace era was that domestic job creation by an export-oriented private sector would expand domestic employment quickly, transforming the Palestinian economy from labor-exporting to commodity-exporting[34], but this hope disappeared when the close policy is implemented, Palestinians workers, business men, and merchandise can be delayed suddenly and for long derived at the borders.

On the local level, the demand for labor in the Palestinian territories fluctuated dramatically in response to economic upheavals and the close policy imposed by Israel. The performance and the role of agriculture sector have declined in peace era, in addition the share

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[31] Kleiman, Ephraim, "The Flow of Labor Services from the West Bank and Gaza to Israel". Working paper The Hebrew University, 1992

[32] Pissarides, Chr.,"Evaluating the Paris Protocol: Lessons Learned Future Prospects", 1999. {Evaluating the Paris Protocol : Economic Relations between Israel and Palestinian Territories, Chapter1 }

[33] United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"(January 1998) (UNCTAD/GDS/SEU/1).

[34] Diwan, I., And R. Shaban, "Development under Adversity: The Palestinian Economy in Transition": Summary, MAS-World Bank Joint Report, 1999.

of industrial labor fell in both the west bank and Gaza strip, but labor has risen in the construction sector[35]. However, the Palestinian labor force estimates about 683,000 in the second half of 1999, Palestinians worked in the Israel labor market estimated by 143,400 in 1999[36], (about 21 percent total Palestinian employment). PCBS surveys indicate that, approximately 20 percent of the labor force is unemployed during "normal periods". However, this rate suddenly jumps to 30 percent during border closures[37]. This means the Palestinian economic sectors was employing about 59 percent of total labor force in Palestinian territory. During the interim period, the Palestinian economy was suffering from chronic incapacity to create enough jobs to employ the labor force.

The size of the labor force in an economy is directly correlated to that of its population, which constitutes the main source of labor supply. Furthermore, the age structure of the population is an important indicator of growth in the labor force. However, the Palestinian society is characterized by high level of fertility, where the annual rate of population growth is estimated to have reached 5.4 percent in 2000[38], this means more numbers of labor force in labor market.

2.5.2.1 The Paris Protocol and Labor Issues

The protocol on economic relations sets out the framework for economic relations between the economies of Israel and the West Bank and Gaza Strip in the interim period pending final status negotiations. The question of the labor flows to Israel was central to the economic negotiations and therefore to successful implementation for the agreement. In its preamble the protocol used for-reaching and optimistic terms like cooperation of the parties in building a sound economic base, reciprocity, equity and fairness.... in addition to parties will recognize each other's need to create better economic environments for their people.

The protocol covers three central issues relating to the labor flows to Israel, these concern the access of workers to the Israeli labor market, the regulation of labor flows and the social security contributions made by legal workers employed in Israel. The access of workers is dealt within Article seven (labor) refer to labor mobility between the WBGS and Israel should be normal state of affairs, but it leaves a lot to the discretion of either side. It stipulates

[35] Makhool, Basim, "Analysis of Palestinian Labor Supply and Demand" 2000.
[36]Palestine Economic Policy Research Institute (MAS), " Economic Monitor Issue No. 7", 2000.
[37]Diwan, I., And R. Shaban, "Development under Adversity: The Palestinian Economy in Transition": Summary, MAS-World Bank Joint Report, 1999
[38] United Nations Conference on the Least Developed Countries (May 2001),"Information Note on the Economy of the Occupied Palestinian Territory (West Bank and Gaza Strip) Brussels, Belgium Prepared by the Palestine National Authority Ministry of Economy and Trade

that "Both sides will attempt to maintain the normality of movement of labor between them, subject to each side's right to determine from time to time the extent and conditions of the labor movement into its area. If the normal movement is suspended temporarily by either side, it will give the other side immediate notification...."[39] The protocol also gives the Palestinians the right to participate in the regulation of labor flows and to reclaim social contributions made by workers to the Palestinian economy.

The general spirit of the protocol is in the cooperation and mutual respect of each other's economic interest. But the Israel's security priorities became over the signed agreements. On the one hand, the key sentence with respect to labor movements was designed to emphasize the Palestinian's need to have access to Israeli labor market, but on the other, the protocol did not preclude closures and permits that restricting Palestinian employments in Israel. However, there was to be "normal" movement of labor, but the protocol left it to the discretion of the Israeli and Palestinian authorities as to when and how many Palestinians are admitted.

2.5.2.2 The Implementation of Labor - Related Articles in the Protocol.

The Israeli labor market has been a central employment outlet for more than one third of the WBGS labor force since the 1970s. It has been a major fact linking Palestinian economy to that of Israel[40]. In practice, the labor – related articles have only partially been implemented. This is largely because security priorities, as defined unilaterally by Israel, were given precedence over all economic priorities. The normality of labor movements has been maintained only in so far as Israel determined that it was desirable politically and compatible with security. Israel policies of closures and permits halted the access of Palestinian workers to Israel. Between 1994 and 1998 there were more than 400 days of closure[41]. According to the protocol, the wages equalization deductions levied by Israel will be transferred to the Palestinian authorities and used for social benefits and health services of Palestinians employed in Israel and their families. But, pension and national insurance deductions are still being held by Israel[42].

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[39] The Protocol on Economic Relations, Article 7.

[40] United Nations Conference on Trade and Development, "Review of labor and Employment Trends in the West Bank and Gaza Strip" 1995.

[41] Pissarides, Christopher "Evaluating the Paris Protocol: Lessons learned and Future prospects" 1999.

[42] De Motiloa, E. Garcia, "Pressing Issues of the Palestinian Labor Force" 1999.

2.5.3 Fiscal Issues

The **fiscal issues** are of a more urgent in nature because they have a strong and direct bearing on development and viability of Palestinian economy. During the direct occupation, from 1967 to 1994, Israel used ***the principle of origin*** for allocating import and other indirect taxes[43]. According to a quasi customs union that established by the Israeli - PLO accord of 1994 on economic relations, the tax distribution principle was reversed from the origin principle to the **principle of destination**[44]. This means, Taxes are paid to the authority that has jurisdiction over the territories where final consumption takes place. Thus, the PA has the right to receive the international tax collected in Israel on behalf of WBGS. There are two types of fiscal transfers from the Israeli authorities to the Palestinian Authority. The first includes general fiscal revenue arising from income tax deductions of Palestinian workers in Israel, Value Added Tax (VAT), and excise (purchase) tax and import duties. The second pertains to the social security contributions of Palestinian workers in Israel[45].

For sustain economic viability, revenues from general fiscal revenue and the social security contributions of Palestinian workers in Israel constitute large proportion from fiscal transfers from Israel to PA. In 1995-98, fiscal transfers from Israel to the PA averaged about 60 percent of all fiscal revenues of 1998[46]; such transfers amounted to US$500 million, or 60% of total revenue of the WBGS budget and 15% of the Palestinian GDP[47].

2.5.3.1 The Paris Protocol and Fiscal Issues

The Protocol addressed itself to the harmonization of tax rates and the clearance of tax revenues and also the question of revenue sharing. The Protocol allows the PA to set up its own domestic tax system (income tax, property tax, municipal tax and fees[48]. There are three types of transfers, in addition to the ones related to social security contributions.

I. Regarding income tax, the Israeli tax authorities are required by the agreements of the Paris Protocol to transfer to the Palestinian Authority 75 per cent of all income tax collected from Palestinian workers in Israel, and the full amount for the Palestinians employed in the settlements[49].

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43 El-Jafari, Mahmoud, "Non-tariff barriers: the case of the West Bank and Gaza Strip agriculture exports
44 Dumas, Jean-Pierre. " Fiscal leakage in the West Bank and Gaza Strip" 1999
45 Pissarides, Christopher "Evaluating the Paris Protocol: Lessons learned and Future prospects" 1999.
46 Ibid
47 Dumas, Jean-Pierre. " Fiscal leakage in the West Bank and Gaza Strip" 1999.
48 Paris Protocol on Economic Relations, appendix 2, V, 1.
49 Paris Protocol on Economic Relations, appendix 2, VI, 1.

II. In the case of VAT, According to the Paris protocol, the VAT rate in WBGS may be two percent lower than the Israeli one. As a matter of fact, this flexibility has not been used by the Palestinian side, and the same rate applies as in Israel (17%)[50]. VAT is paid according to the place of final consumption. So, any VAT on goods and services consumed in the Palestinian territories and paid to the Israeli authorities in earlier stages in the production and distribution chain has to be transferred by the Israeli authorities to the Palestinian Authority. As well as, in the case of purchase tax which was not mentioned in the Paris Protocol but added later, also is transferred from the Israeli authorities to the Palestinian Authority[51].

III. The clearance of revenues from all import taxes and levies, between Israel and the Palestinian Authority, will be based on the principle of final destination[52]. Namely, the principle of tax clearance is the place of final consumption of the goods. Duties collected on goods imported in Israel but destined for the Palestinian territories should be transferred in their entirety from the Israeli Treasury to the Palestinian Treasury only if the final destination is explicitly mentioned (WBGS) in the import document. The problem is that an important amount of WBGS imports comes from Israel and therefore no tax transfer is made[53]. However, the Protocol required customs duties and excise taxes to be levied in the Palestinian territories at the same (identical) or, at least, at not lower rates than in Israel. The exception were the lists A1 & A2, which apply to a limited quantity of goods produced locally in Jordan, Egypt and other Arab countries, as well as motor vehicles, where registration requirements provide a *notional* border (as opposed to a physical one), at which tax differences can be collected.

Palestinian workers in Israel (but not in the settlements) are subject to the same social security deductions and their employers to the same taxes as Israeli workers, to avoid any competitive advantage that Palestinian workers may accrue from lower non-wage labor costs. But because Palestinian workers are non-resident in Israel and they are not entitled to the majority of social security benefits, the Paris Protocol stipulates that the revenue from contributions and taxes should be transferred to Palestinian institutions, who will then use it to finance the benefits to Palestinian workers in Palestinian territory. In 1997, worker

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[50] Ibid
[51] Paris Protocol on Economic Relations, appendix 2, VI, 6.
[52] Paris Protocol on Economic Relations, Article III, Paragraph 15.
[53] Dumas, Jean-Pierre. "Fiscal leakage in the West Bank and Gaza Strip" 1999.

contributions amounted to about 8.6 per cent of their wages and employer contributions to about 29 per cent[54].

2.5.3.2 Fiscal Leakage

According to the Paris Protocol, Taxes are paid to the authority that has jurisdiction over the territories where final consumption takes place, or will be based on the principle of final destination. But this principle doesn't work, because there is no official border between Israel and West Bank and less degree with Gaza Strip. As well as there are no statistics kept on goods that are imported for consumption in Israel but are subsequently sold to Palestinian Territories. Additionally, almost all points of entry to the WBGS are under the control of Israel, thus there is a problem in tax collection, for customs tax and domestic indirect tax such as excise (purchase tax)[55]. Tax revenues, according to this principle, belong to WBGS but collected by Israel at the point of entry, are transferred by the Israeli Treasury to the PA. Taxes are thus allocated according to the point of final consumption.

There is a *problem* when goods are *imported* first to Israel and then *re-exported* from Israel to WBGS (“**indirect imports**”). In this case, there is no tax transfer from Israel to WBGS. Since these indirect imports account for the biggest share of WBGS imports, the Palestinian Authority is losing potentially large amounts of revenue called "l*eakage*". Estimates for Fiscal Leakage are not possible because of the absence of real statistic on goods crossing from Israel to the Palestinian Territories. According to some methods calculating fiscal leakage, the total leakage in 1997 is estimated at US$112 million or 3% of WBGS GDP[56].

2.5.4 Monetary Arrangements

Restructuring the Palestinian economic sectors and reviving investments and trade flows depend on rejuvenating the monetary sector, which suffered severely during 27 years of Israeli direct occupation. The Palestinian economy has no national currency, after its occupation for WBGS of 1967; Israel introduced its currency Israeli Shekel and then NIS (New Israeli Shekel) for circulation instead of circulated currencies (Jordanian Dinar in WB and Egyptian Pound in GS) as legal tender in the Palestinian Territories. Three currencies circulate in WBGS, Egyptian Pound, Jordanian Dinar (JD) and US dollar as foreign currency. Because of the continued commercial contacts with Jordan, the JD has continued to enjoy

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[54] Pissarides, Christopher ,“Evaluating the Paris Protocol: Lessons learned and Future prospects” 1999.
[55] Dumas, Jean-Pierre. “Fiscal leakage in the West Bank and Gaza Strip” 1999.
[56] Ibid

wide circulation in the Palestinian territories[57]. On the other hand, the WBGS was subject to Israeli foreign exchange restrictions, which included a ban on foreign currency deposits at the WBGS banking system except for the Jordanian Dinar in the West Bank. When the Monetary Authority assumed responsibility over the banking system, it stopped enforcing the Israeli ban on foreign currency deposits. In the Post-Oslo period, West Bank and Gaza Strip had become a three-currency economy, with the NIS, Jordanian Dinar and US dollar circulating freely. The NIS remained the dominant currency for everyday transactions, while the US dollar and Jordanian Dinar became the dominant currencies for bank deposits or a repository for savings[58].

2.5.4.1 Monetary Arrangements during the Transition Period

The Israeli- PLO accord on economic relations (Paris Protocol) allowed for setting up a Palestinian Monetary Authority (PMA), which was given the traditional responsibilities of a central bank. Article IV, Item 4, states that the PMA will act as the sole financial agent (locally and internationally) to the Palestinian Authority, as well as being its financial advisor. It also holds and manages the foreign currency reserves of all public sector entities. Article IV, Item 5, of the Protocol states that the PMA should operate a discount window to advance loans to commercial banks, and act as a lender of last resort. Along with supervisor and controller of the financial system, the Protocol designating the PMA as a banker to both the Palestinian Authority and the commercial banks, the PMA is thus entrusted with the job of licensing all banks operating in the West Bank and Gaza Strip, holding their reserves, and regulating their operations with regard to solvency, liquidity, and stability[59]. But, because reserve ratios are one of the determinants of the quantity of money, the reserve requirements on NIS deposits were to remain under the supervision of the Bank of Israel[60]

The Paris Protocol did not grant the PMA the right to issue currency, because it considered a prerogative of sovereignty, and gave Israel an effective veto power against the issue of a Palestinian currency[61]. And also the protocol required the circulation of NIS in the WBGS as a legal tender.

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[57] Kleiman, E. "Evaluating the Fiscal and Monetary Arrangements of the Paris Protocol – a Counterfactual Analysis with Suggestions for the Future". 1999

[58] United Nation Conference on Trade and development (1998)."The Palestinian Economy and prospects For Regional cooperation", Geneva

[59] United Nations Conference on Trade and development (1996), Prospects for Sustained development of the Palestinian Economy: Strategies and Policies for Reconstruction and Development.

[60] Kleiman, E. "Evaluating the Fiscal and Monetary Arrangements of the Paris Protocol – a Counterfactual Analysis with Suggestions for the Future". 1999

[61] Ibid

2.5.4.2 The Reflections of the Absence of National Currency

The absence of a Palestinian currency deprives the Palestinian Monetary Authority of seigniorage revenue. During the period 1970-1987, the NIS seigniorage generated in the WBGS and was retained by the Bank of Israel averaged 1.6 percent to 4.2 percent of WBGS GNP. Using 1990 dollars, it ranges from $0.7 billion to $1.8 billion[62]. However, the Period 1994-1998, WBGS NIS seigniorage in this period averaged .31 percent to 1.68 percent of WBGS Gross National Income (GNI). Using 1998 dollars, it estimated at dollars, $247.8 million[63]. On the other hand, the existence of a dual currency standard has the potential for increasing the costs associated with fluctuations in exchange rates. In addition, a dual currency tends to reduce the ability of commercial banks to perform their function of transforming debt maturities, because of currency mismatching of assets and Liabilities.

This can discourage them from extending long-term loans, which are essential for investment and growth. Furthermore, the existence of a dual currency standard renders the Palestinian economy vulnerable to shocks originating both in Jordan and in Israel. A Jordanian monetary shock will be transmitted to the Palestinian economy through the capital account since there is almost free mobility of capital between the two economies and very little trade[64]. On the other hand, an Israeli monetary shock will affect the Palestinian current account, which is composed mainly of trade with Israel in both goods and labor services.

2.6. Summary

The wording of the Economic Protocol, and some resulting ambiguities, were the result of an attempt to compromise between the Palestinian and Israeli positions. The Palestinians were expect, the new economic environment under the Protocol will enable them to return to pre-1987 Intifada growth rates, but the Economic protocol did not give the PA all the necessary means to achieve economic growth. According to many studies which were accomplished by UN Conference on Development and Trade, World Bank and other research institutes reveal that economic developments are hampered by the protocol limitations.

In the Trade sector, Lists A1, A2 and B as well as the term of market needs created limitations that, in practice, constrained movement of goods and products. The agreement

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[62] Hamed, Osama and Shaban, Radwan, "One - Sided Customs and Monetary Union: the Case of the West bank and Gaza strip", 1993.

[63] Hamed, Osama, "Current Monetary Arrangements between Israel and the West Bank and Gaza Strip and Possible Alternatives", 1999.

[64] Hamed Osama, "Monetary Policy in the Absence of a National Currency and under a Currency Board". Ramallah, Palestine Economic Policy Research Institute (MAS).

facilitating fiscal leakage where there principles doesn't working, because there is no official border between Israel and West Bank and less degree with Gaza Strip. However, the agreement did not assure the continuation of Palestinian labour flow to Israeli market. Moreover, the agreement denied PA from issue its own national currency; this deprives the Palestinian Monetary Authority of seigniorage revenue. On the other hand, the existence of a dual currency standard has the potential for increasing the costs associated with fluctuations in exchange rates, as well as renders the Palestinian economy vulnerable to shocks originating both in Jordan and in Israel. The economic protocol sought to lay down a mechanism that could allow for economic viability in the West Bank and the Gaza Strip, but this mechanism hampered by the protocol limitations.

CHAPTER 3

WATER PROBLEM IN WBGS AND ITS REPERCUSSIONS ON ECONOMIC VIABILITY

3.1. Overview

Water is the most basic source for human existence. It is vital for human life itself and for human activities in general. Water is an issue that has been widely debated about both for its importance in potential development and for its bringing about conflict. Throughout the Middle East, the natural fact of water supply and the socio-political fact for water control, consumption and demand interplay to form complex hydro-political boundaries of the Middle East, therefore, it is a highly politicized issue in the Middle East conflict, with the Palestinian-Israeli conflict at its core. To date, all negotiation attempts on the reallocation of the water supply have failed because they were not based on the right of the equitable and reasonable utilization principle. Water resources are an important material aspect of the question of Palestine and relevant to any lasting peaceful solution to the Palestinian – Israeli conflict.

The key question that this chapter will seek to address is whether the West Bank and Gaza strip is an economically viable entity and whether it can survive without full sovereign control over own water resources. Water is a precious resource not only for economic growth but for survival. So, water has been of significant importance for development and reconstruction. Economic sectors are affecting by a scarce and sufficient supply of water, agriculture sector is very sensitive for the scarcity and abundance of water, and it is the engine of growth in the Palestinian economy. It does mean, however, that improvements in agriculture are a prerequisite for the proper functioning of that engine, which is the combination of manufacturing and service sectors. Although, water is naturally a scarce resource nonetheless, water crisis is not chiefly one of insufficient supply, but of uneven and inequitable distribution. While water is stringy resource in West Bank, it is very scarce resource in Gaza strip. Briefly, the chapter will focus on current water situation in WBGS as an engine of economic growth and as a viable resource for development and reconstruction of Palestinian economy.

3.2. Control of the Water Resources

Attempts to control the water resources started with the beginning of the twentieth century. After the defeat of the Ottoman Empire in the course of world war I. Britain and France splitted up the territory of Ottoman Syria between them. Zionists movement by its leaders Lobbied the two European powers to incorporate within what was to become mandate Palestine the head waters of the Jordan River as well as segments of Yarmuk River and the Litany River (in Lebanon), In 1923, France and Britain drew the boundaries of their mandated territories such that Palestine bounded some of these water sources but not others. Thus, Palestine's borders excluded the Litany River and important segments of the Banyas, al-Hasbani, And the Yarmuk River. On the other hand the boundaries included key components of the basin, notably Lake Tiberias, the largest fresh water reservoir of the basin and the entire aboveground channel of the Dan River[1].

After the establishment of Israel over the Palestinian land, in 1948, Israel prevailed over some of these resources. As a result of the 1967 war, Israel came to control entire Palestine and with it the water resources as well. Moreover, though the Occupation of the Golan Heights and West Bank, Israel added to occupied area of control the headwaters of the Jordan River basin and three major aquifers. After its seizure of WBGS, Israel promptly took over the management of the water supply and distribution systems in both places. It instituted a severely restrictive policy with respect to Palestinian access to the resources. The Israel objective to expand control over land and water resource is to get millions of Jews to immigrate to Palestine. Security of sufficient quantities of water to irrigate the land is very important for the economic viability of Israel.

3.3. Water Supply Sources in WBGS:

There are three main water resource areas pertaining to the occupied Palestinian territory (WBGS) that have attracted international concern: **First,** the Mountain Aquifer that is a system of ground water basins in the West Bank, this system is extending over approximately 130 km, from Mount Carmel in the north to Nagap in the south. The aquifer is some 35 km. wide from the Dead Sea and Jordan valley on the east, to the western border of the costal strip on the west[2]. The Mountain Aquifer is composed of three basins:

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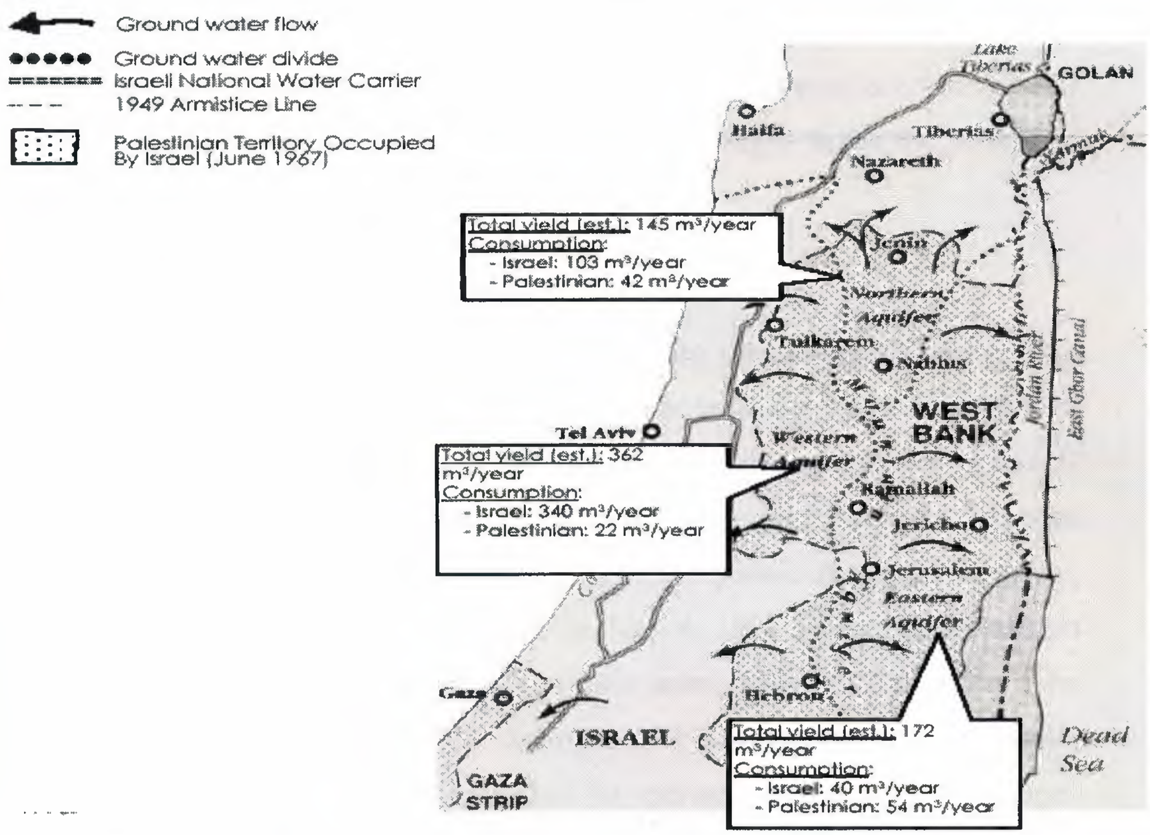
[1] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.

[2] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Disputed Water: Israel's Responsibility for the Water Shortage in the Occupied Territories", !998.

- The Western Basin, which, while supplied and recharged from the West Bank Mountains, its area hits about 1300 km2 and recharged by approximately 380 to 400 MCM per year. While the annual fed rate is not exceeding 370 MCM, the water deficit reached to 40 MCM annually[3].
- The North Eastern Basin, which is located inside the West Bank , near Nablus-Jenin Basin, which located on area hit about 500 km2, its annual pumping waters estimate between 92-104 MCM, while its annual feed range between 80-95 MCM, and the other composed Jerusalem, Betlehem and Hebron areas, it is used by the Israeli settlements[4].
- The Eastern Aquifer Basin contains number of aquifers located within the West Bank and the springs from which represent 90 percent of spring discharge in this area[5].

Figure (1): Water Supply Sources In Palestine



Source: PASSIA, Palestinian Academic Society for the Study of International Affairs, Jerusalem.

3 http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
4 http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
5 Isaac, Jad, "A sober Approach to the Water Crisis in the Middle East", ARIJ, Bethlehem.

The **second**, Gaza Aquifer, it is a part from Coastal Aquifer, and its groundwater is the only natural source of waters[6] the Gaza aquifer replenished both by direct rain water infiltration, particularly in the sand dunes along with the coast, which estimated at 40 MCM /y, and by underground flows from the east at 10-20 MCM/y[7].

The **third** is the surface water, which contributes 30 percent of the water in Palestine[8]. One of the most important surface water is Jordan River. Its water resources originate in north Palestine, south Lebanon and Golan Heights in Syria respectively. By its pre 1967 war, Israel accounts for only 3 percent of the Jordan Basin area; yet it currently has control of the greater part of its waters. Palestinians are currently utilizing less than 0.5% of the Jordan River's water. While its pre 1967 riparian area, accounts for 10 percent of the Jordan basin area[9]. The second important surface water in Palestine is the springs. In the West Bank, there are 310 springs or spring groups, the vast majority of the 310 springs surveyed yielded a small, seasonal discharge and were scattered a cross the territory of the West Bank, inside or near villages. Many of them need rehabilitation after long neglect or road-building that led to the loss of water and dispersion of the flow[10]. In Gaza strip, there is only one surface water source that is Wadi Gaza, which is currently impounded upstream in Nagap under the control of Israel[11].

3.4. Water Issues under the Oslo Accords

Water issues between Israelis and Palestinians, has been on the agenda of the joint peace talks since the meeting in Madrid. Despite progress in the talks that led to declaration of principles in Washington on 13, September 1993 and then signing of the Oslo I and II Agreements, the water problem still is unsolved. Declaration of Principles referred to the need for cooperation between the two sides in managing and developing water resources. However; the Cairo Agreement on Gaza and Jericho, signed on May 4, 1994 grants the Palestinian Authority full control over water resources in both of these areas, which shall continue to be operated by the water Planning Authority (Mekerot). Under this agreement terms, water systems and resources in Gaza and Jericho area shall be operated, managed and developed (included drilling) by the Palestinian Authority[12].

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[6] Roy, S., "The Gaza Strip: the Political Economy of Development", 1995.
[7] Shawa, R., "Water Situation in the Gaza Strip".
[8] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[9] http://www.aljazeera.net/in-depth/water/2001/1/1-6-2.htm (Water resources in Palestine)
[10] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[11] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[12] Cairo Agreement on Gaza and Jericho," Annex II. Article II paragraph 31.9"

The interim agreement that Israel and the Palestinian authority signed in September 1995 (Oslo II) includes the most updated understanding on water issues that has been reached in the peace process framework. It is also more detailed than previous documents. The main principle of this agreement is that the future allocation of water "the amounts each side pumps from the aquifer, including water for Israeli settlements" will be based on situation at the time the accord was signed[13]. The water increase, according to the "Taba Agreement", was to be 70-80 MCM/y, including an immediate 28.6 MCM/y for household use. 10 MCM/y of which was to be reserved for Gaza and 18.6 for the West Bank[14]. Responsibility for development and supply was divided between Israel and Palestinian Authority. However, Israel was to bear the capital cost of only 9.5 MCM/y (five to Gaza and 4.5 to the West Bank) for the remaining 19.1 MCM/y, the costs were to be borne by the PA[15].

Table (3): Allotment to Each Side - in Millions of Cubic Meters per Year in West Bank

Mountain Aquifer (Regions)	Israel *	Percentage	Palestinians	Percentage
North Eastern Aquifer	103	71	42	29
East Basins	40	42.5	54	57.5
West Aquifer	340	94	22	6
Total	**483**	**80**	**118**	**20**

Source: Israeli -Palestinian Agreement on the West Bank and the Gaza Strip, Annex III, Schedule 110, Data Concerning Aquifers (Washington, 1995).
* The total amount of water drawn by Israel for use in Israel and the Israeli settlements in the Occupied Territories, except for water Mekorot sells to Palestinians

Projects for the extraction, pumping and distribution of the above mentioned water supplements as well as the licensing and drilling of new wells were given to a bipartite joint water committee (JWC) which created by the agreement for the approval of the geo-hydrological and technical details and specifications[16]. This committee was to consist of an equal number of members from each side, and its decisions were to be taken by consensus[17].

3.4.1 Following the Oslo Accords: Prejudice and Ambiguity

The declaration of principle failed to make clear the extent to which water should be under Palestinian control during the interim period. It is not made explicit whether autonomy includes limited control of water resources or whether, on the other hand, control of water

[13] Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs Article 40, 31".
[14] Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs , Article 40,6"
[15] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[16] Israeli-Palestinian Agreement on WBGS, "Annex III protocol on civil Affairs, Article 40, Schedule 8.7.
[17] Ibid, Article 40.12.

resources is a permanent status issues. Moreover, the accords forced the Palestinian authority to purchase its own water from Israel[18], while in the West Bank; Palestinians would continue to be prevented from utilizing their rightful water resources. Such a situation would, however, deepens the dependency on Israel to provide the WBGS increasing water needs, and also deepens the linkage of Palestinian water system with Israel, especially since Mekorot already provided about one-fourth of the municipal water in the West Bank[19].

Although, Taba Accord allows the Palestinian to carry out the development necessary to supply an additional 41-51 MCM/y over the long term from the eastern aquifer. But it doesn't set a timetable for producing this water, and also this additional water will not be realized in the near future because most of it is saline and requires desalination, as well as a complicated and costly procedures . According to the Agreement, this increase will result entirely from drilling of new extraction wells not from a redivision of existing sources. Responsibility for new drillings is divided between the two sides – 19 percent by Israel and 81 percent by the PA. Israel performed its part of the agreement within the time allotted to it. As of today, more than four years after the interim period ended, the PA produces and supplies approximately two-thirds of the amount of water that it undertook in the Agreement[20].

However, the accord does not address the possibility of supplying this additional water from other sources, like Jordan River and the springs, on the other hand, Israel handed over to the Palestinians an extremely deteriorated water system, the agreements do not hold Israel responsible for this, and do not obligate Israel to cover the cost of their repair[21]. The interim agreement stipulates that, regarding water resources the Gaza strip will constitute a separate sector. Other than the small quantity that Israel undertook to sell, population of Gaza Strip will have to meet their needs, solely from resources located within Gaza's borders[22], also the agreement does not allow to obtain water from the West Bank. However, as of 1996, Mekorot supplied 60 percent (on a yearly average) of all the water for household needs in the West Bank, the remainder came from municipal wells. Fifty-five percent of the water provided by Mekorot in the West Bank comes from wells drilled by Mekorot[23].

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[18] Israeli-Palestinian Agreement on West Bank and Gaza strip, "Annex III protocol on civil Affairs , Article 40,6

[19] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.

[20] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Not Even a Drop, the Water Crisis in Palestinian Villages without a Water Network".

[21] Ibid

[22] Nassereddin, Taher, "legal and administrative responsibility of Domestic Water Supply to the Palestinians"

[23] Ibid

The interim agreement fails to protect the water resources in WBGS from over-pumping and to put the water resources in WBGS under the Palestinian control. In addition, the failure to re-distribute the water resources that prevented any "surplus" of water in the West Bank that could increase the supply of water to Gaza Strip. As a result, the severance of Gaza strip and West Bank continued. However, the Palestinian water authority donated administrative functions, but denied anything other than symbolic control. On the other hand, the joint water committee (JWC), which is comprised of an equal number of representatives of both sides. All its decisions are made by consensus and there is no mechanism for mediation or arbitration for resolving disputes. Such an arrangement effectively granted Israel veto power over decision-making because it was the Palestinian who needed the new wells, Moreover, these agreements left settlement water supply at the pre-agreement levels. It thus legitimized the blatant discrimination between Palestinians and Jewish settlers and left the improvement and expansion of the Palestinian water sector in the WBGS to Israeli good will[24].

In summary it can be said that the agreement signed by the parties eliminated the restrictive Israeli policy that sweepingly prohibited the drilling of new wells, and significantly increased the water quotas available to the PA. On the other hand, in practice indirect but tighter Israeli control continues. There are still quotas on the water available to Palestinians, and the Palestinian's dependence on Mekorot was even increased.

3.5. Restrictions on Palestinian Water Resources

Since the beginning of the Israeli occupation in 1967, Israel instituted restrictions and prohibitions over the water use that had not existed before the occupation, and emphasized that by legal and institutional changes in the water sector[25]. These restrictions and prohibitions are principal reason for the water shortage and the resultant water crisis. By other wards, they have created a severe water shortage for the Palestinian people.

3.5.1 Drilling Wells

The primary result of the change in the law and transfer of powers over water sector was the drastic restrictive on drilling new wells to meet Palestinian water needs. In order to drilling new wells, the Palestinians in WBGS a permit must be obtained from the Israeli military Authorities according to Israel's water law, because it considers the water resources as public property. Currently, some 350 Palestinian wells are operating in the West Bank. The

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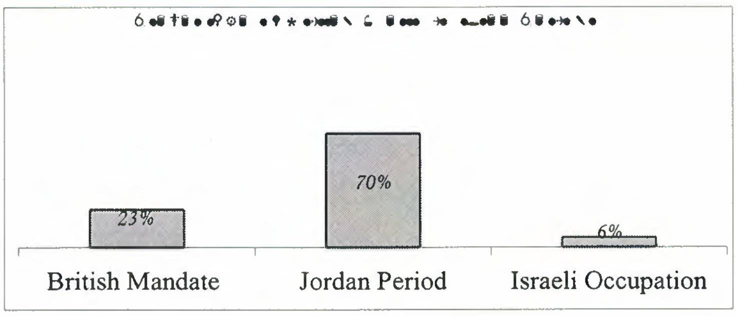
[24] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[25] Ibid

vast majority of the drilled and operating wells were developed in the 1950-67 period, when the West Bank was under the rule of Jordan. Only 6 percent of the operating wells in 1990 were drilled under Israeli rule; the rest were the Jordanian period (70 percent) or the British mandate (23 percent). Not only were drilling licenses denied and abstraction quotas fixed, but these wells had been no longer functioning because technical and /or maintenance problems. Israel did not allow their owners to use those again, and the few permits Israel granted were not even renew the operation of wells that had not been functioning However, to obtain a permit, an applicant must pass eighteen stages of approval in various departments of civil administrative, Mekorot, and the Ministry of Agriculture[26].

Figure (2): Percentage of Drilled wells in Three Period



3.5.2 Expropriations

According to the Military Order on Abandoned Property (Order No. 58, of 1967), property whose owners left the region is transferred to the Custodian of Abandoned Property. This Order also applies to property whose owners are unknown, with the burden of proof as to the status of the property falling on the owners, and not the government.[27] Shortly after occupying the territories, Israel declared these lands "absentee property," thereby expropriating an unknown number of Palestinian-owned wells that had been used for irrigation.[28]

3.5.3 Water Quotas by Surprise

When the West Bank was under the Jordanian rule, there were no limits and restrictions whatsoever on the amount of water drawn from the wells, and owners made the decision on the basis of agronomy, economics, and the technical requirements of their wells. In 1975, Israel changed this practice by instituting for each well quotas limiting the amount of water drawn from each well, and has enforced compliance by means of meters that it installed, with

[26] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[27] Benvenisti, M., "West *Bank Lexicon,* Jerusalem", 1987.
[28] Baskin, G.,, 'The West Bank and Israel's Water Crisis", 1993.

heavy fines imposed for exceeding the quota[29]. Whereas settlers pay $ 0.40 for domestic consumption and a highly subsidized rate of $0.16 for agricultural use, Palestinians pay a standard rate of $1.20 for their piped water[30], these rates are per cubic meter.

3.5.4 Springs: Diversion and Control

According to the Palestinian Hydrology group, there are more than 310 springs or spring groups, in West Bank. In 1967 and 1969 Israel declared the headwaters of five spring groups from them to be "natural reserves" or "protected natural areas" and changed fees for entrance to their perimeters. In effect, the declaration of natural reserve signifies the transfer of the area to Israeli control. Additionally, from 1970-71 to 1993-94, of 113 springs within the boundaries of the West Bank were kept by the water Department[31], many of these springs are feed by the Yarmuk River and Lake Tiberias which recharge the West Bank aquifer by infiltration. Israel is drawing an annual 70-100 MCM from the Yarmuk and is piping 1.5 MCM per day from Lake Tibarias in its National Water Carrier. Consequently, the River Jordan, which in 1953, had an average flow of 1250 MCM per year at the Allenby Bridge, now records annual flows of just 152-203 MCM[32].

3.5.5 Diversion and Depletion

According to a 1981 United Nations report, which was prepared by a team of experts found that, Israeli authorities are in a position to transfer water from one basin or an aquifer to another, both within the West Bank and from the West Bank to other areas. Water of Jordan basin is diverted into the Israel National Water carrier and distributed to other basins under the control of Israeli Authorities. These waters are transferred from the National Water Carrier back to Jewish settlements in other basins located in Golan Heights and the West Bank[33], Furthermore, the Israeli diversion of these water resources, including the interference by Israel with the rainfall above the northern part of the basin, is a major concern regarding this resource area[34].

In Gaza strip, Israel, impounded the water of Wadi Gaza upstream in Nagap, which used to replenish Gaza's a aquifer. Moreover, Israel drilled so many wells in the outskirts of Gaza to draw the eastern water flows to Gaza's aquifer. Then re-pump this water into other

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[29] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[30] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[31] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[32] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem
[33] UN," Water Resources of the Occupied Palestinian Territories", 1992. Prepared for, and under the guidance of, the Committee on the Exercise of the Inalienable Rights of the Palestinian People
[34] Ibid

aquifers. On top of this, Gaza Palestinians have to contend with the 7000 settlers having access to the only supplies of sweet water in the strip[35]. Israel utilized its military power for controls and overrules of these resources to promote Israeli interests, almost completely ignoring the right and needs of the Palestinian population, which was left to face a growing water shortage, alongside, more saltwater intrusion in groundwater.

3.5.6 Lack of Water Infrastructure

Among those particularly suffering from the water shortage are Palestinians of villages, towns and refugee camps in WBGS not connected to a running-water network. The existence of these communities without a water network resulted from Israel's policy of neglecting infrastructure and investment throughout the period of occupation. Immediately following the 1967 war, from the mid-1970s Mekorot began expansion of water systems through building an extensive water network in WBGS to supply the water needs for military areas and settlements within West Bank and Gaza strip, this expansion was not linked to a water system of Palestinians[36]. Although the condition of the municipal water systems most of them built before the occupation had deteriorated, Israel made no effort to improve them or maintain them in a reasonable condition[37]. Ignoring the municipal water systems is only part of Israel's neglect of infrastructure in WBGS.

According to two comprehensive studies on the Palestinian economy in WBGS conducted by the World Bank examined Israel's fiscal policy from the occupation to the beginning of peace process in 1993. They indicate unequivocally that, throughout that period, Israel's expenditures for the public investment in economic and social infrastructure in WBGS (not including expenditures for security and settlements) was significantly less than the taxes it collected from Palestinians in WBGS. The gap between revenues and expenditures over those years made its way to the Israeli treasury and was expended inside Israel[38]. This policy resulted in un-development of the Palestinian economy; including significant delay in development of water infrastructure.

As a result, in 1995 on the eve of the signing of the Oslo II, one-fifth of the population of the West Bank lived in communities without any water infrastructure. There are communities of three West Bank districts which did not receive piped water relied on traditional methods. In the Tulkarm district, rain fed cisterns were the only source of water for

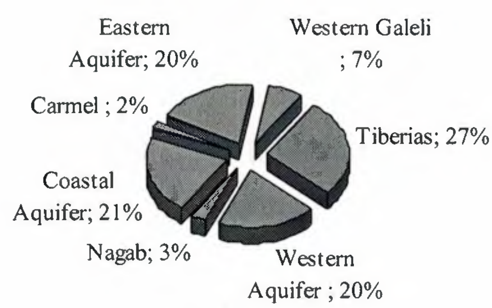
[35] Isaac, Jad, "Core Issues of the Palestinian-Israeli Water Dispute", ARIJ, Jerusalem.
[36] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.
[37] Nassereddin, Taher, "legal and administrative responsibility of Domestic Water Supply to the Palestinians"
[38] The World Bank, "Developing the Occupied Territories: An Investment in Peace, Washington, D.C., 1993.

42 communities, spring-fed cisterns for 11, nonpiped spring water for four communities[39]. Since 1995, the PA, with the help of donor states and organizations, connected many communities to a water network. However , the primary problem was and remains the lack of Palestinian access to the water sources, on the other hand, such a situation of neglect and poor conditions of the pipes and water systems result in a substantial loss of water.

3.6. The Gap in Consumption:

The severe shortage suffered by Palestinians is evident in the enormous gap in water consumption between Palestinians and Israel, in general and Jewish settlers in particular. Present availability of renewable water resources (based on Oslo II Agreement) for Palestinians in the West Bank is only 118 MCM annually[40]. Palestinians in the WBGS are currently using 246 MCM annually to supply their domestic, industrial and agricultural needs, while Israel's to supply their domestic, industrial and agricultural needs , while Israel's residents, consumes 1,959 MCM. In addition Jewish settlers consume 75 MCM of WBGS's water per year[41]. It should be emphasized that, 40 percent of water consumed in Israel comes from the two water resources shared by Israel and Palestinians.

Figure (3): Relative Percentage Productivity from the Groundwater Aquifers



According to Israel's annual allocation, Palestinians have 93 MCM for industrial use, 155 MCM for agriculture use and only some 26 cu m per capita domestic consumption per year, while Israelis have 128 cu m per year[42]. According to the Palestinian water authority, the current water supply to the WBGS totals 279 MCM/y (WB: 146; GS: 108), of which 174 MCM is consumed for agricultural (WB: 89; GS: 85) and 107 MCM for municipal and industrial uses (WB: 57; GS: 50)[43]. Annual per capita consumption, according to Israel' annual allocation (the average household consumption) of Israel is five times that of a

[39] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[40] Israeli -Palestinian Agreement on the West Bank and the Gaza Strip, Annex III, Schedule 110, 1995.
[41] Jssac, Jad, "the Palestinian water crisis", center for policy analysis, and B'T selem, "thirsty for a solution", July 2000.
[42] Ibid
[43] PWA (Palestinian Water Authority), "Water Sector Strategic Plan", 2000.

Palestinians in WBGS. For all purposes, water consumption in Israel is four times higher than in WBGS[44], On the other hand, the agricultural sector is the largest consumer of water in Israel. This fact has historic roots related to Zionist movement, where agriculture was perceived for political, economic, and ideological reasons, as crucial to the sources of Zionist project, this perception led to creation of a complicated system of subsidies for irrigation water, which encourages continuously increased consumption. The subsidies continue although agriculture is much less important now than it was in the 1960s[45]. Agriculture consumption in WBGS takes up some 60-70 percent of the water resources; it should be emphasized, that less than 5 percent of the total land area in WB is irrigated, while Israel irrigates more than 50 percent of cultivated land inside the green line[46]. This situation is particularly problematic in light of the water shortage, where water has been great importance of agriculture for the limited economy of the Palestinians.

3.7. Poor Water Quality: Creeping contamination?

Water quality and quantity are indivisible and the relationship between water, on the one hand, and economy, on the other, is complex and irrepealable. Unlike the West Bank, the worst problem in the Gaza strip's water sector is not the shortage or irregular supply during the summer, but the poor quality of water flowing through pipes. The poor condition of the water seriously affects, on the one hand, the quality of life of the local people and exposes them to server health risks, on the other, the economy through reduce crop yields.

In the case of economy, saline contamination can be injurious to agriculture. Chlorides may reduce crop yields, depending on the crop's salt tolerance, and high sodium adsorption ratio (SAR), or roughly a high tendency for sodium ions to stick to the soil, may damage clay texture of the soil. In most of the central area, where the population is concentrated, salinity exceeded 500 mg/1 chloride, in 1991, 11 of the 17 wells supplying water to Gaza city contained chloride exceeding that of WHO'S guidelines (250 mg/1), as much as 6-8 times in three of the wells. In fact, two of these wells had to be abandoned because of salinity. On the whole, it has been estimated that 60 percent of Gaza well water contained 600 mg/1 chloride by the early 1990's and that its overall range of chloride concentration was 380 mg/1, or 50

[44] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Disputed Water: Israel's Responsibility for the Water Shortage in the Occupied Territories", !998.
[45] Kahhaleh, Subhi, "The Water Problem in Israel and its Repercussions on the Arad-Israeli Conflict.
[46] The World Bank, "From Scarcity to Security: Averting a Water Crisis in the Middle East", 1997.

percent greater than the WHO guidelines[47]. On the other hand, in Israel, Pesticide application is one of the most intensive in the world and contamination by those chemicals may be heavy.

The overuse of pesticide application effect negatively on the land cultivated by settlers in the west Bank and Gaza, in Gaza, nitrate concentration resulted from overuse of Pesticide of agriculture, was found to be high, averaging 45 mg/1, close to the maximum permissible limit of the 54 standards. In the densely populated areas, especially in the refugee camps, where nearly two-thirds of Gaza population dwell, the concentration reached 90 mg/1 and in some instance 159 mg/1. It has been conjectured that 30-60 mg/1 nitrate are abase-level contamination from agriculture. The higher levels devise from domestic waste water[48]. Finally, the main reasons for the contamination and salinization of the aquifer are over – extraction (over pumping), penetration of untreated sewage, and penetration of pesticide and fertilizers.

More potentially serially salinity problems these occurring naturally have been in the making in some parts of the mountain aquifer, because of Israel's overexploitation[49]. The Israel's overexploitation of mountain aquifers led to the accumulation of water deficit and decline in water table to the point where "red lines". This accumulation in turn led to the leakage of brine rock formations, causing salinity to rise. An example of such a sequence happened in the western basin in the 1950s and early 1960 as Israel over pumped the aquifer to expand the irrigated areas, increasing irrigation water supply from 413 MCM/y in the crop year 1950-1951 to 1,047 MCM/y a decade later[50]. Overpumping recurred during the drought period, 1985-1990, causing an accumulated water deficit in the western aquifer of 1,100 MCM with respect to the red lines. The deficit translated into a drop of water table to 10 m below sea level. The designated red line of that basin, similar developments also occurred in the northern basin. However, the coastal aquifer's natural outlet in the Mediterranean Sea, the interface between the waters of the two poses an ever present salinity threat to the aquifer. The water level, in turn, depends on the balance between replenishment and pumping[51].

In Gaza strip, the water levels declined sharply in the 1950s and 1960s due to Israel's overexploitation, as happened in the mountain aquifers. Overexploitation of Gaza's coastal aquifer led to intensive decline in the water table which allowed sea water intrusion and

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47 Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
48 Ibid
49 Isaac, J. and Hosh, L. "Roots of the Water Conflict in the Middle East", 1992.
50 Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
51 Ibid

increased that salinity of the water extracted from the wells. Whereas, water quality in the Gaza Strip that is much worse with only 4 MCM out of 44.1 MCM supplied by municipal wells being of an acceptable standard[52]. Furthermore, overexploitation was more intensive in some areas of aquifer than in others. This overexploitation led to water depressions below sea level in several parts of the aquifer. Salinity is much more acute in some areas of Gaza strip than in others, but in general, reached alarmed proportions.

3.8. Water and the Palestinian Economy

Undoubtedly, water is a motor of economic growth, and forms the base which relies on it economic sectors. Water is a scarce resource in the West Bank, and a very scarce resource in Gaza Strip where the groundwater resources are over-exploited and becoming increasingly contaminated. The signed agreements between PLO and Israel gave the West Bank only 118 MCM per year (See table 4), which is among the lowest in the World. This limited renewable water will pose a serious constraint for the economy. This challenge requires re-thinking economic growth patterns and changing attitudes vis-à-vis water. Agriculture is clearly very important to the Palestinian economy and plays a unique role in the life of the Palestinian people in the West Bank and Gaza Strip. Furthermore, agriculture plays a pivotal role in the economy by virtue of its strong intersectoral linkages. But the peculiar role of agriculture in the West Bank and Gaza Strip extends in effect far beyond above mentioned roles. As a people whose survival on their own land has always been in jeopardy, Palestinians realize that their sustained struggle for survival is over land and water. So agriculture is one of struggle's means for survival.

Agriculture comprised 24 percent of the Palestinian GDP in 1966, the same percentage as in 1980-85[53]. Presently, WBGS agriculture uses, on average, 70 percent of all extracted water (strikingly, in Gaza Strip, it uses 150 percent of annually renewable water resources) [54], and the sector contributes about 8.2 percent to GDP[55], employs 20 percent of the work force,

[52] PWA, (Palestinian Water Authority), " Water Sector Strategic Planning Study", volume III: Specialist studies Part B, Focal areas, May 1999

[53] Foundation for Middle East Peace, "*Special Report: The Socio-Economic Impact of Settlement on Land, Water and the Palestinian Economy*", Washington, DC:, July 1998

[54] Diwan, I. And A. Shaban, R., "Development under Adversity: The Palestinian Economy in Transition", World Bank and MAS.

[55] PMA, Palestinian Monetary Authority, "Annual Report 1998".

and accounts for 25 percent of exports[56]. By comparison, industry and construction consume about 13 percent of available water resources and contribute about 25 percent to GDP[57].

Table (4): Water Resources and Use – Regional Comparison

	Israel	Jordan	WBGS[58]	Syria	Lebanon
Resources (billion m3/year)	2.1	0.8	0.2	5.5	4.8
Consumption (billion m3/year)	1.9	1.0	0.2	3.2	0.8
Per capita consumption (m3/year)	375	213	115	385	1,200
[59]Renewable resources (m3/capita/year)	290	229	134	1,861	1,199
Groundwater (% renew resources)	60	28	94	16	63
Groundwater use (% of recharge)	n.a	155	200(GS)/ 88(WB)	143	n.a
Dependency ratio (% from outside the country)	15	20.7	5.73[60]	80	0.8
Water use ' (% of water resources)	122	91	88	48	27
Agricultural use (% of total)	65	69	82	98	68

Source: World Bank. "West Bank and Gaza Update, Second Quarter 1999; World Bank./ From Scarcity to Security – Averting a Water Crisis in the Middle East and North Africa", Washington, DC, 1995.

Since the sector suffers from restricted water resources, over 90% of the cultivated WB area depends on rain fed farming methods. In contrast, Israel irrigates over 50% of its cultivated land, although the agricultural sector contributes less than 3% to its GDP [61]. Industrial and agricultural production is impossible without water. The water consumption per produced unit of crops is high, especially for vegetables and fruit. In West Bank and Gaza Strip, intensive agriculture is dependent on irrigation but there is little access to irrigation water. The volume of irrigation water fluctuated in the West Bank, staying in the range of 70-90 MCM/y. It declined over time in Gaza, falling from 85 MCM/y in 1967, to 75 MCM/y in 1993. However, limited quantity and poor quality of water have negatively been effects on

[56] World Bank, "West Bank and Gaza-Agriculture Sector", Report No. PID5988, 1997.
[57] Diwan, I. And A. Shaban, R., "Development under Adversity: The Palestinian Economy in Transition", World Bank and MAS, 1999.
[58] Based on Oslo II
[59] Global average = 7,500 m3/cap/year
[60] Global average = 7,500 m3/cap/year
[61] MOPIC, "*Valuable Agricultural Areas in the West Bank Governorates*", Ramallah, 1998)

cropping patterns, where individual crops within agricultural fields, are influenced by a variety of factors that ultimately translate into prices of produce. These factors include (among other things), in particular Gaze, the increasing salinity of water. To illustrate, Gaza's citrus area had declined to 55,000 dunums by 1993 from what had been 70,000 dunums by 1980 due to the increasing salinity of water and the spread of plant disease[62].

A wide range of industries depend on water. For some industrial uses, the quality of the water is less important. But for others, like food processors, the adherence to high standards for water quality is vital in order to access national and international markets.

3.9. Summary

The impact of the prolonged Israeli occupation caused severe damage to Palestinian economy, the currently water deficit is moving the Palestinian community into a situation where development and economic viability will not only unsustainable, but rather impassible. Israel continue to overuse and overexploit of Palestinian water resources both surface and groundwater. This level of Israeli overexploitation leaves the Palestinians with the lowest consumption rate and one dangerously beneath recommended levels by world health organization. Israel over-pumping has already caused pollution and long-term damage to the coastal and mountain aquifer. It becomes apparent that, if the water shortage continues as it is, Palestinian will be left with increasingly limited water resource. This water shortage is inadequate to build an economically sustainable Palestinian community in the coming decades.

The water resources available for building a viable economy in the West Bank and Gaza Strip are limited , existing agreements between Israel and the PLO on water are unjust and inequitable and do not go beyond temporary solutions for crises nor not do they create a sustainable and permanent solution.

[62] Elmusa, Sharif "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources",1997.

CHAPTER 4

TERRITORIAL FRAGMENTATION AND ECONOMIC VIABILITY

4.1. Overview

Since Madrid conference of 1991 until the failure of Camp David summit of 2000, over eight years of negotiations Israel and the PLO are no longer in conflict, per se, about the prospect of a Palestinian state, but about the area of its sovereignty and about the land that Israel intends to annex from the West Bank, Jerusalem and Gaza Strip. The core issue is that of Israeli settlements, which Israel began to establish - in blatant violation of international law - after it occupied the West Bank and Gaza Strip and imposed its military rule over both regions in 1967. Ever since, consecutive Israeli governments have pursued a policy to change the status of the occupied territory or parts of it and to change the demographic character of the territory through illegal confiscation of land... as well as impose realities on ground through settlement activities. The Palestinian Liberation Organization (PLO) accepted the Interim Agreement as a step towards a final peace treaty between Israelis and PLO. Its temporary interim nature needs to be respected by both parties. In particular, the agreement states that "neither side shall initiate or take any step that will change the status of the West Bank and the Gaza Strip pending the outcome of the permanent status negotiations." Yet, in reality Israel has and continues to violate and manipulate the Interim Agreement by creating de facto realities on the ground, Israel has pursued its settlement activities intended to disrupt the integrity of the Palestinian community and create ghettos, based on the presumption that the Jewish presence of settlements will make it more difficult to surrender territory. This will not only affect the outcome of the final status negotiations, but also will render a future sustainable Palestinian entity unattainable and, more immediately, cause intolerable hardship and suffering. Clearly, the specific goal is to render the emergence of an independent Palestinian state virtually impossible.

What is to become of the Palestinians?" "Oh," Sharon said, we'll make a pastrami sandwich of them." I said, "What?" He said, Yes, we'll insert a strip of Jewish settlement, in between the Palestinians, and then another strip of Jewish settlement, right across the West Bank, so that in twenty-five years time, neither the United Nations, nor the United States, nobody, will be able to tear it apart". Winston S. Churchill III (journalist, former Member of

Parliament, and grandson of the British prime minister) at the National Press Club, October 10, 2001, recalling his conversation with then- General (res.) Ariel Sharon in 1973.

4.2. The geopolitical integrity of the West Bank and Gaza Strip

Under there pretext of its security and by means of over 1.500 military order , Israel has control over the West Bank and Gaza Strip's natural resources and rendered large tracts of Palestinian land available only for its own use. Presently, over 73% of the West Bank and 22% of the Gaza strip lands are inaccessible to Palestinians (PASSIA) these lands are used for construction of Israeli settlements or have even declared by Israel as "state land " nature reserves, military bases or closed military areas. These tracts of land declared (close military area) alone encompasses approximately 100,000 hectares of the west bank (20% of the West Bank area) and are mainly located in its eastern region (Jordan valley)[1]. As a result, the eastern part of the West Bank is currently empty of any substantial Palestinian communities.

Territorial Fragmentation of West Bank

4.2.1 Territorial Fragmentation by Areas A, B, C: The "Oslo II" Agreement, signed in Washington in September of 1995, sets out the interim stage for Palestinian Autonomy in the West Bank and Gaza, pending "final status negotiations" which were scheduled to begin in May 1996 and finish by May 1999. The Interim Agreement divided the West Bank into three main zones, which are not always interconnected and separated from each others.

Areas A, are presently limited to main parts of eight major cities of the West Bank, and cover a total area of 1,004 sq. km, comprising approximately 18.2 percent of the total West Bank land. The Palestinian Authority has full control over these areas except on matters to be discussed in the final status negotiations, such as the water[2].

Areas B, in which the Palestinian Authority has partial control, limited to land and providing civil services such as education and health, while all security issues are under the sole control of Israel, these Areas comprise 400 Palestinians villages and hamlets [3]. they cover a total area of 1,204 sq. km, and constitute almost 21.8 percent of the West Bank[4].

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[1] Hosh, Leonardo and Isaac, Jad, "Environmental challenges in Palestine and peace process", 1996.
[2] ARIJ (Applied Research Institute-Jerusalem), Monitoring Israeli Colonizing Activities in the Palestinian West Bank and Gaza, "An Overview of the Geopolitical Situation in the Palestinian Areas", May 2001.
[3] ARIJ (Applied Research Institute-Jerusalem), Geographic Information System (GIS) Database, Bethlehem, 2000.
[4] ARIJ (Applied Research Institute-Jerusalem), Monitoring Israeli Colonizing Activities in the Palestinian West Bank and Gaza, "An Overview of the Geopolitical Situation in the Palestinian Areas", May 2001.

Area C, in which, Israel retains full control over land, security, people and natural resources, they cover a total area 4.327.9 Sq km[5] comprising the remaining 60 percent of the West Bank land. The majority of Israeli settlements in the west bank lie within these areas.

In addition, Israel retains under its control a small area of the city of Hebron according to Hebron protocol signed in 1997. This area covers 15%, of the city, designates as area H2, include around 20,000 Palestinian and 400 Jewish colonists housing the settlement of Qariyat Arba.

In practice, owing to ambiguities and shortcomings of Oslo accords, Israel translates them into the physical fragmentation of Palestinian communities, this distribution of areas A, B, and C has partitioned the West Bank into isolated cantons of areas A and B which are physically separated from each other by areas C.

Because areas C are totally under the Israeli control, the Oslo II interim agreement, on the one hand, grants Israel the authority to block access to all Palestinian Communities and prevent free movement between them by simply closing off areas C to Palestinians, on the other, prevents the Palestinian Authority to build roads joining the various villages nor ensure market access of goods in all of the West Bank. Since 1996 Israel uses its authority in areas C on several occasions to grave up the Palestinian villages, towns and cities from each other thus confines the Palestinians within their small and isolated communities. As a result of this division, there are 161 distinct "islands" of Palestinian control (i.e. Area A or Area B) surrounded by a sea of Area C, as well as 105 Palestinian villages that are still completely within area C and 216 that have parts in area C[6].

This action has proved to be an effective tool for consecutive Israeli governments to collectively punish Palestinians and prevent their movement in and between the West Bank and Gaza Strip whenever Israel feels that its security necessitates it.

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[5] ARIJ (Applied Research Institute-Jerusalem), Monitoring Israeli Colonizing Activities in the Palestinian West Bank and Gaza, "An Overview of the Geopolitical Situation in the Palestinian Areas", May 2001.
[6] ARIJ (Applied Research Institute-Jerusalem), Geographic Information System (GIS) Database, Bethlehem, 2000.

Figure (4): Territorial Fragmentation of West Bank

Source: Applied Research Institute-Jerusalem

4.2.2 Territorial Fragmentation by Bypass Roads

When Israel signed the Oslo II agreement, it stipulates that, redeployment from certain areas in the west bank contingent upon building lateral roads (bypass roads) to secure "a safe passage" for Jewish colonists (settlers). These post Oslo II bypass roads have been designed to link settlements with each others and with Israel as well as to serve only Jewish settlers traveling in the West Bank. These roads are of course under Israel control and entail a 50 to 75 meter buffer zone on each side of the road in which no construction is allowed[7]. These bypass roads along the west bank and Gaza strip have military checkpoints which filter traffic and prevent Palestinian owned vehicles from using the roads. Moreover, existing Palestinian houses located in areas close to newly planned bypass roads are being demolished[8].

4.2.3 Bypass Road's Impact on the Ground,

Bypass roads encircle every major Palestinian city and community in the West Bank (figures) and therefore create boundaries which limit the expansion and developments of the Palestinian communities which they encircle, and further disconnect Palestinian communities from each other. Thus, land currently available to Palestinians does and will not accommodate their natural population growth, the absorption of Palestinian refugees, nor the development of a strong economic infrastructure. The planning system on the West Bank implemented by Israel is one of the most powerful mechanisms of Israeli occupation.

The main goals for these bypass roads are as following:

- Enabling Israel to divide the west bank into small isolated cantons where geographic unity and integrity is impassible. Therefore, the creation of a Palestinian state on Palestinian land with economic and geographical viability becomes unattainable. This objective has been clearly affirmed by the new Israeli Likud government in its political platform which states that "government of Israel will oppose the establishment of a Palestinian state or any foreign sovereignty west of the Jordan River"[9].
- To establish a new green line border, farther within the West Bank, reinforced by the demolition of Palestinian homes along the west and south of the West Bank, and south

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[7] Isaac, Jad, Ghanyem, Moh. , "Environmental Degradation and the Israeli Palestinian Conflict" , ARIJ
[8] B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories, "Israeli settlement in the occupied territories as a violation of human rights legal and conceptual aspects". 1997
[9] (http://www.israel-mfa.gov.il)

and east Jerusalem[10], to facilitate the annexation of these lands to Israel proper. Thus Israel is using bypass roads unilaterally re-draw the geographical map of the West Bank and Gaza Strip.

- Provide the means to reserve large parcels of Palestinian land for the expansion of Israeli settlements.

The construction of by-pass roads commonly occurs along the West Bank, these roads exceed 276 km in length while the planned roads are estimated at 452 km[11]. With the safety buffer zone they enjoy (75 meter on each side), the construction of these by-pass roads requires the confiscation and destruction of approximately 67.8 sq km of Palestinian land, mostly of which is agricultural.

4.2.4 Territorial Fragmentation by Settlements

Before 1967 occupation, West Bank and Gaza Strip represent only 22 percent of the total area of Palestine[12]. Nonetheless, Israel has either confiscated or declared as closed areas over 41 percent of West Bank's land in 1984. This percentage increased to 60 percent by 1991 and to 73 percent by 1998[13], in addition to 25 percent of Gaza Strip[14]. Presently, as of February 2002, there are 19 Jewish settlements in the Gaza Strip housing an estimated 7,000 setters control 25 percent of this 365 sq Km amidst about 1.15 million Palestinians, and over 200 settlements in the West Bank with a residents of more than 400,000 settlers; half of whom occupying East Jerusalem[15]. However, Jewish settlers comprise less than 8 percent of the total Israeli-Jewish population and less than 4 percent, if the settlers in occupied East Jerusalem are excluded[16]. Israeli settlers constitute 9-10 percent of the total West Bank population, and only 0.6 percent of the Gaza population[17]. About 50 percent of the settlers live in only 8 settlements[18]. Israel's structural plan for the year 2020 foresees an increase in the settler population in the West Bank (excluding East Jerusalem) which will reach 310,000.

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[10] Isaac, Jad, Ghanyem, Moh. , "Environmental Degradation and the Israeli Palestinian Conflict". ARIJ.
[11] Hosh, L., Isaac, J., "Environmental Challenges in Palestine and peace process", 1996.
[12] PASSIA (The P Palestinian Academic Society for the Study of International Affairs) Fact Sheet – Land and Settlements.
[13] PASSIA (Palestinian Academic Society for the Study of International Affairs), Israeli Settlements in the Occupied Palestinian Territories, 2000.
[14] ARIJ (Applied Research Institute – Jerusalem) Monitoring Israeli Colonization activities in the West Bank and Gaza Strip, 2002.
[15]FMEP (Foundation for Middle East Peace), Report on Israeli Settlement in the Occupied Territories, Mar.-Apr. 2001. (Online: http://www.fmep.org).
[16] PASSIA (Palestinian Academic Society for the Study of International Affairs), Settlements- Special Bulletin, March, 2001.
[17] Ibid
[18]FMEP, "Report on Israeli Settlement in the Occupied Territories" (Nov.-Dec. 2001).

On the other hand, settlement's existence is in direct violation to international laws, especially the Fourth Geneva Convention, Article 49, item 6, which states that: "The occupying power shall not deport or transfer part of its own civilian population into the territory it occupies".

4.2.5 Settlements and the Oslo Agreements

The Israeli settlements were not mentioned in the articles of the Oslo II interim agreement, rather it was left for the final status negotiations. However, the full implementation of the Oslo II interim agreement demands that Israel freezes its settlements activities in WBGS until the final status negotiations. In violation of international law and signed agreements, Israeli settlement activities have continued. Consecutive Israeli governments have followed a policy of creating de facto realities on the ground to affect the geopolitical map of the West Bank and Gaza Strip. Israel has accelerated its settlement activities by confiscating more Palestinian land to establish new settlements on hilltops and build a comprehensive network of by-pass roads. These activities and other Israeli violations have been a main source of the political instability in Palestine proper.

4.2.6 The Geographical Dispersion of the Israeli Settlements

The geographical dispersion of the settlements and their ramifications for the Palestinian population is based on a division of the West Bank into four areas: three longitudinal strips extending from north to south, and the Jerusalem area, which has its own unique characteristics. Within each of these areas, a distinction must be made between three types of land: land actually occupied by the built-up area of the settlements; open land surrounding the settlements and included within the area of jurisdiction of a specific settlement; and land included within the area of jurisdiction of a regional council, but not attached to any particular settlement. However, the Concentration of Israeli settlements had been in three regions as follow:

4.2.6.1 The Jordan Valley Region

Along the Jordan River, includes the Jordan valley and the shore of the Dead Sea. This Strip is separating the West Bank from Jordan and serving as "security border" for Israel from the East. According to Israeli Data approximately 5,400 settlers live in this area and occupy over 1.2 million dunum[19]. The harm of the Palestinian population caused by the settlements in this area relates mainly to the restriction of possibilities for economic development in general, and agriculture in particular.

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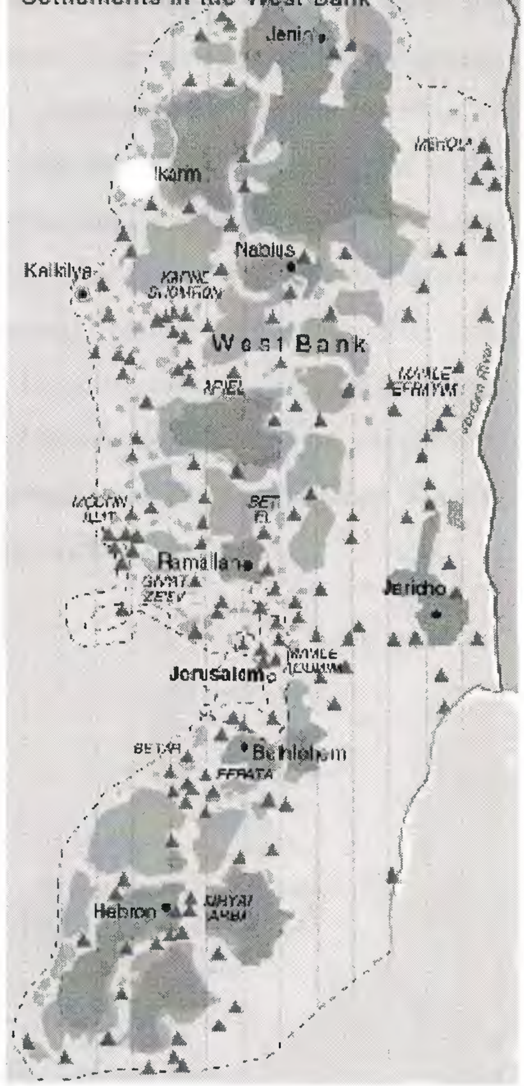
[19] ICBS (Israeli Central Bureau of Statistics), Statistical Abstract of Israel, 1999.

4.2.6.2 The Western Hills strip, along the Green Line, extends from north to south, and is ten to twenty kilometers wide. The proximity of this area to the Green Line and to the main urban centers of Israel has created great demand among Israelis for the settlements in this area. The seizure of land limits the potential for urban and economic development in the Palestinian communities. The transfer of powers to the Palestinian Authority under the Oslo Accords has led to the creation of over fifty enclaves of area B in this area, as well as a small number of enclaves defined as area A[20]. These areas are completely surrounded by area C, which remains under full Israeli control. As a result, these settlements interrupt the territorial contiguity of the Palestinian villages and towns located out along this strip.

Figure 5: Dispersion of the Israeli Settlements in the West Bank



4.2.6.3 The Mountain Strip is situated along the central mountain ridge that crosses the West Bank from north to south. Most of the settlements in this area were initiated by Gush Emunim settlement block. Some of the settlements are dispersed in a string formation along Road No. 60 - the main north-south traffic artery in the West Bank[21]. With the goal of protecting the safety of settlers in this area, the Israeli occupation forces impose severe restrictions on the freedom of movement of Palestinians along this road, making it impossible to maintain normal everyday life. In addition, these settlements prevent, to a lesser or greater extent, the potential for urban development in the major Palestinian cities situated along the mountain ridge (Hebron, Ramallah, Nablus and Jenin)[22].

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[20] FMEP, Foundation for Middle East Peace. Report on Israeli Settlement in the Occupied Territories.

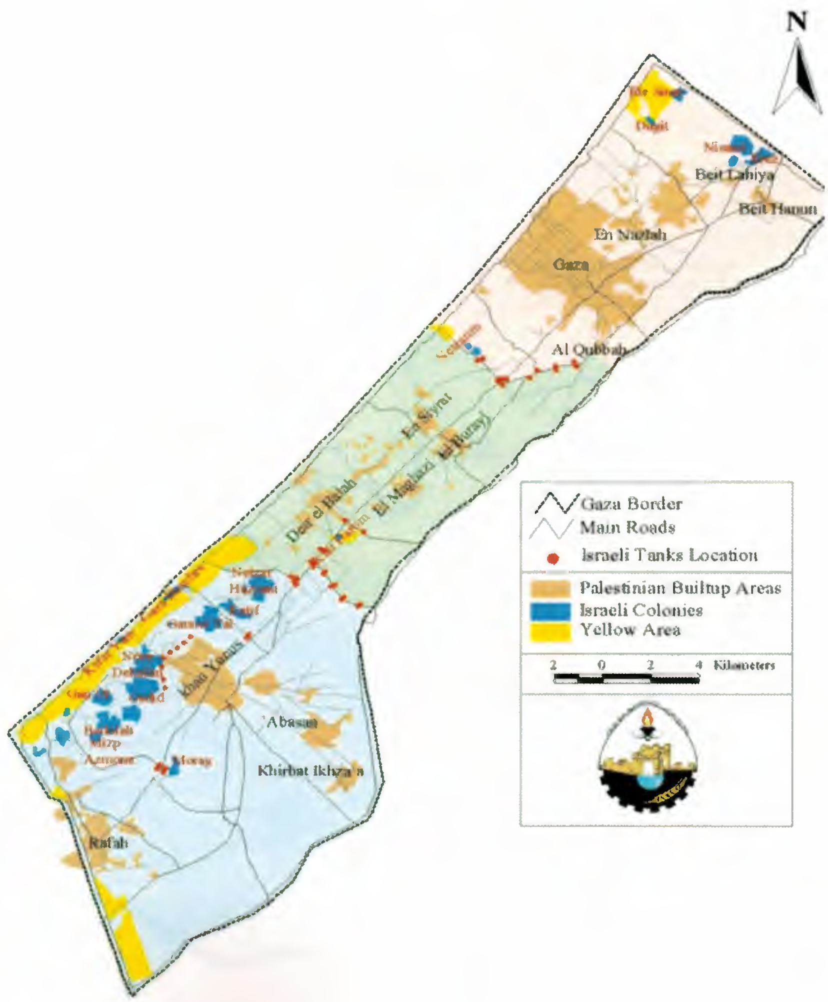
[21] ARIJ (Applied Research Institute-Jerusalem), Geographic Information System (GIS) Database, Bethlehem, 2000.

[22] Matar, Ibrahim, "Jewish Settlements, Palestinian Rights, and Peace", Washington, DC: Center for Policy Analysis on Palestine, 1996.

4.2.7 Settlements in the Gaza Strip

Those settlements started at a much slower pace than it did in the West Bank, for number of reasons, of which, the strategic importance of the West Bank, as well as the greater availability of land in a less densely populated area contributed to the concentration of settlement activities in the West Bank. In Gaza Strip, Settlements are usually located in the most strategic areas and have absorbed the most fertile land and most important water resources. The largest concentration of Israeli settlements in the Gaza Strip is located in three locations: North of the Gaza Strip, there are four settlements one of them is industrial zone (Erez settlement); Middle of the Gaza Strip, there are two settlements one is called Netzarim settlement close to south Gaza city and the other called Kfardaroom located in east of Dear Albalah city ; And, South of the Gaza Strip in the Mawasi areas Rafah and Khan Younis, there are about 13 settlements form the largest settlement block in Gaza Strip.

Figure (6): Distributions of Settlements in Gaza Strip



Source: Applied Research Institute-Jerusalem

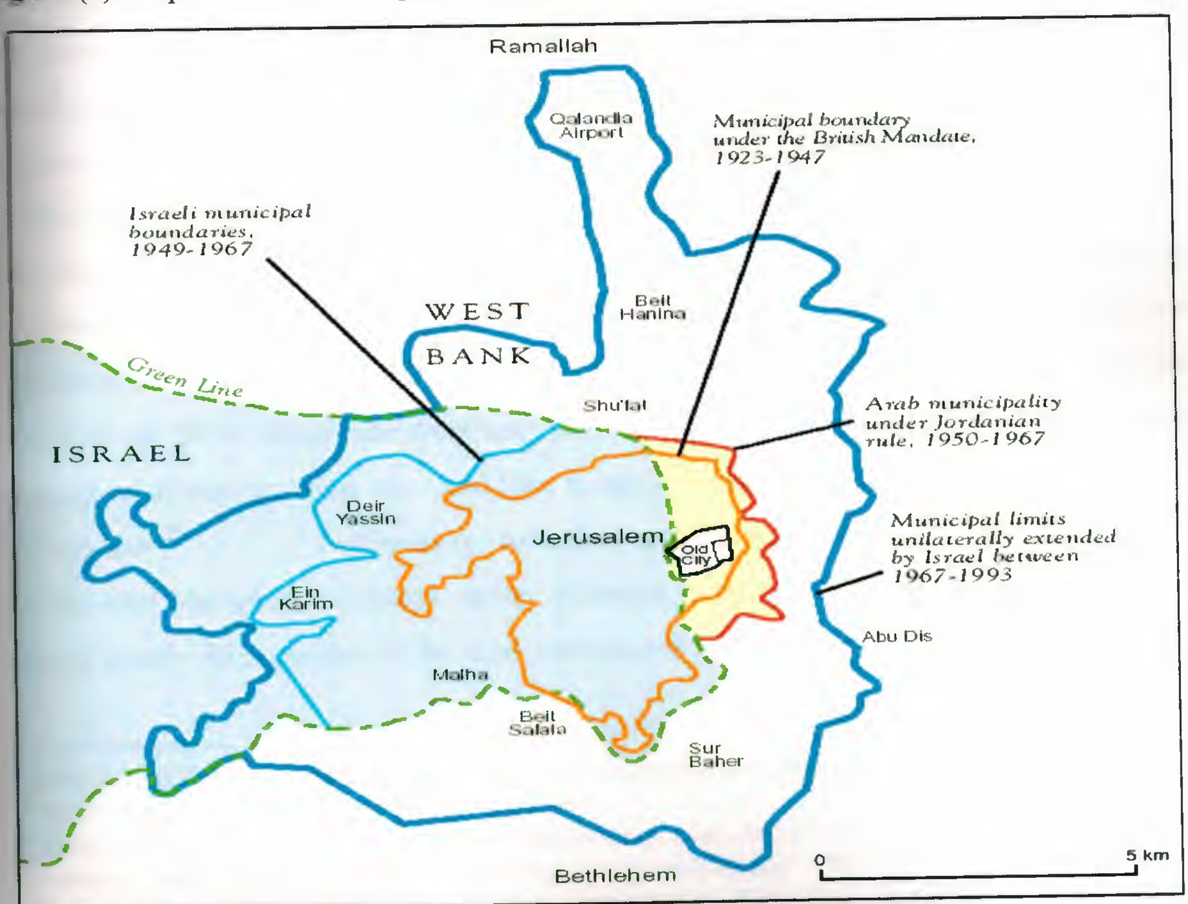
4.2.8 Territorial Fragmentation of Jerusalem

Jerusalem is the crux of the Palestinian- Israeli conflict. Among all the Cities in Palestine, Jerusalem possesses political, economic and religious status for people around the World, as well as a religious and cultural patrimony for all mankind. Jerusalem is the physical and economic link between the North and the South of the West Bank .The issue of Jerusalem was postponed until the final status negotiations were planned to start in May 1996, but they started after Arafat-Barak meeting of November 1999. However, in the meantime, the Israeli government has not stopped its unilateral practices in Jerusalem by which it creates *de facto* realities on the ground. These *de facto* realities are clearly affecting the Islamic and Arabic identity of Jerusalem, in addition to changing geographic and demographic status of it, an action that is in total violation to Security Council's Resolutions, particularly 298 and 242, as well as standing Palestinian-Israeli Oslo Agreements.

4.2.8.1 Expansion of Municipal Boundaries

Israeli objectives and policies regarding Jerusalem have followed a clear pattern: to establish irreversible facts in the city that allow Israel to secure and maintain exclusive control.

Figure (7): Expansion of municipal boundaries



Source: Palestinian Academic Society for the Study of International Affairs- Jerusalem.

Soon after its occupation of Jerusalem, the Israeli government enforced several measures which changed the geographical boundaries of the city, and legal and physical status, in an effort to facilitate the Israeli subsequent illegal annexation of Jerusalem.

On 30 July 1980, the Israeli Knesset (legislative council) passed a Law declaring East Jerusalem part of "united Jerusalem", which proclaimed as "eternal united capital" of the Jewish State[23]. Greater Jerusalem (East and West Jerusalem) comprising 70 sq km (70,000 dunums) of East Jerusalem and some 28 surrounding villages, representing 66 percent of today's Jerusalem(5% of the old Jordanian municipality and 61% of former West Bank territory)[24] The new municipal boundaries representing an area of 28% of the West Bank[25]. Many Palestinian lands within the new municipal boundaries were confiscated, closed or assigned for "public use". Presently, only 13.5 percent of Palestinian East Jerusalem is available for Palestinians to build on, live and develop[26]. The remaining land is reserved for the exclusive use of Israeli Jews.

4.2.8.2 Demographic Shifts

Israel's strategy in Jerusalem city is *"a maximum of territory with a minimum of non-Jewish population"*. Israel has staged measures leading to strong demographic shifts in order to create demographic barricades in front of any Palestinian autonomy in Jerusalem. De-development strategies have been adopted to restrict expansion of the city's Palestinian communities. Immediately after the occupation of Jerusalem in 1967, the Israeli government conducted a census that counted absent 66,000 Palestinians living in East Jerusalem within the new municipal borders (44,000 in pre-1967 East Jerusalem and 22,000 in the area newly annexed to Jerusalem municipality). While these Palestinians were classified as permanent residents of Jerusalem (according to the Law of Entry into Israel 1952, Entry to Israel Regulations 1974), those who were not recorded due to absence -whether studying abroad, visiting relatives elsewhere, etc. - had later to apply for family reunification to the Ministry of the Interior [27]. Furthermore, to ensure maximum control over the land, the Israeli government designed a bizarre urban planning scheme for East Jerusalem in which approximately 86.5 percent of the land became out of the Palestinian reach[28]. According to

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[23] Isaac, J. And Hosh, L., "Political Conflict and Environmental degradation in Jerusalem", 1997.
[24]FMEP, *Report on Israeli Settlement*, May-June 1999.
[25] Walid, Mustafa. "Jerusalem - Population and Urbanization from 1850-2000". Jerusalem: JMCC, Sept. 2000.
[26]Kaminder, Sarah., "East Jerusalem: A Case Study of Political Planning", 1995.
[27] Kothari, Miloon and Jan Abu Shakrah. " Planned Dispossession: Palestinians, East Jerusalem and the Right to a place to live", 1995.
[28] Kaminder, Sarah, "East Jerusalem: A Case Study of Political Planning",1995.

this scheme, few numbers of building permits were granted to Palestinians and, when given, these have great restrictions on the construction size and the number of floors. On the other hand, the Israeli government has encouraged Jews to settle in East Jerusalem and has provided numerous incentives such as favorable apartment purchase terms, subsidies, and exemption from municipal taxes (or reduced rates) for certain periods. As a result, the Palestinian population became minority in their own City comprising 31.7% of the East Jerusalem's total population[29].

4.2.8.3 Seizing by Town Planning Scheme

Governments of Israel imposed many restrictions on Palestinian build-up in East Jerusalem; these restrictions have been conducted under umbrella of Town Planning Scheme, which the Israeli municipality of Jerusalem formulated for Jerusalem. Presently, less than 25 percent of the Palestinian neighborhoods of East Jerusalem have a complete and approved town planning scheme. Moreover, in those few "lucky" towns, major parts of the land were designated as "Green Areas". Green Areas are lands designated for public open space or for the preservation of unhindered views of the land space, on which simply construction is not allowed[30]. Almost half of the area of East Jerusalem has been slated as "Green Areas" or public space. Most of these lands, which supposedly, to conserve the beauty of the nature, are neither planted , developed into gardens or parks, nor green, these Green Areas were selected in places where Israel would like to save the land until the time is ripe to build or expansion its settlements on them. The first such case was Shu'fat: 2,000 dunums of its land, designated as a 'Green Areas' in 1968, were rezoned in 1973 to allow for the building of the Ramot settlement[31]. The most recent case was Jabel Abu Ghneim (Abu Ghneim Mountain), with an Area of approximately 2 sq km, which classified as Green Area by both Jordanians pre 1967 and Israelis after 1967. Currently, Har Homa settlement is now constructed on it[32].

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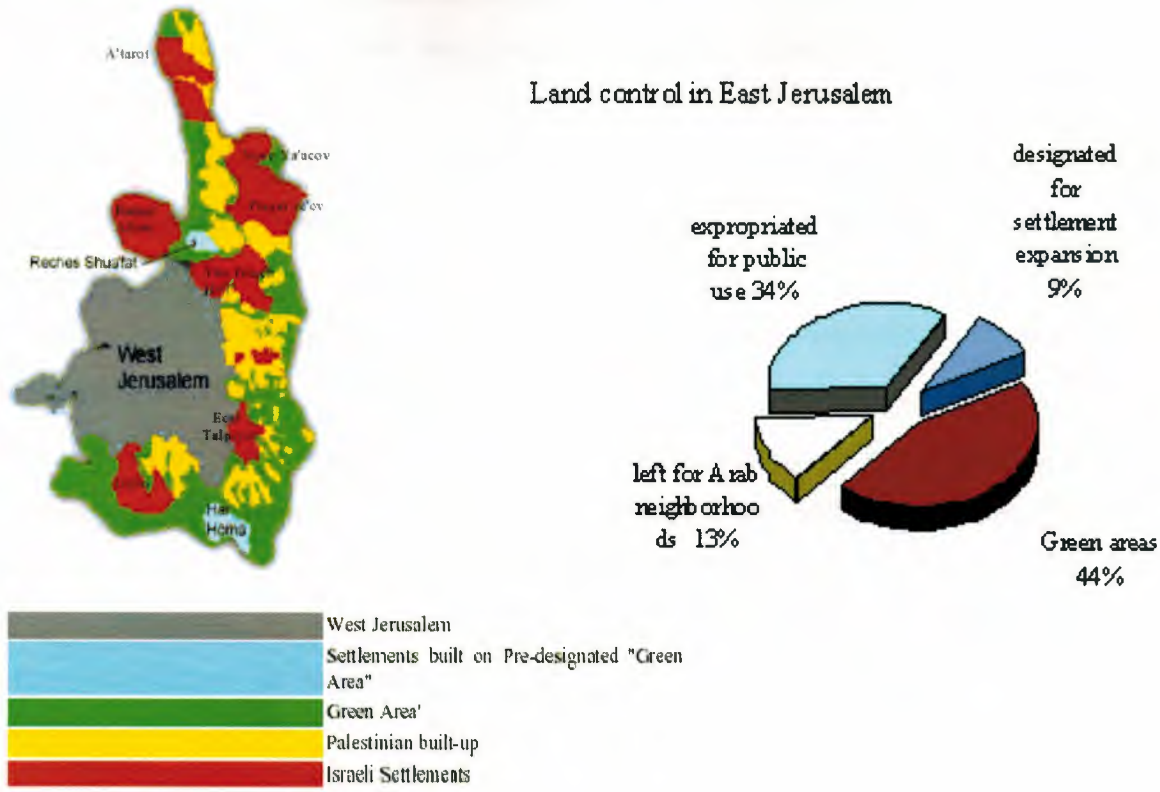
[29]The Israeli Statistical Yearbook of Jerusalem, 2000.
[30] Tafakgi, Khalil. "the geographic and demographic distribution of Israeli settlements (in Arabic)", 1995.
[31] PASSIA (Palestinian Academic Society for the Study of International Affairs), " Fact Sheet- Jerusalem, Settlements" . (Available www.passia.org).
[32]Isaac, J. And Hosh, L., " Political Conflict and Environmental degradation in Jerusalem",1997.

Figure (8): Land use and Town Planning Scheme Of Jerusalem



Source: Isaac, J. And Hosh, L. "Political Conflict and Environmental degradation in Jerusalem", 1997.

From map analysis, it is clear that the Israeli occupation through its classification of Green areas in the east Jerusalem, it aiming at separating the Jewish settlements from Palestinian communities. Such classification creates a buffer zone between the settlement and communities and prevents the expansion of the Palestinian communities on their own lands, which are to be saved for the expansion of Jewish settlements.

In East Jerusalem, there are 12 settlements (Red Areas on the Map) - with an Area of approximately 2.65 sq km[33] and with settlers approximately 200,000. These settlements form two rings around the city, one is the inner ring in East Jerusalem and the other is the outer ring "Greater Jerusalem" reaching far into the West Bank[34]. Israel through the expansion of

[33] Hodgkins, Allison B., "Israeli Settlement Policy in Jerusalem - Facts on the Ground. Jerusalem": PASSIA, 1998

[34] Tafakgi, Khalil., "the geographic and demographic distribution of Israeli settlements (in Arabic)", 1995.

Jerusalem boundaries, demographic shifts in East Jerusalem and the restrictions imposed by town planning scheme on Palestinian build-up intended to:

- Secure Israeli superiority over the entire Jerusalem region (Geographical and Demographical),
- Isolating Arab East Jerusalem from rest of the West bank,
- Split the West Bank in tow parts, in order to prevent accessibility among the south and north of it, and
- Imposing economic strangulation where the city is the natural center for all trade and movement routes in the Palestinian Territories.

Israel has been staged measures to judaize Jerusalem; creating de facto realities on ground affecting a total situation of Jerusalem make it difficult to any probable solution. This situation reflects a small part of the real war between the autochthonous Jerusalemites and exotic Jews on Jerusalem. Is it possible to discuss economic viability under isolating Jerusalem economically and geographically?

4.3. Impact of Fragmentation

One of a direct result of fragmentation of Palestinian lands that restricting the growth of Palestinian communities, is that the growing Palestinian population being squeezed into smaller area of the land with nearly stagnant water resources. In most cases, settlements and bypass roads surround Palestinian communities and, therefore, prevent their natural growth. On the other hand, this division of the West Bank creates difficulties on the ground for the Palestinian Authority to rehabilitate the West Bank infrastructure and initiate developmental projects. Such fragmentation makes it impossible to construct an effective and efficient national infrastructure for the whole of the West Bank and Gaza Strip, such as building a national electric grid and water supply network, and formulating an integrated natural policy for economic sectors, in particular, agriculture and water sectors. A natural outcome of this is the impediment of a sound natural recourse management scheme which is an essential prerequisite for promoting sustainable development.

Because the implementation of Oslo Accords that classified Palestinian areas as A, B and C with no territorial continuity among them, the free movement from place to place often requires movement through Area C which is under Israeli control, such a situation creates more difficulties for all economic sectors in West Bank.

4.4. Summary

The major economic challenges in West Bank and Gaza Strip after the Oslo accords are a direct result of both, the content of the accords and the harsh Israeli measures against Palestinian economy. The Oslo agreement gives only limited territorial control to the Palestinian authority. The implementation of the interim agreement segmented the West Bank into three types of control according to A, B and C classification, thereby undermining economic viability of WBGS. As a result of PLO- Israeli accords, over 73% of the West Bank and 22% of the Gaza strip lands are inaccessible to Palestinians. On the other hand, the acceptance of Bypass roads building has creates new challenge for territorial integrity of West Bank and facilitates the isolation of Palestinian communities.

The territorial fragmentation of the West Bank and Gaza Strip poses a serious challenge to the future of the Palestinian state and its economic viability. It prevents long-term investments and favors the development of inefficient and segmented production and consumption. Moreover it suggests that Palestinian national and economic aspirations will not be attain. Finally, the territorial fragmentation and economic isolation of West Bank, and the ongoing economic and territorial separation between the West Bank and the Gaza Strip suggests that a Palestinian state is impossible under this reality.

CHAPTER 5

THE IMPACT ON ECONOMIC VIABILITY OF BORDER CLOSURES AND TERRITORIAL CONTROL

5.1. Overview

Borders are one of critical issues that bringing about conflict. Since the establishment of the Jewish state on Palestinian land in 1948, territorial control and border disputes were and still one of the core issues of the Middle East conflict. At the end of 1987 Intifada, Israel has implemented permit and closure policies that constituted a major new constraint and challenge to economic viability in the West Bank and Gaza Strip. Since 1993 successive Israeli governments have been using siege and closure policies as collective punishment tool against Palestinians, these policies creating economic losses resulting from interruptions to labor and trade flows with Israel and also contributed substantially to a reduction in the standard of living, and an increase in unemployment and poverty.

This chapter will seek to address the reasons behind this poor economic record, as the closure policies and the lack of control over territories and whether, there is possibility to achieve economic viability of West Bank and Gaza Strip under unilateral Israeli control of territories and borders .Movements across borders and its policies is substantial engine not only for international and internal-trade but to achieve and incarnate an economic viability.

Currently, Israeli closure policies intended to disrupt the integrity of Palestinian cities and ignore the rights of Palestinians to free movement and interconnection with each others. The West Bank and Gaza Strip to large extent depend on labor flows to Israel and its receipts. In addition, economic sectors depend on imported raw material and also the agriculture sector depend on exports its products to neighbor countries. This means that, siege and closure policies have been large negative consequences on the West bank and Gaza Strip.

5.2. Issue of Control under Signed Agreements

The Declaration of Principles, which sets out the framework for relations between Israel and PLO in the interim period, clearly establishes that all issues pertaining to borders, just as to refugees, settlements, Jerusalem, and Palestinian sovereign control over land and resources are to be left to final status negotiations. Borders are only mentioned in the DOP as an issue to be discussed in permanent status negotiations. Nevertheless, for borders, more than for any

-ther issue, the interim agreements have a direct impact on the final status talks. Clauses in both Oslo I and II say that nothing in the agreements will "prejudice or preempt" the outcome of the negotiations on permanent status[1]. This clause has great implications for borders, by implying that even if Israel redeploys from a certain area during the interim period in accord with the DOP and subsequent interim agreements, the boundaries of that redeployment should have no bearing on the negotiation of a final border.

The Declaration of Principles in 1993 and the subsequent accords gave Israel the right to control entry of persons and goods into its area, and can close crossing points whenever deemed necessary [2], Israel also states that it can close borders whenever it wants[3].The Declaration of Principles specifies that Israel remains in control of external and internal security. It also states that relations to other neighbors are to be determining in the final status negotiations[4]. Under Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, Oslo II, signed on September 28, 1995, Israel redeployed from the major Palestinian population centers in the West Bank and later from all rural areas, with the exception of Israeli settlements and the Israeli-designated military areas. In detailing this schedule, the agreement divided the West Bank into three areas (Areas A, B, and C), along with Gaza Strip, each one with distinctive borders and rules for administration and security controls (for more details see chapter 4). Areas under Israeli control are separating from that under Palestinian administration; these areas are characterized by checkpoints.

On the other hand, The Declaration of Principles in 1993 and Interim Agreement on the West Bank and the Gaza Strip in 1995 have maintained that it is indeed possible to achieve economic viability without defining borders or territorial sovereignty. Contrary to what the Economic Protocol predicted, borders and territorial definitions were not transcended in the interim period. The Interim Agreement in itself confirmed Israel's territorial claims and did nothing to diminish its ability to unilaterally close the borders whenever and for how long it deemed necessary. The implementation of Oslo simply confirmed Israel's power and emphasized its ability to continuously impose its territorial control over the WBGS, often to the detriment of economic growth and continuity.

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[1] Declaration of Principles on Interim Self-Government Arrangements Washington DC, 13 September 1993, Article v.
[2] The protocol on Redeployment and Security Arrangements, where article IX
[3] The Protocol on Economic Relations, article VII.
[4] Declaration of Principles on Interim Self-Government Arrangements Washington DC, 13 September 1993, Article v

Border Closure and Permit Policies

In spite of launching the peace process in Madrid and the signing of the Oslo, Taba and Cairo agreements, Israel has persisted in practices that put economic and political pressures on the Palestinians. It has even developed a new method for economic blockade under security pretexts, which is the permit and closure policies. The permit and closure policies that Israel has implemented since 1993 constitute a major new constraint and challenge to economic development in the West Bank and Gaza Strip[5].

Ever since, military checkpoints and roadblocks have created along the West Bank and Gaza Strip separating Palestinian cities and Built-up areas from each others, and Green line areas (Israel) and East Jerusalem from the remaining West Bank. Israel has prevented Palestinians from entering Jerusalem or the Green Line for work or for any other purpose except with permits obtained from the Israeli security authorities[6]. The border checkpoints have considerably slowed the mobility of goods and people and have increased transaction costs. Israel has closed various borders between the West Bank and Gaza Strip, between the West Bank or Gaza Strip and Green Line (Israel), and the rest of the world, and between various cities of the West Bank for varying lengths of time.

During the interim period, Israel continued its policies of keeping tight control over the Palestinian economy, its development, and external ties. In an attempt to obtain political concessions, Israeli authorities have maintained economic pressure on the Palestinians and have continued to use checkpoints and roadblocks, on the one hand, for undermining the economic viability and development, on the other, to pressure PLO leadership into making concessions [7]. This was seen, for example, when the government of Netanyahu refused to pay the PA tax clearance until they cracked down on so-called "terrorism". The closure policies include banning movement of goods, factors of production and people between the Palestinian areas and Israel and the Gaza Strip, and between the rest of the West Bank and Jerusalem.

Closure also often entails banning movement between the West Bank and Jordan and between the Gaza Strip and Egypt. Jordan and Egypt are the only acess for the Palestinian economy to the Arab world and to the rest of the world, especially during closure. These policies have been particularly costly to the Palestinian economy given its deep integration

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5 Diwan, I. And R. Shaban, "Development under Adversity: The Palestinian Economy in Transition": Summary, MAS-World Bank Joint Report, 1999.
6 MAS-Palestine Economic Policy Research Institute, "The Economic Monitor, No. 8", Ramallah, 2001.
7 Ibid

with the Israeli economy since the 1967 occupation[8]. The banning of the movement of goods from one region in the West Bank to another, between the West Bank and Gaza, and between the rest of the West Bank and Jerusalem obstructs the marketing process and increases the pressure on the Palestinian market, thus frustrating the hopes for increased productivity and a better exploitation of the unemployed production capacity.

5.4. Border Closures and Movement Restrictions

Since the accords, the West Bank and Gaza have been continuously subjected to combination of movement restrictions and border closures imposed by Israeli authorities. The policy of closure is being instituted under the pretext of security and in response to political attitudes. closures have entailed the imposition of mobility restrictions on people, vehicles and goods at the West Bank and Gaza Strip's external borders (with Green Line and with the neighboring countries of Egypt and Jordan) and at multiple points internally within the West Bank and Gaza Strip. Clearly, closures means that goods and people, be it businessmen or workers, could not access Israel or the world. At certain times, it also means that access between the various parts of the West Bank and links with the Gaza Strip were severed.

The most conspicuous and the greatest impediment affecting economic viability since the defining of interim period has been the series of border closures and related security measures imposed in the West Bank and Gaza Strip. In the period 1993-96, there were 342 days in the Gaza Strip and 291 days in the West Bank of total or partial closure. In 1996 alone the territory was under border closure for around 135 days, an increase of 35 per cent in the Gaza Strip and 57 per cent in the West Bank[9]. In the remaining time, the norm has been limited freedom of movement. However, between 1997 and the first nine months of 2000, there were 124 days of closure. Compared with 1997 closure, the next years witnessed a decrease in days of total closure from 26 in 1998, to 16 in 1999[10]. On the remaining days of the years, however, a partial closure was imposed. These closures were often unpredictable and implied that all economic activity came to a halt. Moreover, Israeli permits condition Palestinian economic life.

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[8] Diwan, I., And R.Shaban, "Development under Adversity: The Palestinian Economy in Transition": Summary. MAS-World Bank Joint Report , 1999.

[9] Palestine Economic Policy Research Institute (MAS), *MAS Economic Monitor*, No. 1, Ramallah, 1997.

[10] Office of the United Nations Special Co-ordinator(UNSCO) " Report on the Palestinian Economy, *With Special Report on Palestinian Merchandise Trade"* Spring 2000.

Table (5): Number of days with imposed border closures on the Palestinian Territory, 1993-2000[11]

	Total days of border closure	Of which working days lost	Lost Days in % of Potential Work Days
1993	26	17	6.1%
1994	89	64	23.1%
1995	112	83.5	29.9%
1996	121	89.5	31.9%
1997	79	57	20.5%
1998	26	14.5	5.2%
1999	16	7	2.5%
2000	75	52	18.8%

Source: Office of the United Nations Special Co-ordinator (UNSCO) " Report on the Palestinian Economy" Spring 2001

5. Collective Punishment: A Continued Policy of Imposing Closure

Since 1993, Israeli occupation forces continued to adopt policies of collective punishment against Palestinian civilians through imposing a different closure measures on the West Bank and Gaza Strip. Under the closure measures, Israel closes all the exits from the West Bank and Gaza Strip into the Green Line territories, and prevents Palestinians from entering into Green Line. Usually imports and exports from and to the Gaza Strip are also prevented under these measures. Under a partial closure, a limited number of citizens are allowed to move between West Bank and Gaza Strip, and to work inside Israel[12]. Furthermore, they closed the so-called "Safe Passage" between the Gaza Strip and the West Bank through Green line territories, which was opened on October 25, 1999.. During partial closure, the Israeli occupation forces issued a limited number of permits for Palestinians to move between the West Bank and the Gaza Strip. Other than this, Palestinian laborers were denied access to their work places in Israel. Additionally, they closed Gaza International Airport, the sole air outlet for the Gaza Strip. Furthermore, they imposed a sea siege on the Gaza Strip and prevented Palestinian fishermen from entering the sea[13].

In addition, the Israeli occupation forces restricted movement inside the Gaza Strip, where, there are 53 Israeli checkpoints and isolations within the Gaza Strip. From time to time Israeli Occupation Forces and their settlers close roads and junction, in violation of the rights to freedom of movement of Palestinian citizens[14]. Briefly, they reinforced their presence at the main junctions and roads in the Gaza Strip.

[11] UNSCO, "Report on the Palestinian Economy" spring 2001.
[12] The Palestinian Center for Human Rights, "Annual Report 1999".
[13] UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restriction and Border Closures" January, 2001.
[14] The Palestinian Center for Human Rights, "Annual Report 1999".

Later, the Israeli occupation forces closed Salah El-Din Street (the main road between the north and south of the Gaza Strip) near the junction leading to Kissufim settlement, and all alternative branch roads. Additionally, they closed Al-Mawasi area in Rafah and Khan Yunis, and prohibited movement to and from the area. Internal closure of the Gaza Strip, very often divided the Strip into three isolated parts, transforming the Gaza Strip into Gaza Strips[15]. However, in the West Bank, as discussed in chapter 4, There are 161 distinct "islands" of Palestinian control (i.e. Area A or Area B) surrounded by a sea of Area C, in addition to 105 Palestinian villages that are still completely within Area C and 216 that have parts in area C[16]. These Islands and villages isolated and controlled by Israel through reinforce its presence at the entrances of these areas by many checkpoints and roadblocks. This escalation had disastrous consequences for all aspects of life in the West Bank and Gaza Strip.

[15] The Palestinian Center for Human Rights, " Annual Report 2000".
[16] Applied Research Institute- Jerusalem (ARIJ), "An Overview of the Geopolitical Situation in the Palestinian Areas" *May, 2001.*

5.6. The Impact of Mobility Restrictions and Border Closures on the Palestinian Economy

The comprehensive closure of the WBGS by Israeli Occupation has a detrimental effect on the Palestinian economy and totally severs links with the outside world. The main economic effect of closure has been the **shrinking geographic scope of economic activities both in terms of employment opportunities and access to markets** for inputs into the productive process and for exports of finished goods and services. The impact is usually immediate on direct contacts. Both sectors, Palestinian Labor market and Trade are very sensitive to border closure, Palestinian trade is largely tied to the Israeli economy and the Palestinian labor market have severe dependency on employment opportunities within the Israeli economy. The impact of the closures is acutely felt by the Palestinian economy in three ways.

5.6.1 Impact on Labor Flows

The Palestinian labor market principally consists of two labor markets. One is the labor market inside the Green Line; the other is to be found in the West Bank and the Gaza Strip it self, particularly in Israeli settlements, and industrial zones. The closures have a multifold impact, as soon as such a closure is announced, thousands of workers become immediately unemployed as the permits they hold that allow them to reach their workplaces in Israel and in settlements become invalid. The Palestinian economy is simply unprepared and structurally unequipped to absorb such a huge flow of workers for unpredictable periods, while, the Israeli economy has maintained a steady demand for Palestinian labor from the West Bank and Gaza Strip. Compared with over 120,000 Palestinians working in Israel prior to 1993, PA estimates in 1996 reveal at least 50,000 workers with permits and some 22,000 undocumented, bringing the total to around 75,000 Palestinian day workers in Israel in "normal" circumstances[17]. In the first half of 2000, there was an average of about 130,000 Palestinians employed in the Israeli economy and Israeli settlements and industrial zones on a daily basis[18].

Lost wages reverberate throughout the economy, and secondary losses can be assessed by multiplying four or five times the amount of lost wages (The average worker was earning a daily wage of NIS 110 or about USD 27). These losses may be mitigated initially by accumulated savings, although in the case of low-income families dependent on work in Israeli economy these are typically quickly exhausted. Using the figure of 130,000 workers as

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[17] PA Ministry of Labor

[18] UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 28 September—19 October 2000.

the pre-closure total and an average wage of $27 a day, thus at 2000, the losses in labor income from Israeli economy at around $3.5 million a day[19] prior to the crisis (Al-aqsa Intifada). On an annualized basis, assuming no border closures and no change in the average number of workers or the average wage, Palestinian workers in Israel could have earned an estimated USD 885 million in the year 2000, or approximately USD 74 million per month[20]. On the other hand, economic shocks resulting from border closures and movement restrictions kept domestic core unemployment rates ranging between 15 and 25%, as compared to less than 10% in 1993. Broader measures of unemployment, which take into account discouraged workers and underemployment, ranged between 25 and 35%. In periods of border closures, unemployment levels in Gaza exceeded 50%[21].

5.6.2 Commodity Flows and External Trade Income

The flow of goods and services traded with Israel and the rest of the world were heavily affected by the mobility restrictions and closures. The closure includes banning movement of goods, factors of production and people between the West Bank and Green line and the Gaza Strip, between the rest of the West Bank and Jerusalem, and between various cities and villages in the West Bank. Closure also often entails banning movement between the West Bank and Jordan and between the Gaza Strip and Egypt. Jordan and Egypt are the only entry points for the Palestinian economy to the Arab world and to the rest of the world.

These closures and related measures, whether limited or total, have equally disruptive effects on commercial activity. However, exports and trade activities subject to complex security measures to pass through Israeli checkpoints on Gaza Strip, some of these measures that the vehicles has been subjected to six hours of security searches, and that they met the necessary conditions to pass through the checkpoint[22]. The situation is particularly bad when it comes to agricultural products, (when Israel banning the transportation of agricultural exports between the Gaza Strip, the West Bank and the world), which cannot endure long shipping delays and require special arrangements for storage. For example, citrus and vegetables exports, both the mainstay of the Gaza Strip economy, decreased dramatically during border closure due to spoilage[23]. Moreover, the closure also including banning

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[19] UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 1 October 2000—31 January 2001.
[20] Ibid
[21] The World Bank and *the* United Nations Office of the Special Coordinator in the Occupied Territories, "Donor Investment in Palestinian Development 1994-1998".
[22] The Palestinian Center for Human Rights, "Annual Report" 1999".
[23] Diwan, I. And Shaban, R., "Development under Adversity: The Palestinian Economy in Transition": Summary, MAS-World Bank Joint Report, 1999.

fishermen in Gaza Strip from going to sea, denies them the possibility of an income, as they are unable to carry out their livelihood.

The Palestinian Center for Human Rights stated in a report on 25 December 2000 that the Gaza Strip's exports between September 29 and December 15 compared to the same period in 1999 were as follows[24]: **Table (6)**

Year	Fruits(tons)	Citrus fruits (tons)	Vegetables (tons)	Strawberries (tons)	Flowers (million tons)
1999	1,535	1,931	17,012	407	6
2000	19	105	9,766	200	3

According to the Palestinian Central Bureau of Statistics, the agricultural product of the West Bank and Gaza Strip totals US $953.6 million a year. Most of the agricultural income comes from exports to Israeli economy and the world. Similar trends are observed in other export branches particularly that have been dependence on imported-raw material. Specially, industrial sector where closure had a devastating effect on local industry. When Israel stops the movement of Palestinian exports, industries have not been able to receive the necessary raw materials and Palestinian imports have been kept at Israeli seaports. Moreover, trade between the West Bank and Gaza Strip was reduced to 25% of what it had been before the closure due to separation between both territories[25].

In 2000, between the third and fourth quarter, imports decreased by 37 percent and exports by 15 percent due to the eruption of the Al-aqsa Intifada in the fourth quarter of 2000[26]. On the other hand, when 90 percent of imports came from or through Israel, and 95 percent of exports went to or via Israel[27], the sudden and sharp closures create both an immediate financial risk for producers and traders, and significant indirect costs such as inconsistencies in supplies and unreliable delivery times. Such these conditions have had a major negative impact on the Palestinian economy.

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24 The Palestinian Center for Human Rights, "Annual Report, 2000".
25 The Palestinian Society for the Protection of Human Rights & the Environment, "Israeli Violations of Palestinian Economic Rights" May 2000.
26 UNSCO, "Report on the Palestinian Economy", Spring 2001.
27 Palestine Economic Policy Research Institute (MAS), MAS Economic Monitor, No. 7, Ramallah, 2000.

5.6.2.1 Transaction Costs as an Example for Closure Effect on Trade

In 1996, total exports to Israeli economy were estimated at $200 million. By some estimates, the figure could have been $600 million in the absence of closures[28]. In 1998, a relaxation of security controls led to reduced transaction costs where that induce a significant increase in trade activity. Export volume increased by 6.9 percent, while gains in terms of consumer welfare represent more than 3 percent of the level of GDP[29]. The study of trade options for Palestinian economy found that transaction costs approximately three times higher the average level that can be observed in neighboring countries. However, the study assumes that a relaxation of security controls translated into a 15 percent decrease in trade and transport margins. Reducing by 15 percent the average transaction cost means that the producer price is increased by 30 percent (instead of 35 percent previously) once trade and transport margins are added to the price out of factory. The study therefore implicitly assume that only 5 percentage points out of 35- or less than one-fifth of the difference in transaction cost with neighboring countries - can be attributed to security checks[30].

5.6.3 Internal Impact

The main economic impact of such mobility restrictions is found in the reduction of output and revenues for commercial and business enterprises which are unable to obtain inputs and/or access output markets, and travel in order to make payments. In many cases, local workers are unable to travel to work, and manufacturers lose access to inputs. Furthermore, many manufacturers cannot collect payment on their products and are forced to reduce production (because of loss of inputs, labor and markets). Manufacturers also lose access to markets in Israel and in the Strip or the West Bank. Many are also prevented from delivering on their contractual obligations, thereby increasing the potential misgivings of international importers interested in Palestinian exports. Prices in turn are affected by closure. For example, closures in harvest season entail severe agricultural costs, with prices for Gaza Strip seasonal vegetable produce around half normal price levels[31]. Fresh food imports from Israel, such as imports of poultry, experienced significant price increases as border procedures were intensified.

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[28] Diwan, I. And R. Shaban. " Development under Adversity: The Palestinian Economy in Transition": Summary. MAS-World Bank Joint Report, 1999.
[29] Astrup, C. and S. Dessus, "Trade Options for the Palestinian Economy: Some Orders of Magnitude", World Bank, Marsh 2001.
[30] Astrup, C. and S. Dessus, "Trade Options for the Palestinian Economy: Some Orders of Magnitude", World Bank, Marsh 2001.
[31] UNSCO, "Costs of closure: Some preliminary indicators on costs of closure in the Gaza Strip", Gaza, April 1996.

On the other hand, the combination of internal movement restrictions and border closures has disproportionately affected those businesses dependent on external markets such as the tourism sector[32]. MAS (Palestine Economic Policy Research Institute) points out that the interim period closures differed from those in preceding years, "which had a significant effect on the continuity and regularity of production, marketing and income generation. This exacerbated the confusion and distortion that affected viability of Palestinian economic activities in general".

5.7. Other Border Restrictions Affecting Economic Viability

Since the signing of the September 1995 interim accords, the Israeli occupation and its direct administrative rule receded. But Israel still controls the borders of the West Bank and Gaza Strip, the situation at the various border crossings has become more complicated and restrictive, with fewer Palestinian exporters and importers able to understand or negotiate the procedures and security measures. Documentation requirements have increased, as the coming of the PA has meant another level of bureaucracy, and the complex trade regime of the Protocol has meant that the levels of treatment for different commodities have increased as well. Furthermore, the system of importing and exporting goods has not been rationalized at the different entry points. Different requirements exist for different checkpoints and crossings, even ones which share a national border.

For instance, in the Gaza Strip there are four border crossings: The Al Awda border crossing at Rafah between the Gaza Strip and Egypt, Al Mintar (Karni) Border Crossing, Soufah Border Crossing and Erez, (Bethanon border crossing) the main border crossing on the Green Line in the Gaza Strip[33]. The import requirements at Al Awda and Soufah in the Gaza Strip are different, though they both share the Egyptian border. Also, the Israeli authorities have begun to direct different imported commodities to different checkpoints, increasing the cost and complexity of moving goods. The Al Mintar crossing was opened specifically to keep goods flowing in the event of a border closure, and was subsequently closed during the total closures of 1996 and occasionally since then. A new checkpoint for construction materials in the Gaza Strip was opened at Soufah, incurring further controls, and

[32] UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 1 October 2000 - 30 September 2001.
[33] The Palestinian Society for the Protection of Human Rights & the Environment, "Closure As Collective Punishment", February 2001.

hence higher prices, of construction materials entering the Gaza Strip[34]. Such difficulties also lead to increased opportunities for monopolistic trading practices, thereby increasing the costs of transportation.

The problems encountered by Palestinian trucks crossing the border areas with merchandise are exacerbated during periods of closure. For example, between the third and fourth quarter of the 2000, the monthly average of imported truckloads decreased by over 75 percent and exported truckloads by over 58 percent[35]. Even in non-closure times, the treatment of Palestinian shippers and their commodities at border points tends to marginalize the role of PA customs officers, and makes shipping difficult and expensive[36]. On the other hand, Palestinian businesses seeking to export or import through Israeli ports faced transaction costs that are, on average, 35 percent higher than for an Israeli firm in the same industry[37].

5.8. Aggregate Closure Effects

The permit policies and border closures that imposed on the WBGS have increased transaction costs, enhanced unpredictability and uncertainty, and brought a halt to all trade and investment. Between 1993 -1996, the total cost of closure and permits was estimated at a total of $2.8 billion. This is equivalent to 80% of one year's GDP and double the amount disbursed in terms of aid over this period[38]. The preliminary estimate cost of each day of closure in 2000 was reported at $9.4 million dollars, the equivalent of 60% of the West Bank and Gaza Strip estimated daily GDP[39]. However, the increase in trade deficit with Israel in the first years of the interim agreement can be attributed to some extent to the increase in the restrictions of movements[40]. On the other hand, political uncertainty, combined with disruptions in the movement of people and goods brought about by border closures,

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[34] PA Ministry of Economy and Trade, "From back to back: The Palestinian trade situation on the borders", February 1996, (in Arabic).
[35] UNSCO, "Report on the Palestinian Economy", Spring 2001.
[36] PA Ministry of Economy and Trade, "From back to back: The Palestinian trade situation on the borders", February 1996, (in Arabic).
[37] The Palestinian Chambers of Commerce, "The Transaction Costs Study: An Examination of the Costs of International Trade in the West Bank," August 1998.
[38] Diwan, I. And R.Shaban. "Development under Adversity: The Palestinian Economy in Transition": Summary. MAS-World Bank Joint Report, 1999.
[39] UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 28 September—19 October 2000.
[40] Astrup, C. and S. Dessus, "Trade Options for the Palestinian Economy: Some Orders of Magnitude", World Bank, Marsh 2001.

made investment in the Palestinian economy during the interim period risky and difficult[41]. Whereas the highly visible nature of the border closures and their impact in 1996 and 1997 have eroded earlier optimism and confidence in the West Bank and Gaza Strip as potentially attractive for domestic and foreign investment and trade[42].

At the local level, the shocks from the border closure policy have occurred with increasing frequency and uncertain duration, causing additional loss of labor income, increased unemployment, reduced household income, declining sales and profitability, loss of perishable goods and services, creating incentives to adjust toward lower value-added activities and a growing balance-of-payments deficit[43]. Officially, these closures are related to security concerns, but their economic cost, both direct and indirect, is devastating, thereby potentially creating a bigger threat for Palestinian economy and its sustainability in the future.

The understanding of comprehensive development for Palestinian economy is task would not be for short-term, but for long-term public investment, which includes financing infrastructure projects, supplying capital assets in kind and providing support to the private sector. This understanding could not be adhered to because of severe economic conditions caused by border closures. The ensuing problem of widespread unemployment and the spread of poverty shifted attention, with short-term income maintenance projects being favored instead of public investment. During the first three years (1994-1997), total disbursements reached $1,527 million, of which half was allocated to short-term support, 34 per cent to public investment and the remainder to technical assistance[44]. Owing to closures, in 1996-1997 a major contraction occurred, leading to severe unemployment and the spread of poverty[45]. The economic situation improved somewhat after 1997, as a result of fewer closure-induced disruptions and of positive political developments. However, the deadlock between Israel and the PLO and the cessation of the peace process until 1999, this cause a state of uncertainty to prevail among local and foreign investors[46]., making them reluctant to invest in the Palestinian economy , and leading to adverse consequences for investment and growth.

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[41] United Nations Conference on Trade and Development, "The Palestinian Economy: Achievements of the Interim Period and Tasks for the Future" Geneva, 2001

[42] Ibid

[43] United Nations Conference on Trade and Development, "The Palestinian Economy and Prospects for Regional Cooperation", 1998.

[44] Diwan, I. And R.Shaban. "Development under Adversity: The Palestinian Economy in Transition": Summary. MAS-World Bank Joint Report, 1999.

[45] Ibid

[46] United Nations Conference on Trade and Development, "The Palestinian Economy: Achievements of the Interim Period and Tasks for the Future" Geneva, 2001

5.9. Closures and Dependency

Israel's unilateral recourse to border closures confirmed central reality, that economic prosperity in the WBGS is dependent on access to Israeli economy and via it to the world. During the three decades of occupation, the WBGS developed economic structures based largely on open labor and goods markets, whereas, one-third of the labor force was employed in Israeli economy[47], 90 percent of WBGS total imports came from Israeli economy or through Israeli ports. Also, 95 percent of WBGS exports are to or via Israel[48]. These conditions create severe dependency on Israeli economy.

5.10. The Current Crisis and its Repercussions on Palestinian Economy

The present closure and siege of the Palestinian territories came in the wake of Palestinian protests against the storming of al-Aqsa Mosque courtyards by Ariel Sharon on September 29, 2000 and the subsequent Palestinian uprising (al-Aqsa Intifada). The current Israeli siege differs from previous closures[49]. The current closure and siege have characterized by Unprecedented levels of destruction of the infrastructure of Palestinian economy (roads, water source, electricity, telecom, schools, hospitals, airports), and by the most severe, sustained mobility restrictions imposed on the West Bank and Gaza Strip since 1967[50], in addition it came in the wake of the failure of PLO-Israeli negotiations and is an attempt to exert pressure on the Palestinians to obtain further political concessions.

To discuss the economic viability under the present closure and siege, will highlight the first year of Al-aqsa intifada as the period indicative of steep economic decline of total activities for Palestinian economy. Achieving economic viability is entailing free movement of Palestinian goods and individuals across borders and within the West Bank and Gaza. The closure policy has become the single most important factor negatively affecting the economic situation and has come to dominate much of Palestinian life. The mobility restrictions take three basic forms: internal closure within the West Bank and Gaza, closure of the border between Green line (Israel) and the West Bank and Gaza and closure of international crossings between the West Bank and Gaza and neighboring Jordan and Egypt.

5.10.1 Internal Closure: A dense network of fixed and mobile military checkpoints has been established on transportation lines within the West Bank and Gaza Strip since September 28,

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47 Diwan, I. And R.Shaban., "Development under Adversity: The Palestinian Economy in Transition": Summary. MAS-World Bank Joint Report, 1999.
48 Palestine Economic Policy Research Institute (MAS), *MAS Economic Monitor*, No. 7, Ramallah, 2000
49 MAS-Palestine Economic Policy Research Institute (2001). "The Economic Monitor No. 8". Ramallah
50 the World Bank, "Fifteen Months – Intifada, Closures and Palestinian Economic Crisis – An Assessment".

2000. According to this form of closure, pedestrian and vehicle mobility on main roads is reserved for Israeli military personnel, settlers and non-Palestinians. The Palestinians have to use secondary or tertiary roads, or roundabout routes for movement between villages, towns and cities within West Bank and Gaza Strip[51]. Additionally, Israel establishment of physical barriers or manned checkpoints on these roads created a interminable delays and frequent harassments. As a result, productive time is lost, transport costs have risen, damage to roads and vehicles has increased, and the normal intercourse of business and commerce is a thing of the past, and risk and fear of intimidation and harm by military authorities or Israeli settlers at checkpoints[52].

During the first year of the second intifada, severe internal closure was in place during 240 days (about 66 percent of total days during the period 1 October 2000- 30 September 2001), and in Gaza for 18 days (about 5 percent of total days during the same period)[53]. Closure has also included restrictions on fishing off the Gaza coast intermittently imposed throughout the *intifada*.

5.10.2 Closure of International Crossings: Border closure with neighboring countries. Both passenger and commercial traffic through international crossings has been heavily restricted.

The Jordanian border (The Allenby/Karameh Bridge) was partially or totally closed to Palestinians for 84 days (23 percent of all days during the first year). The Rafah crossing to Egypt was partially or totally closed for 167 days (46 percent of all days during the first year of the Intifada)[54].

Gaza International Airport was open for the last time in February 2001. Since then it has been closed on all days until today. Israeli bulldozers and fighter aircraft attacked the Gaza international airport on 12 December 2001, destroying the radar tower and rendering the runway unusable. A later attack destroyed the runway beyond repair. The airport is a Palestinian civilian facility but is under Israeli military control[55].

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51 UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 1 October 2000—30 September 2001
52Ibid
53 Ibid
54Ibid
55UNSCO , "The Impact of Closure and Other Mobility Restrictions on Palestinian Productive Activities 1 January 2002 - 30 June 2002". October 2002

Figure (9): Israeli checkpoints in the West Bank

Source: Palestinian Ministry of Planning and International Cooperation

Figure (10): Israeli checkpoints in the Gaza Strip

Source: Palestinian Ministry of Planning and International Cooperation

5.10.3 Border Closure with Green Line (Israel): Since the beginning of October 2000, the permit regime has been dramatically tightened, with permits frequently cancelled and border crossings intermittently sealed[56]. The impact of these measures has greatly reduced the employment of Palestinians in Israel and the level of consumer demand in WBG. In addition, the movement of goods across borders has been subject to severe and unpredictable interruption[57].

Restrictions on Palestinians entering Israel from Gaza Strip; the main crossing point between Gaza and Green line (Israel) was closed for 72 percent (263 days) of the first year. Even on days when the crossing point was "open," the number of Palestinian workers entering Green line (Israel)/the Israeli settlements from Gaza was less than 20 percent of the pre-intifada level[58].

Restrictions on the movement of goods to and from Gaza Strip; of the three commercial crossings in Gaza, Karni/Muntar was closed for only 9 percent of the period from September 2000 until December 2001. Soufah was closed until the end of March 2001, but has been open since then on most business days. Erez/Beit Hanun has been closed for 72.1 percent during the period 1 October 2000-30 Septemper2001.When open, intensive security checks increased transport costs and reduced the number of truckloads, especially in the last quarter of 2000[59].

Restrictions on the movement of goods to and from the West Bank; the situation has been easier than in Gaza because of the availability of Israeli-registered trucks that can transport goods without permits. Internal restrictions on movements have meant that some areas of the West Bank were still heavily affected.

5.10.4 Closure between the West Bank and Gaza Strip: The "Safe Passage" a route designed to allow Palestinians to move relatively freely between the West Bank and Gaza, which had been in operation for nearly a year, was closed by Israeli authorities on October 6, 2000 and has not been reopened[60].

5.10.5 Destruction of Infrastructure: Israeli occupation forces have caused widespread destruction and damage to civilian infrastructure in the WBGS, especially in PNA-controlled

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56 UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 1 October 2000—30 September 2001.
57 Abdel- Razeq, O., El-Jafari, M. And Others "The Effects of Israeli Siege on the Palestinian Economy for the Period 28/9/2000 – 30/6/2001"
58 PA Ministry of Labor
59 UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 1 October 2000—30 September 2001.
60 Ibid.

areas. Dozens of PNA police installations and prisons have been shelled, demolished, or bombarded. Indiscriminate Israeli shelling has damaged or destroyed a number of power relay stations, depriving communities of electricity (the OPT depends exclusively on electricity from Israel). On 17 September 2001, Israeli forces attacked the Gaza seaport, where construction had already been stopped, destroying at least one building clearly marked with flags of EU donor countries. As part of its policy of besieging Palestinian communities, Israeli forces have dug trenches around towns and villages in the West Bank, physically cutting roads. Repairing the damage done to physical infrastructure of the WBGS by the donor countries will be both expensive and difficult, placing a major burden on a future Palestinian state and severely undermining its ability to carry out basic functions, such as maintaining air and sea links and facilitating internal movement[61].

Since the eruption of present Intifada, the WBGS economy has been subject to widespread economic crisis resulting from Israeli aggression against the Palestinian people. The imposition of movement restrictions and border closures disrupted macroeconomic progress, leading to an overall annual decline in GDP (-8.2 percent) and GNP (-7.6 percent)[62]. Closures have been the main factor behind an increasing of transportation costs by 26 percent, decline in the productive capacity utilization by 36 percent (from 86 percent pre- crisis to 50 percent post-crisis), increasing by 20 percent of the portion of goods damaged during transport, and decline in confidence of the future by 57 percent of all sampled firms intends to reduce production and 12 percent of firms is expecting a complete shutdown[63]. Similar declines found on sides, imports and exports. On the import side, during the first year of crisis, total imports into the West Bank and Gaza Strip has declined by 56.1 percent compared to pre-crisis levels. Imports from Israeli economy are decreased by 44.5 percent, from Europe by 41.5 percent, and from neighboring Arab countries by 62.2 percent[64].

In regard to exports, total exports from the West Bank and Gaza to Israeli economy and other countries declined by 50.3 percent compared to pre-crisis levels. Palestinian agriculture exports were declined by 52.6 percent while industrial exports fell by 4 9.6percent. Palestinian exports to Israeli markets declined 51.9 percent[65]. On the other hand, the strict

[61]UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 1 October 2000—30 September 2001
[62]UNSCO, "Report on the Palestinian Economy", Spring 2001.
[63] UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 1 October 2000—30 September 2001.
[64] Palestinian Federation of Chambers of Commerce, "Palestinian External Trade and Israeli Impediments", July 2001 (in Arabic).
[65] UNSCO, "The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restrictions and Border Closures", 1 October 2000—30 September 2001.

internal closure that impeding the mobility of people and products within the West Bank and Gaza, increased closure of the border with Green line (Israel), as well as tightened Israeli security measures at the commercial ports resulted in an increase of 25 percent in the cost of imports and an increase of 46.1 percent in import time delay[66].

5.11. Summary

Efforts to achieve economic viability through increase exports or improve production in the West Bank and Gaza Strip are clearly defined by the range of barriers that result from internal and external closure policies, particularly those affecting the free movement of people and goods. Closure measures around as well as inside the West Bank and Gaza, have had a significant negative effect on the Palestinian economy and consequently on the daily lives of average citizens. Whereas, closure means that workers who previously had their place of employment outside of the line of closure have lost their jobs while many producers and merchants have lost their traditional markets for inputs and outputs. So, the main economic effect of closure has been the shrinking geographic scope of economic activities both in terms of employment opportunities and access to markets for inputs into the productive process and for exports of finished goods and services.

The highly visible nature of the border closures, and their impact during the interim period, have eroded earlier optimism and confidence in the West Bank and Gaza Strip as potentially attractive for domestic and foreign investment and trade. The effective subordination of WBGS's economy to combination of border closure policies and attendant complex security measures continues to constrain the ability of the Palestinian economy to move beyond those structural economic distortions pre-1993 period, in order to achieve economic viability.

[66] Palestinian Federation of Chambers of Commerce, "Palestinian External Trade and Israeli Impediments", July 2001 (in Arabic).

CHAPTER 6

PERMANENT STATUS NEGOTIATIONS AND A PROPOSED PALESTINIAN STATE

6.1. Overview

During the first Intifada erupted in 1987, Israel concluded that the status quo then was unsatisfactory and that conclusion opened the door to Oslo peace process. Israel hoped that the PLO would be a partner in assuring Israel's security interests in the West Bank and Gaza Strip, and in Israel proper. Security interests for Israeli entity, and establishment of state and economic prosperity for Palestinians, it was thought, would be the engine of this process. Into the year 2000, the Palestinian economy faced an uncertain future. The five-year interim period, which was planned to conclude with a permanent status agreement in 1999, had been extended without the conclusion of negotiations on permanent status issues. Developments during the six-year interim period have clearly demonstrated that in the realm of the Israeli-Palestinian relationship economic and political issues are inextricably intertwined. The deliberate separation between the two in the interim accords was based on the assumption that economic cooperation between the two sides could advance and pave the way to resolving political issues. This, however, did not happen during the interim period.

The formation of an Israeli Labor Government in 1999 by the former Israeli Prime Minister Ehud Barak led to resumption of interim and permanent status negotiations at "Camp David" in July 2000. Many throughout the world believe that former Israeli Prime Minister Ehud Barak "was generous in an unprecedented offer to the Palestinians". This Chapter will discuss Barak's proposals for resolving permanent status issues and the possibility to establish an independent and viable Palestinian state under these proposals.

6.2. Israeli Proposals at Camp David Summit

Results of the Camp David summit, which concluded late July 2000, posed as a main axis in the settlement process that started in Oslo nine years ago. The summit was no different from the overall ambiguity that shaped that process as evident from the little information leaking on its results so far. The first difficulty in assessing Camp David, as well as subsequent Israeli-Palestinian negotiations, is that all of Barak's proposals were verbal; evidently seeking to keep all his options open, even as he was supposedly negotiating a final settlement, Barak refused to allow the creation of an official record. As a result, even the participants at Camp David and at subsequent meetings have differing accounts of precisely what Barak offered[1]. Still, there is general agreement pointed to the main lines of Barak's verbal proposals of the final settlement as follows:

6.2.1 Palestinian Statehood and Conditions

Israel would agree to the establishment of a Palestinian State on around 92 percent of the West Bank areas[2] (excluding Jerusalem that is represent one-fife of the West Bank) in addition to the whole of the Gaza Strip on the following conditions:

1) That State should not have an army with heavy weapons, should not be free to forge alliances with other countries and should not introduce forces west of the River Jordan[3].

2) Allowing the presence of Israeli occupation forces in lands and air of that State through:

- Granting Israel the right to deploy troops in the Jordan Valley in the event the Israeli entity was endangered from the East.
- Allowing Israeli military flights in Palestinian airspace.
- Installing Israeli early warning stations in certain areas in the West Bank, especially in the Jordan Valley.

3) Keeping that State divided into four separate cantons surrounded by Israel: the Northern West Bank, the Central West Bank, the Southern West Bank and the Gaza Strip. Also linking those areas via safe passages under Palestinian administration but at the mercy of Israeli occupation, which would impose conditions of passing through them[4].

6.2.2 Boundaries

Barak proposed to have Israel return to pre1967 War line, with what he portrayed as only minor exceptions. An almost 9 percent of the West Bank would be annexed to Israel[5], in areas immediately contiguous to the pre-1967 line, within which 80 percent of the Israeli settlers were located. As compensation for this annexation of West Bank land, there would be a territorial exchange, in which the Palestinian state would be given some land in the Negev desert adjacent to the Gaza strip[6].

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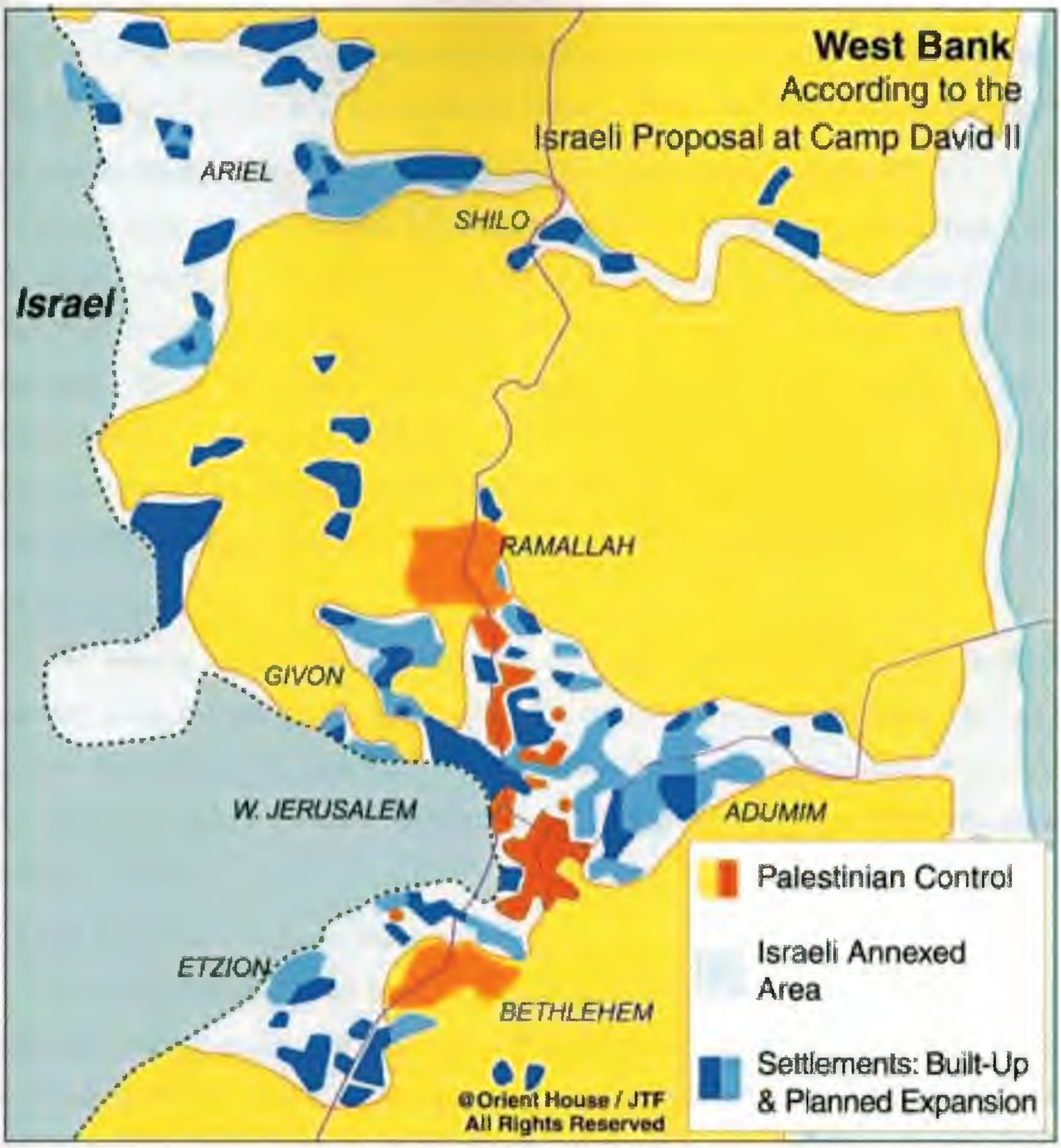
[1] William, B. Quandt, "Clinton and the Arab-Israeli Conflict" Journal of Palestine Studies 30 (winter 2001).
[2] Slater, J., "What Went Wrong? The Collapse of the Israeli- Palestinian Peace Process" Political Science Quarterly volume 166 Number 2, 2001.
[3] Elder A., "On the Basis of the Nonexistent Camp David Understandings", Ha'aretz, 16 November 2001
[4] Camp David Peace Proposal of July, 2000: Frequently Asked Questions. By Palestinian Negotiating Team www.orienthouse.org/dept/images/Maps/ecartediplo.eng.pdf.
[5] Ibid
[6] FMEP(Foundation Of Middle East Peace), "Crossroads of Conflict: Israeli-Palestinian Relations Face an Uncertain Future - Special Report", Washington DC: FMEP, 2000

Figure (11): Division of The West Bank according to Camp David proposals



6.2.3 Remainder of the Settlements

In the heavily Palestinian-populated Gaza Strip and West Bank heartland-many of which contained the most fanatical settlers-Barak was murky. It is still not known whether he contemplated that these settlements would be removed upon an overall agreement; whether they would be allowed to remain in place if they so chose, but as part of the new state of Palestine; or whether they would be under nominal Palestinian sovereignty but actual Israeli military control. In all likelihood, not even Barak knew his own mind on this crucial issue[7].

[7] Hanieh, Akram, "the Camp David Papers," *Journal of Palestine Studies*, winter 2000.

6.2.4 Border Crossings

The Camp David proposal would have left Israel in control over border crossings with Jordan and Egypt[8], both which constitute the outlet of West Bank and Gaza Strip to the world.

6.2.5 Jordan River Valley and nearby Mountain Tops

In the form of a "long-term lease", Israel would lease areas in the Jordan Valley or maintain temporary sovereignty over them for up to 25 years, these areas a total of 10 percent of the West Bank[9]. Clearly, to maintain its military presence and effective control over the West Bank, Barak insisted on continued Israeli settlements, early warning stations, and military bases and patrols for a period of six-twelve years, after which the Israeli security requirements could be reevaluated. Evidently Barak left open the possibility that these Israeli forces could be nominally part of a broader international peacekeeping force[10].

6.2.6 Water Issue

The Israelis would retain management over water sources in the West Bank. Barak apparently proposed only that Israel and the Pal estinians cooperate on expanding the water resources for both states, principally through desalination. However, most of the existing water aquifers would be located within the 6-8 percent of the West Bank that would be annexed by Israel[11].

6.2.7 The Palestinian Refugee Issue

Barak declared that Israel bore no any moral or historical responsibility for creation of the refugee problem or its solution, even rejecting Palestinian papers that quoted extensively com Israeli memoirs, military statements, and the Israeli new history scholarship[12]. Also he proposed solving the refugees' issue through reparations and re-settlement after returning small numbers of them in accordance with the following:

- Barak would allow the return of around 100,000 refugees under "humanitarian" grounds in the form of family reunifications program- up to a maximum of 2% of all refugees, not as a Palestinian right according to UN resolution 194 but as an Israeli

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[8] Camp David Peace Proposal of July, 2000: Frequently Asked Questions. By Palestinian Negotiating Team. www.orienthouse.org/dept/images/Maps/ecartediplo.eng.pdf.

[9] Ibid.

[10] Slater, J., "What Went Wrong? The Collapse of the Israeli- Palestinian Peace Process" Political Science Quarterly volume 166 Number 2, 2001.

[11] Ibid

[12] Hanieh, Akram, "the Camp David Papers", *Journal of Palestine Studies*, winter 2001.

gesture[13]. In other words, Barak wants to replace the term the right of return with a humanitarian return.

- Permitting the Palestinian State to absorb half a million refugees according to a fixed timetable[14].
- Establishing an international fund to compensate refugees in which the Israel, America and Europe are to contribute, on condition that it will compensate Jews who left their residence areas in the Arab countries after the creation of the Hebrew State in 1948![15]

6.2.8 Status of Jerusalem

Barak proposed to incorporate into an enlarged Greater Jerusalem all the Jewish settlements that had been built throughout East Jerusalem since 1967 (French Hill, Gilo, Givat Ze'ev, Har Homa, Ma'ale Adumim, Pizgat Ze'ev, and Ramot), as well as those in the city's suburbs, which in fact extend far into the West Bank[16]. However, he proposed to resolve the Jerusalem issue according to three framework agreements:

The geo-political framework, where the PLO would be given sovereignty over suburbs in the north and the south of Jerusalem that would be annexed to the West Bank, including Abu Dees, Alezariye and eastern Sawahre and it would be allowed to establish its capital in these areas[17].

The civilian municipal framework, which comprises East Jerusalem, the outlying Arab suburbs of East Jerusalem (including Bayt Hanina, Shufat, and Walaja) would form an outer ring with full Palestinian sovereignty, while the Arab neighborhoods immediately outside the Old City (including Shaykh Jarrah, Silwan, and Wadi al-Juz) would comprise an "inner ring" that would have an expanded form of autonomy[18]. Where the Palestinians would be granted a civilian administration affiliated with the Palestinian Authority with the possibility of linking it to West Jerusalem through a municipality covering both sectors. The Palestinians would run a branch municipality within the framework of the Israeli higher municipal council while depriving them from planning and construction jurisdictions[19].

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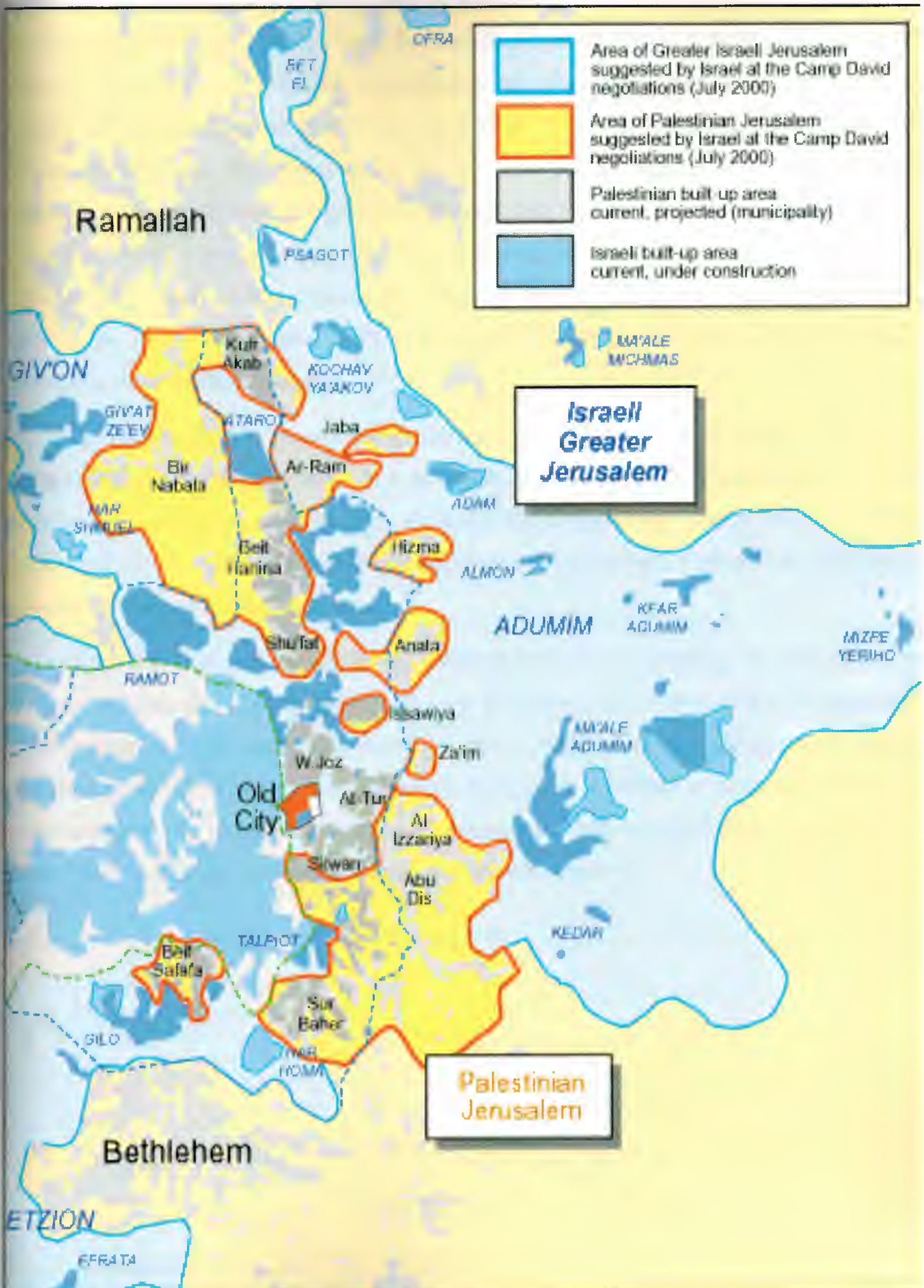
[13] Ibid
[14] http://www.mopic.gov.ps/key_decuments/proposal_israel.asp
[15] Ibid
[16] Slater, J., "What Went Wrong? The Collapse of the Israeli- Palestinian Peace Process" Political Science Quarterly volume 166 Number 2, 2001
[17] Ibid
[18] Hammami, R. and Tamari, S., "The Second Uprising: End or New Beginning" Journal *of Palestine Studies*, Issue 118, winter 2001.
[19] Ibid

Figure (12): Palestinian neighborhoods according to Camp David's proposals



The religious framework, allowing a Palestinian, Islamic and Christian administration of holy sites in the old city of Jerusalem. Israel would retain sovereignty over the rest of the Old City, though at least for a while Barak apparently considered some kind of mixed sovereignty over what the Palestinians call Harem El-sharif and Israelis call the Temple Mount, meaning the plateau on which stand the two major Muslim holy places, the Al-aqsa Mosque and the Dome of the Rock[20]. The Palestinians, in accordance with that proposal, would be allowed to hoist the Palestinian flag over the Islamic and Christian shrines along with a safe passage linking northern Jerusalem, which would be annexed to the West Bank, to those areas so that Muslim and Christian Palestinians and would not pass through lands under Israeli sovereignty[21]. The proposal would have forced recognition of Israel's annexation of all of East Jerusalem.

Is it true that Barak's proposal went further than the Palestinian expectations, especially in regarding to a Palestinian state? Is it true that Barak's proposals would result in a viable Palestinian State? On the other hand, is it true that Barak's proposals would not be one toward deeper and more irreversible Israeli consolidation of Occupation? Can we say that Barak's proposal is plague for Palestinian people?

According to a number of Israeli political analysts had reached to conclusion that prospect of being able to establish a viable state was fading right before eyes of Palestinians[22]. The reaching for this conclusion relied on many realities on the ground such: ongoing violations of the spirit of the Oslo agreements through the relentless expansion of the existing settlements and the establishment of new settlements, with a concomitant expropriation of Palestinian land, in and around Jerusalem, and elsewhere as well.

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[20] Slater, J., "What Went Wrong? The Collapse of the Israeli- Palestinian Peace Process" Political Science Quarterly volume 166 Number 2, 2001

[21] http://www.mopic.gov.ps/key_decuments/proposal_israel.asp

[22] Schiff, Ze'ev, *Ha'aretz*. 24 November 2000.

6.3. Implications of Barak's Camp David Proposals

In greater detail, this is what the consequences of Barak's proposals would have been:

6.3.1 Borders and Form of a Proposed Palestinian State

Israel's proposal divided Palestine into four separate cantons surrounded by Israel: the Northern West Bank, the Central West Bank, the Southern West Bank and Gaza Strip. The areas that Israel would annex it from the West Bank will form a barrier between the Nablus-Jenin area and Ramallah, and leaving Hebron and Bethlehem beyond an expanded Jerusalem under Israeli sovereignty[23]. Furthermore, each of those two areas would in turn be divided into enclaves by settlements, highways and military positions, the links between which " would always be at the mercies of Israel the Israeli Defense Forces and settlers" [24] Similarly, the Camp David proposal making Palestinian prison cells larger. Such a Palestinian state, on the one hand, would have had less sovereignty and viability than the Bantustans created by the South African apartheid government[25]. On the other, it did not meet Palestinian aspirations for national identity and restore Palestinian national rights.

The location of the sovereign borders of the state of Palestine will determine its economic and political viability, its access to natural resources, its capacity for economic development, and its ability to defend itself from external threats. The West Bank and the Gaza Strip together constitute only 22% of occupied Palestine, today which is the focus of Palestinian-Israeli permanent status negotiations. Regarding the issue of borders:

First, the PLO accepted the cease-fire lines on June 4, 1967 shall be as international borders between the future Palestinian state and Israel. In the case of Camp David Proposals, the Great Jerusalem concept and the other newly annexed settlements would extend territory in a long line from the eastern outskirts of Jericho westward to Bayt Sahur[26]. The integration of such blocs would effectively be to split the West Bank nearly in half.

Second, Israel proposed to annex so-called blocs of settlements "Ariel bloc and Etzion bloc" that were ten times the area of Tel Aviv and contained Palestinian villages whose population of some 120,000 was actually greater than the settler population[27].

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[23] Hammami, R. and Tamari, S., "The Second Uprising: End or New Beginning" Journal *of Palestine Studies*, Issue 118, winter 2001.
[24] Hass Amira, Ha'aretz. 14 November 2000
[25] Camp David Peace Proposal of July, 2000: Frequently Asked Questions. By Palestinian Negotiating Team. www.orienthouse.org/dept/images/Maps/ecartediplo.eng.pdf.
[26]Hammami, R. and Tamari, S., "The Second Uprising: End or New Beginning" Journal *of Palestine Studies*, Issue 118, winter 2001.
[27] Eldar Akiva, Ha'aretz. 20 October 2000

The Palestinians could not accept this. Because they would be new Arab citizens in the Jewish State, thus they are disenfranchised. Presumably they would be relocated or transferred by one means or another, thereby adding still further to the refugee problem, with all the moral and practical problems that would entail. Even more problematic, such an arrangement would legitimize the complete encirclement of East Jerusalem by vast expansions of settlements, sealing off the city from its Palestinian hinterland[28].

Third, the land that Israel proposed to give to the Palestinian state in a "land-swaps" was only about 10 percent of what Israel was taking from the West Bank. Moreover, it was unspecified area and of unspecified quality or would be empty desert. By contrast, the land that Israel would annex was relatively fertile, even more important; it contained most of the West Bank underground water aquifers[29]. Precisely, why the settlements had been put there in the first place?

6.3.2 Water Issue

The Palestinians' shortage of water resources and agricultural land was neglected by Barak's proposals. Barak's Camp David proposals effectively perpetuated Israel's control over most of the West Bank's water, since the most important aquifers (of which "the Western Aquifer" that lies under West Bank land and is the 'best" and "most abundant" Palestinian water source)[30], would be incorporated into the newly annexed Israeli territory. If for no other reason, this made the Barak plan intolerable to the Palestinians, and a strong indication that Barak continued to resist the establishment of a genuinely independent and viable Palestinian state.

6.3.3 On the Topic of Independence

Barak's Camp David proposal denied Palestinians control over their own borders, airspace and water resources while legitimizing and expanding illegal Israeli settlements in Palestinian territory[31]. Under the terms of Barak's proposals, Israel would continue to control all of Palestine's border access points with the outside world; would continue to deploy its troops in the Jordon Valley; would continue to a fly its Aircrafts in the Palestinian Airspace; would continue to maintain its military presence and effective control over West Bank's

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[28] Hammami, R. and Tamari, S., "The Second Uprising: End or New Beginning" *Journal of Palestine Studies*, Issue 118, Winter 2001.
[29] Hanieh, Akram, "The Camp David Papers," *Journal of Palestine Studies*, Winter 2001.
[30] Elmusa, Sharif, "Water Conflict: Economics, Politics, Law and Palestinian- Israeli Water Resources", 1997.
[31] Camp David Peace Proposal of July, 2000: Frequently Asked Questions. By Palestinian Negotiating Team. www.orienthouse.org/dept/images/Maps/ecartediplo.eng.pdf.

Mountain tops by early warning stations and military bases; would continue to patrol and protect all the Jewish settlements that remained in place in the West Bank, and perhaps even in Gaza Strip. Israel's Camp David proposal, it proved to be a neocolonialist arrangement, changing the form of the Occupation instead of removing it, or it presented a "*re-packaging*" of the occupation, instead of to end it.

6.3.4 The Right of Return

Alongside Jerusalem the refugee issue constituted an intractable issue to resolve under the current power balance. At Camp David summit, Barak did not merely reject the Palestinian right of return, he also clearly refused to acknowledge any Israeli moral or practical responsibility for the catastrophe (Nakba) of 1948. Such a rejection would not pave the way for a compromise on the issue.

Almost no Israeli party how far to the left, can accept the nominal-not actual return of the refugees, because the return of some three million of the five million Palestinian refugees[32] would mean that within a short time there would no longer be a Jewish majority in Israel, When Jews would be minority in Palestine, it destroys the raison for which the Jewish state was created. On the other hand, Israel agreed to the potential 'absorption' of refugees at the rate of a maximum of 10,000 per year and for a ten-year period only. This mean that Israel would accept only 2% of the five million refugees in the year 2000 - 3.7 million of whom were registered with UNRWA[33].

The Israeli Proposal referred to Jewish refugees from the Arab world. Where are those refugees? The Palestinian refugees are living in overpopulated areas with minimum infrastructure as refugee camps in Lebanon, Syria, Jordon and Iraq while the so-called Jewish refugees are living in big cities of Occupied Palestine. They sold their homes and assets at the Arab countries and immigrated to occupy Palestine. However, the Proposal permitting the proposed Palestinian State to absorb a half million refugees while the West Bank and Gaza Strip are suffering from increasing number of population, overpopulation problems, and scarcity of natural resources.

6.3.5 Jerusalem

Although Barak announced in a public interview at the end of September 2000, that he favored the creation of two capitals in Jerusalem for two states, but he insisted that the Palestinians accept all of Israel's facts on the ground since 1967, except that they would be

[32] Hanieh, Akram, "The Camp David Papers," *Journal of Palestine Studies*, Winter 2001.
[33] Ibid

given sovereignty over the remaining Arab neighborhoods in East Jerusalem[34]. The essence of the Israeli offer for Jerusalem at Camp David and its relative arrangements makes clear what he meant by this:

The Arab neighborhoods would be isolated and impoverished enclaves cut off not only from the rest of the Palestinian state but even from each other by the Jewish neighborhoods, by roads, and military outposts. Barak's *"offer"* left the Palestinians with a cluster of sovereign pockets in the outer suburbs amidst a hugely expanded Israeli 'Greater Jerusalem.

Metropolitan Jerusalem would be divided into an Arab and an Israeli municipality while remaining an open city, with no international borders and checkpoints marking the ethnic boundaries[35]. However, under Barak's proposals, Israel would continue to implement its political planning' and lopsided development strategies that had been employed in previous years to establish Jewish political and economic control, to ensure Jewish dominance over Jerusalem and to create harsh conditions that would force the Palestinians to move out of the city into neighboring West Bank towns. On the other hand, Israel effectively would continue to control access to the Islamic and Christian religious shrines, a power that had frequently been employed in recent years to prevent Palestinians from outside Jerusalem from entering the Old City.

Under the civilian municipal framework, the proposals featured the implementation of many systems in the neighborhoods of Jerusalem. For example, the rules that would apply to the Christian quarter would not apply to Wadi Al Jouz. What would be applicable in Suwwaneh would not be in the Armenian quarter. What was proposed was a fragmentation of Jerusalem, especially its old city, which would fall under conflicting systems causing constant tension.

The religious issues of Jerusalem centered on political sovereignty over the Harem Al-sharif. Because the entire Muslim world insisted on undivided Muslim sovereignty over Harem Al-sharif, Arafat had little choice in the matter, so he rejected any settlement that would dilute Palestinian sovereignty over all of the O1d City.

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[34] Malley, Robert and Hussein, Agha, "Camp David: Tragedy of Errors", Journal of Palestine Studies, Vol. XXXI, No.1 Autumn 2001.
[35] Hammami, R. and Tamari, S., " The Second Uprising : End or New Beginning" *Journal of Palestine Studies*, Issue 118, Winter 2001

6.3.6 On Economic Viability

Economic viability involves “development potential and territorial contiguity”. This would result in more "predictability," allowing Palestinians to make arrangements for travel and the transfer of goods without worrying about checkpoints and closures. This element of predictability has been absent under Camp David’s Proposal, resulting in a halt to trade and economic cost. Furthermore, mutability, combined with disruptions in the movement of people and goods that would bring about by checkpoints and closures, made investment in the proposed Palestinian state risky and difficult

Moreover, the Palestinians' shortage of water resources and agricultural land was neglected by Barak's proposals. Annexation of "large swaths of the territory" over the Western Aquifer would increase Israel's proportion of water under international law, thus reducing the Palestinians'. This aquifer primarily lies under West Bank land and is the "best" and "most abundant" Palestinian water source. As for their agricultural needs, the only area left for development is the Jordan Valley, which Israel sought to keep under long-term lease.

6.4. The Failure of Camp David and the Collapse of the Peace Process

Former Israeli Prime Minister Barak refused to carry out the third redeployment that he himself had renegotiated under the Sharm al-Shaykh agreement of September 1999, insisting instead on moving directly to final status talks. This meant that, the PA was forced to negotiate permanent status issues with only 40 percent of the West Bank and Gaza Strip under its full or partial control (full control of 18 percent the urban centers of area A; joint control over 22 percent the villages and other built-up areas of area B). The original understanding that withdrawal from the vast majority of the West Bank and Gaza Strip would be completed during the transitional period as a prerequisite to final status was now transformed into withdrawal being linked to major Palestinian concessions on final status issues.

At Camp David, each side came with very different perspectives, which led, in turn, to highly divergent approaches to the talks. Barak was a deep antipathy toward the concept of gradual steps that lay at the heart of the 1993 Oslo Accords. He believed that, during seven years of Oslo Israel had been forced to pay a heavy price without getting anything tangible in return and without knowing the scope of the Palestinians final demands[36]. However, Barak went to Camp David dreaming of reaching a peace that was 100 percent Israeli. He

[36] Malley, Robert & Hussein, Agha, “Camp David: Tragedy of Errors”, Journal of Palestine Studies, Vol. XXXI, No.1 Autumn 2001.

determined not to repeat Yitzhak Rabin mistakes, and he did not want to pay the tremendous political and physical price that Rabin had paid. On the other hand, prior to entering into the first negotiations on permanent status issues, Barak publicly and repeatedly threatened Palestinians that his "offer" would be Israel's best and final offer and if not accepted, Israel would seriously consider "unilateral separation[37]. Briefly, the Israeli position was to reap everything, and at a cheap price: the Palestinian golden signature, a final recognition, and precious end of conflict were promised. And then, to present "all concessions and all rewards" in one comprehensive package that the Israeli public would be asked to accept in a national referendum.

According to PLO perspective, there is difference between the concessions they were forced to make during Oslo's transitional phase and the "red lines" on core issues once the talks on final status. The PLO leadership presented the initial disappointments of Oslo as contingencies imposed by the need to bring the PLO home from exile and to consolidate an autonomous Palestinian entity, after which it could embark on the protracted struggle for statehood from its new home base.

The Palestinian Authority went to Camp David after the secret channel talks, which opened in Tel Aviv then moved to Stockholm before returning to Tel Aviv, reached specific understandings between Arafat's and Barak's negotiators on final status issues. The Palestinian position relies on the understanding that the summit would lead to permanent agreement that would implement Security Council Resolutions 242 and 338.

On the other hand, the observations from the negotiating performance for both sides at Camp David appeared that, there are many causes led to the failure of Camp David summit.

First; Barak's view of peace, in view of Barak's behavior, after formation of his government, he was not ready for negotiation with PA and chose to focus on talks with Syria. But, after his failure to achieve victory through a signed agreement with Syria, he became ready to go to Camp David. During the summit talks, Barak was determined to pressure Arafat to make more concessions regarding the final status issues in order to register on his name a victory for his political capital and for election campaigns.

Second; gradual steps, since the Oslo agreements of 1993, makes it clear that gradual steps strategy used by Israel to postpone definitive agreements on the major issues: border,

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[37] Camp David Peace Proposal of July, 2000: Frequently Asked Questions. By Palestinian Negotiating Team. www.orienthouse.org/dept/images/Maps/ecartediplo.eng.pdf.

Jerusalem, water, and the right of return; here Israel takes advantage of its unconstrained power to preempt the outcome of negotiations by creating de facto realities on the ground. At Camp David, that major issues came to compromise, and both side have "red lines", the Zionist dream for Jews and historical right for Palestinians. Those red lines became obstacles at the negotiation and led to failure of the summit.

Third; the American position, American administration decided to host a summit for Barak and Arafat with the aim of reaching a final settlement, where the sensitive issues were left to direct contact between Arafat and Barak. Clinton administration did not want to bear historical responsibility of any pressure on Israel to compromise in the conflict with the Palestinians.

Fourth; Jerusalem, which is sensitive issue, the Zionist dream to establish the so-called Temple Mount over the historical and religious places "Al-Aqsa mosque and the Dome of the Rock". When Barak was showing "flexibility" regarding the final status issues, he lost his coalition government as a punishment for him. Regarding Arafat, he does not want to go down in the history, as the man who relinquishes Jerusalem.

Fifth; frustration and disappointments for Palestinian delegation; where Israeli positions, proposals, and maps did not realize the minimum demands and aspirations of Palestinian People. Additionally, Israeli proposals and maps did not predicate on any international references. However, Barak's take-it-or-leave-it proposals would not have allowed the Palestinians to have a truly viable and independent state. Furthermore, the ongoing and escalated expansion of the settlements and bypass road building, would have perpetuated, consolidated, and made even more irreversible the Israeli occupation over much of the West Bank and Gaza Strip. Palestinians naturally wanted viability, and independence, all of which were missing from Barak's proposals.

On the other hand, the failure of Camp David led to increasing sense of frustration and disappointment among the Palestinian people. During seven years of the peace process, Palestinians concluded that, the Oslo Accord was intended to nullify the demand for a Palestinian state. The peace process failed to achieve what Arafat had promised the Palestinian people: independence, the return of the refugees and the liberation of Jerusalem. Furthermore, the actual experience of Oslo on the ground, Palestinians suffered more burdensome restrictions on their movement and serious decline in their economic situation.

The West Bank and Gaza Strip became more segmented and fragmented with configuration of strategic settlement expansion and the construction of settler "by-pass" roads, built-up areas have become isolated from each other and from the land surrounding them by the proliferation of Israeli military checkpoints. In addition, under these checkpoints Palestinians would always be at the mercies of Israel the Israeli Defense Forces and settlers. In sum, Palestinians simply did not experience any "progress" in terms of their daily lives.

6.5. Summary

Barak's take-it-or-leave-it Proposals continue to resist and would not have allowed the Palestinians to establishment of a genuinely viable and independent state. Proposed state would be divided into four cantons surrounded by Israel, and also will deny control over border, and airspace, its territorial continuity would be under the mercies of Israeli soldiers. It would not have the right to exploit its own water resources without permit from Israel, its "best" and "most abundant" water source (western aquifer) that lies under West Bank land will be exclusive for settlers. As for its agricultural needs, the only area left for development is the Jordan Valley, which Israel sought to maintain temporary sovereignty over them for up to 25 years in the form of a "long-term lease".

On the other hand, economic viability and stability as well as territorial integrity were neglected by Camp David's proposals. Internal and external mobility of people and free movement of goods without restrictions were disregarded by those proposals. Proposals would remove Jerusalem from Palestinian map by denying Palestinians access to the city. However, Jerusalem would be divided into four Quarters, Palestinian neighborhoods (Muslims and Christians) will be a small islands surrounded by Israeli solders who control the entrances. Israel Camp David proposals presented to be a neocolonialist arrangement, changing the form of the occupation instead of removing it. Finally, such a Palestinian state would have had less sovereignty and viability.

CONCLUSION

The deterioration of economic situation of Oslo period (1993 - 2000) has confirmed that the economic survival, let alone the economic viability of the West Bank and Gaza Strip become impossible if Palestinian territorial rights and sovereignty are not settled. The Political settlement should come first in order for economy to settle and improve. Independent and clear sovereign border remain a necessary and precondition for economic viability. The gradual steps that lay at the heart of the 1993 Oslo Accords led to postpone the main viable issues (sovereignty, border, settlements, Jerusalem, water issues and refugees) to final status negotiations. Leaving such matters has simply facilitated Israel's expansion of settlements, asserted its control over Jerusalem and over 70% of the West Bank, and strengthened its ability to impose new criteria for defining its retreat from land it occupied in 1967. On the other hand, Israeli aim was and still, to destroy all means of normal life for the Palestinians to force them either to surrender or to leave the territories.

The Economic Protocol did not give the PA all the necessary means to achieve economic growth. According to many studies which were accomplished by UN Conference on Development and Trade, World Bank and other research institutes reveal that economic developments are hampered by the protocol limitations. Thus it is unfit to be an economic base for any future settlement.

The water resources available for building a viable economy in the West Bank and Gaza Strip are limited. Throughout the occupation period and beyond "Oslo period", Israel continue to overuse and overexploitation of these water resources both surface and groundwater. These levels of Israeli overexploitation have left the Palestinian community in bad water position, existing agreements between Israel and the PLO on water are unjust and inequitable and do not go beyond temporary solutions for crises. The currently water deficit is moving the Palestinian community into a situation where development and economic viability will not become only unsustainable, but impossible. On the other hand, under unprecedented Beak's offer at Camp David Summit water deficit will continue as it is now, since the best and most abundant aquifer "the western aquifer" would be located within the areas of the West Bank that Israel would be annexed. Israel suggested that water problems would resolve principally through desalination. In the few coming years, this proposal will not meet Palestinian demographic changes, thus water problem would be deteriorating rather than improving.

The West Bank is fragmented and segmented into various parts as a result of an over 200 settlements and their bypass roads; Gaza Strip is partitioned into four cantons by 19 Israeli settlements. At the same time, the inexact implementation of the interim agreement by Israel has partitioned the West Bank into 64 isolated cantons. Additionally, the effective subordination of the West Bank and Gaza Strip to combination of border closure policies and attendant complex security measures continues to constrain the ability of the Palestinian economy to move beyond those structural economic distortions pre-1993 period. These factors further undermine Palestinian national rights, as well as to the economic feasibility of a future Palestinian state.

Camp David's proposals neglected viability, territorial continuity and economic integrity, and disregarded free movement of People and goods without restrictions, as well as it would remove Jerusalem from Palestinian map by denying Palestinians access to the city. Such proposals were and still unacceptable for Palestinians, because it resist establishment of a genuinely viable and independent state, as well as it would be a recipe for war not only for now but for generations to come.

Accordingly, the establishment of an economically viable state in the West Bank and the Gaza Strip means that a number of conditions need to be in the first place. These include establishing clear Palestinian sovereignty over the land based on UN resolutions 242 and 338, maintaining free and unobstructed passage between the West Bank and Gaza Strip, and defining clear borders with Israel and the rest of the world. Only then trade would be a vehicle for growth, while the Palestinians can make better use of their resources.

APPENDIX I

RELATED RESOLUTIONS AND ARTICLES

Resolution 242 (1967) of 22 November 1967

The Security Council,

Expressing its continuing concern with the grave situation in the Middle East,

Emphasizing the inadmissibility of the acquisition of territory by war and the need to work for a just and lasting peace, in which every State in the area can live in security,

Emphasizing further that all Member States in their acceptance of the Charter of the United Nations have undertaken a commitment to act in accordance with Article 2 of the Charter,

1. Affirms that the fulfillment of Charter principles requires the establishment of a just and lasting peace in the Middle East which should include the application of both the following principles:

(i) Withdrawal of Israel armed forces from territories occupied in the recent conflict;

(ii) Termination of all claims or states of belligerency and respect for and acknowledgment of the sovereignty, territorial integrity and political independence of every State in the area and their right to live in peace within secure and recognized boundaries free from threats or acts of force;

2. Affirms further the necessity

(a) For guaranteeing freedom of navigation through international waterways in the area;

(b) For achieving a just settlement of the refugee problem;

(c) For guaranteeing the territorial inviolability and political independence of every State in the area, through measures including the establishment of demilitarized zones;

3. Requests the Secretary-General to designate a Special Representative to proceed to the Middle East to establish and maintain contacts with the States concerned in order to promote agreement and assist efforts to achieve a peaceful and accepted settlement in accordance with the provisions and principles in this resolution;

4. Requests the Secretary-General to report to the Security Council on the progress of the efforts of the Special Representative as soon as possible.

U.N. Security Council Resolution 338

The Security Council,

Calls upon all parties to present fighting to cease all firing and terminate all military activity immediately, no later than 12 hours after the moment of the adoption of this decision, in the positions after the moment of the adoption of this decision, in the positions they now occupy;

Calls upon all parties concerned to start immediately after the cease-fire the implementation of Security Council Resolution 242 (1967) in all of its parts;

Decides that, immediately and concurrently with the cease-fire, negotiations start between the parties concerned under appropriate auspices aimed at establishing a just and durable peace in the Middle East.

The Fourth Geneva Convention and International Covenant for Economic, Social, and Cultural Rights

1. On Water Issue

The Fourth Geneva Convention, Article 55 of the Convention stipulates:

> To the fullest extent of the means available to it, the Occupying Power has the duty of ensuring the food and medical supplies of the population; it should, in particular, bring in the necessary foodstuffs, medical stores and other articles if the resources of the occupied territory are inadequate.
>
> The Occupying Power may not requisition foodstuffs, articles or medical supplies available in the occupied territory, except for use by the occupation forces and administration personnel, and then only if requirements of the civilian population have been taken into account.

International Covenant for Economic, Social, and Cultural Rights, Article 11 of the Covenant stipulates:

> The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions.

2. On Discrimination against the Population

Article 27 of the Fourth Geneva Convention, stipulates:

> … all protected persons shall be treated with the same consideration by the Party to the conflict in whose power they are, without any adverse distinction based, in particular, on race, religion or political opinion,

Article 11 of International Covenant for Economic, Social, and Cultural Rights, stipulates:

> The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions.

The prohibition on discrimination is a basic principle in defending human rights.

Article 2(2) of the International Covenant on Economic, Social and Cultural Rights stipulates:

> The States Parties to the present Covenant undertake to guarantee that the rights enunciated in the present Covenant will be exercised without discrimination of any kind as to race, color, sex, religion, political or other opinion, national or social origin, property, birth or other status.

3. On Settlements

Article 47 of the Fourth Geneva Convention emphasises that:

> " Protected persons who are in occupied territory shall not be deprived, in any case or in any manner whatsoever, of the benefits of the present Convention by any change introduced, as the result of the occupation of a territory..."

Articles 49 and 147 of the Convention:

> " Individual or mass forcible transfers, as well as deportations of protected persons from occupied territory to the territory of the Occupying Power or to that of any other country, occupied or not, are prohibited, regardless of their motive..."
>
> "...The Occupying Power shall not deport or transfer parts of its own civilian population into the territory it occupies." Article 49
>
> Grave breaches [...] shall be those involving any of the following acts, if committed against persons or property protected by the present Convention: willful killing, torture or inhuman treatment [...] unlawful deportation or transfer or unlawful confinement of a protected person [...] taking of hostages and extensive destruction and appropriation of property, not justified by military necessity and carried out unlawfully and wantonly." Article 147

APPENDIX II

RELATED AGREEMENTS AND ACCORDS

aration of Principles on Interim -Government Arragnements hington DC, 13 September 1993

Government of the State of Israel he P.L.O. team (in the Jordanian-inian delegation to the Middle Peace Conference) (the stinian Delegation"), senting the Palestinian people, that it is time to put an end to des of confrontation and conflict, nize their mutual legitimate and cal rights, and strive to live in eful coexistence and mutual ty and security and achieve a just, and comprehensive peace ment and historic reconciliation gh the agreed political process. rdingly, the two sides agree to llowing principles:

le I: AIM OF THE OTIATIONS
aim of the Israeli-Palestinian ations within the current Middle peace process is, among other s, to establish a Palestinian m Self-Government Authority, lected Council (the "Council"), e Palestinian people in the West and the Gaza Strip, for a tional period not exceeding five leading to a permanent ment based on Security Council tion 242 and 338.
understood that the interim ements are an integral part of ole peace process and that the ations on the permanent status lead to the implementation of ity Council Resolutions 242 and

le II: Framework for the Interim d
agreed framework for the interim d is set forth in this Declaration nciples.

le III: ELECTIONS
der that the Palestinian people in West Bank and GazaStrip may rn themselves according to ocratic principles, direct, free and ral political elections will be held the Council under agreed rvision and international rvation, while the Palestinian e will ensure public order.
agreement will be concluded on exact mode and conditions of the ions in accordance with the ocol attached as Annex I, with the of holding the elections not later nine months after the entry into force of this Declarations of Principles.
These elections will constitute a significant interim preparatory step toward the realization of the legitimate rights of the Palestinian people and their just requirements.

Article IV: Jurisdiction
Jurisdiction of the Council will cover West Bank and Gaza Strip territory, except for issues that will be negotiated in the permanent status negotiations. The two sides view the West Bank and the Gaza Strip as a single territorial unit, whose integrity will be preserved during the interim period.
Article V: Transitional period and permanent status negotiations
The five-year transitional period will begin upon the withdrawal from the Gaza Strip and Jericho area.
Permanent status negotiations will commence as soon as possible, but not later than the beginning of the third year of the interim period, between the Government of Israel and the Palestinian people representatives.
It is understood that these negotiations shall cover remaining issues, including: Jerusalem, refugees, settlements, security arrangements, borders, relations and cooperation with other neighbors, and other issues of common interest.
The two parties agree that the outcome of the permanent status negotiations should not be prejudiced or preempted by agreements reached for the interim period.

Article VI: Preparatory tansfer of powers and responsibilities
Upon the entry into force of this Declaration of Principles and the withdrawal from the Gaza Strip and the Jericho area, a transfer of authority from the Israeli military government and its Civil Administration to the authorised Palestinians for this task, as detailed herein, will commence. This transfer of authority will be of a preparatory nature until the inauguration of the Council.
Immediately after the entry into force of this Declaration of Principles and the withdrawal from the Gaza Strip and Jericho area, with the view to promoting economic development in the West Bank and Gaza Strip, authority will be transferred to the Palestinians on the following spheres: education and culture, health, Social welfare, direct taxation, and tourism. The Palestinian side will commence in building the Palestinian police force, as agreed upon. Pending the inauguration of the Council, the two parties may negotiate the transfer of additional powers and responsibilities, as agreed upon.

Article VII: Interim Agreement
The Israeli and Palestinian delegations will negotiate an agreement on the interim period (the "Interim Agreement").

The Interim Agreement shall specify, among other things, the structure of the Council, the number of its members, and the transfer of powers and responsibilities from the Israeli military government and its Civil Administration to the Council. The Interim Agreement shall also specify the Council's executive authority, legislative authority in accordance with Article IX below, and the independent Palestinian judicial organs.
The Interim Agreement shall include arrangements, to be implemented upon the inauguration of the Council, for the assumption by the Council of all of the powers and responsibilities transferred previously in accordance with Article VI above.
In order to enable the Council to promote economic growth, upon its inauguration, the Council will establish, among other things, a Palestinian Electricity Authority, a Gaza Sea Port Authority, a Palestinian Development Bank, a Palestinian Export Promotion Board, a Palestinian Environmental Authority, a Palestinian Land Authority and a Palestinian Water Administration Authority, and any other Authorities agreed upon, in accordance with the Interim Agreement that will specify their powers and responsibilities.
After the inauguration of the Council, the Civil Administration will be dissolved, and the Israeli military government will be withdrawn.

Article VIII: Public order and security

In order to guarantee public order and internal security for the Palestinians of the West Bank and the Gaza Strip, the Council will establish a strong police force, while Israel will continue to carry the responsibility for overall security of Israelis for the purpose of safeguarding their internal security and public order.

e IX: Laws and military orders
Council will be empowered to ate, in accordance with the m Agreement, within all ities transferred to it.
parties will review jointly laws ilitary orders presently in force aining spheres.

e X: Joint Israeli-Palestinian committee
der to provide for a smooth mentation of this Declaration of ples and any subsequent ments pertaining to the interim d, upon the entry into force of eclaration of Principles, a Joint -Palestinian Liaison Committee e established in order to deal issues requiring coordination, issues of common interest, and es.

e XI: Israeli-Palestinian ration in economic fields
nizing the mutual benefit of ration in promoting the opment of the West Bank, the Strip and Israel, upon the entry force of this Declaration of ples, an Israeli-Palestinian omic Cooperation Committee e established in order to develop implement in a cooperative er the programs identified in the cols attached as Annex III and x IV.

le XII: Liaison and cooperation Jordan and Egypt
two parties will invite the nments of Jordan and Egypt to ipate in establishing further n and cooperation arrangements een the Government of Israel and alestinian representatives, on the hand, and the Government of n and Egypt, on the other hand, mote cooperation between them. e arrangements will include the itution of a Continuing mittee that will decide by ment on the modalities of sion of persons displaced from West Bank and Gaza Strip in . together with necessary urto prevent disruption and der. Other matters of common rn will be dealt with by this mittee.

le XIII: Redeployment of Israeli s
the entry into force of this ration of Principles, and not later the eve of elections for the cil, a redeployment of Israeli military forces in the West Bank and the Gaza Strip will take place, in addition to withdrawal of Israeli forces carried out in accordance with Article XIV.
In redeploying its military forces, Israel will be guided by the principle that its military forces should be redeployed outside populated areas.
Further redeployments to specified locations will be gradually implemented commensurate with the assumption of responsibility for public order and internal security by the Palestinian police force pursuant to Article VIII above.

Article XIV: Israeli withdrawal from the Gaza Strip and Jericho Area
Israel will withdraw from the Gaza Strip and Jericho area, as detailed in the protocol attached as Annex II.
Article XV: Resolution of disputes
Disputes arising out of the application or interpretation of this Declaration of Principles, or any subsequent agreement pertaining to the interim period, shall be resolved by negotiations through the Joint Liaison Committee to be established pursuant to Article X above.
Disputes which cannot be settled by negotiations may be resolved by a mechanism of conciliation to be agreed upon by the parties.
The parties may agree to submit to arbitration disputes relating to the interim period, which cannot be settled through conciliation. To this end, upon the agreement of both parties, the parties will establish an Arbitration Committee.

Article XVI: Israeli-Palestinian cooperation concerning regional programs
Both parties view the multilateral working groups as an appropriate instrument for promoting a "Marshal Plan," the regional programs and other programs, including special programs for the West Bank and Gaza Strip, as indicated in the protocol attached as Annex IV.

Article XVII: Miscellaneous provisions
This Declaration of Principles will enter into force one month after its signing.
All protocols annexed to this Declaration of Principles and Agreed Minutes pertaining thereto shall be regarded as an integral part hereof.
Done at Washington, D.C., this thirteenth day of September, 1993.
For the Government of Israel: [Shimon Perez]
For the P.L.O.: [Mahmoud Abbas]
Witnessed by:
The United States of America: [Warren Christopher]
The Russian Federation: [Andrei Kozyrev]

Annex I
Protocol on the mode and conditions of elections
Palestinians of Jerusalem who live there will have the right to participate in the election process, according to an agreement between the two sides.
In addition, the election agreement should cover, among other things, the following issues:
The system of elections;
the mode of the agreed supervision and international observation and their personal composition; and
rules and regulations regarding election campaign, including agreed arrangements for the organizing of mass media, and the possibility of licensing a broadcasting and TV station.
The future status of displaced Palestinians who were registered on 4th June 1967 will not be prejudiced because they are unable to participate in the election process due to practical reasons.

Annex II
Protocol on withdrawal of Israeli forces from the Gaza Strip and Jericho Area
The two sides will conclude and sign within two months from the date of entry into force of this Declaration of Principles, an agreement on the withdrawal of Israeli military forces form the Gaza Strip and Jericho area. This agreement will include comprehensive arrangements to apply in the Gaza Strip and the Jericho area subsequent to the Israeli withdrawal.
Israel will implement an accelerated and scheduled withdrawal of Israeli military forces from the Gaza Strip and Jericho area, beginning immediately with the signing of the agreement on the Gaza Strip and Jericho area and to be completed within period not exceeding four months after the signing of this agreement.
The above agreement will include, among other things:
Arrangements for a smooth and peaceful transfer of authority from the Israeli military government and its

dministration to the Palestinian ntatives.

re, powers and responsibilities Palestinian authority in these except: external security, nts, Israelis, foreign relations, er mutually agreed matters.

ements for the assumption of security and public order by stinian police force consisting e officers recruited locally and abroad (holding Jordanian ts and Palestinian documents by Egypt). Those who will ate in the Palestinian police oming from abroad should be as police and police officers.

porary international or foreign e, as agreed upon.

shment of a joint Palestinian- Coordination and Cooperation ittee for mutual security es.

economic development and ation program, including the hment of an Emergency Fund, ourage foreign investment, and al and economic support. Both will coordinate and cooperate and unilaterally with regional ternational parties to support aims.

ements for a safe passage for and transportation between Strip and Jericho area. bove agreement will include ements for coordination en both parties regarding es:

a--Egypt; and

cho--Jordan.

ffices responsible for carrying e powers and responsibilities of alestinian authority under this II and Article VI of the ation of Principles will be d in the Gaza Strip and in the o area pending the inauguration Council.

than these agreed arrangements, tatus of the Gaza Strip and o area will continue to be an al part of the West Bank and Strip, and will not be changed in erim period.

x III

col on Israeli-Palestinian eration in economic and opment programs

wo sides agree to establish an i-Palestinian Continuing mittee for Economic eration, focusing, among other s, on the following:

eration in the field of water, ding a Water Development Program prepared by experts from both sides, which will also specify the mode of cooperation in the management of water resources in the West Bank and Gaza Strip, and will include proposals for studies and plans on water rights of each party, as well as on the equitable utilization of joint water resources for implementation in and beyond the interim period.

Cooperation in the field of electricity, including an Electricity Development Program, which will also specify the mode of cooperation for the production, maintenance, purchase and sale of electricity resources.

Cooperation in the field of energy, including an Energy Development Program, which will provide for the exploitation of oil and gas for industrial purposes, particularly in the Gaza Strip and in the Negev, and will encourage further joint exploitation of other energy resources. This Program may also provide for the construction of a Petrochemical industrial complex in the Gaza Strip and the construction of oil and gas pipelines.

Cooperation in the field of finance, including a Financial Development and Action Program for the encouragement of international investment in the West Bank and the Gaza Strip, and in Israel, as well as the establishment of a Palestinian Development Bank.

Cooperation in the field of transport and communications, including a Program, which will define guidelines for the establishment of a Gaza Sea Port Area, and will provide for the establishing of transport and communications lines to and from the West Bank and the Gaza Strip to Israel and to other countries. In addition, this Program will provide for carrying out the necessary construction of roads, railways, communications lines, etc.

Cooperation in the field of trade, including studies, and Trade Promotion Programs,which will encourage local, regional and inter-regional trade, as well as a feasibility study of creating free trade zones in the Gaza Strip and in Israel, mutual access to these zones, and cooperation in other areas related to trade and commerce.

Cooperation in the field of industry, including Industrial Development Programs, which will provide for the establishment of joint Israeli-Palestinian Industrial Research and Development Centers, will promote Palestinian-Israeli joint ventures, and provide guidelines for cooperation in the textile, food, pharmaceutical, electronics, diamonds, computer and science-based industries.

A program for cooperation in, and regulation of, labor relations and cooperation in social welfare issues.

A Human Resources Development and Cooperation Plan, providing for joint Israeli-Palestinian workshops and seminars, and for the establishment of joint vocational training centers, research institutes and data banks.

An Environmental Protection Plan, providing for joint and/or coordinated measures in this sphere.

A program for developing coordination and cooperation in the field of communication and media.

Any other programs of mutual interest.

Annex IV

Protocol on Israeli-Palestinian ccoperation concerning regional development programs

The two sides will cooperate in the context of the multilateral peace efforts in promoting a Development Program for the region, including the West Bank and the Gaza Strip, to be initiated by the G-7. The parties will request the G-7 to seek the participation in this program of other interested states, such as members of the Organization for Economic Cooperation and Development, regional Arab states and institutions, as well as members of the private sector.

The Development Program will consist of two elements:

An Economic Development Program for the West Bank and the Gaza Strip.

A Regional Economic Development Program.

A. The Economic Development Program for the West Bank and the Gaza Strip will consist of the following elements:

A Social Rehabilitation Program, including a Housing and Construction Program.

A Small and Medium Business Development Plan.

An Infrastructure Development Program (water, electricity, transportation and communications, etc.).

A Human Resources Plan.

Other programs.

B. The Regional Economic Development Program may consist of the following elements:

The establishment of a Middle East Development Fund, as a first step, and a Middle East Development Bank, as a second step.

evelopment of a joint Israeli-
nian-Jordanian Plan for
ated exploitation of the Dead
a.
editerranean Sea (Gaza) - Dead
nal.
al Desalinization and other
development projects.
ional plan for agriculture
pment, including a coordinated
al effort for the prevention of
ication.
nnection of electricity grids.
al cooperation for the transfer,
tion and industrial exploitation
oil and other energy resources.
ional Tourism, Transportation
Telecommunications
pment Plan.
al cooperation in other spheres.
two sides encourage the
teral working groups, and will
nate towards their success. The
parties will encourage
ssional activities, as well as pre-
lity and feasibility studies,
the various multilateral
ng groups.
d minutes to the declaration of
ples on interim self-government
ements
General undertandings and
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powers and responsibilities
rred to the Palestinians pursuant
Declaration of Principles prior
inauguration of the Council will
bject to the same principles
ning to Article IV, as set out in
Agreed Minutes below.
Specific understandings and
ents
le **IV**
nderstood that:
iction of the Council will cover
Bank and Gaza Strip territory,
t for issues that will be
iated in the permanent status
iations: Jerusalem, settlements,
ry locations, and Israelis.
Council's jurisdiction will apply
regard to the agreed powers,
nsibilities, spheres and
rities transferred to it.
le VI(2)
agreed that the transfer of
rity will be as follows:
Palestinian side will inform the
li side of the names of the
rised Palestinians who will
e the powers, authorities and
nsibilities that will be transferred
e Palestinians according to the
ration of Principles in the
wing fields: education and
re, health, social welfare, direct taxation, tourism, and any other authorities agreed upon.

It is understood that the rights and obligations of these offices will not be affected.

Each of the spheres described above will continue to enjoy existing budgetary allocations in accordance with arrangements to be mutually agreed upon. These arrangements also will provide for the necessary adjustments required in order to take into account the taxes collected by the direct taxation office.

Upon the execution of the Declaration of Principles, the Israeli and Palestinian delegations will immediately commence negotiations on a detailed plan for the transfer of authority on the above offices in accordance with the above understandings.

Article VII(2)

The Interim Agreement will also include arrangements for coordination and cooperation.

Article VII(5)

The withdrawal of the military government will not prevent Israel from exercising the powers and responsibilities not transferred to the Council.

Article VIII

It is understood that the Interim Agreement will include arrangements for cooperation and coordination between the two parties in this regard. It is also agreed that the transfer of powers and responsibilities to the Palestinian police will be accomplished in a phased manner, as agreed in the Interim Agreement.

Article X

It is agreed that, upon the entry into force of the Declaration of Principles, the Israeli and Palestinian delegations will exchange the names of the individuals designated by them s members of the Joint Israeli-Palestinian Liaison Committee. It is further agreed that each side will have an equal number of members in the Joint Committee. The Joint Committee will reach decisions by agreements. The Joint Committee may add other technicians and experts, as necessary. The Joint Committee will decide on the frequency and place or places of its meetings.

ANNEX II

It is understood that, subsequent to the Israel withdrawal, Israel will continue to be responsible for external security, and for nternal security and public order of settlements and Israelis. Israeli military forces and civilians may continue to use roads freely within the Gaza Strip and the Jericho area.

Done at Washington, D.C., this thirteenth day of September, 1993.

For the Government of Israel: [Shimon Perez]

For the P.L.O: [Mahmoud Abbas]

Witnessed by:

The United States of America: [Warren Christopher]

The Russian Federation: [Andrei Kozyrev]

...EMENT ON THE GAZA ...AND THE JERICHO ... May 4, 1994

...X IV PROTOCOL ON ...OMIC RELATIONS
...the Government of the State ...el and the P.L.O., representing ...stinian people
...pril 29, 1994

...MBLE The two parties view ...omic domain as one of the ...one in their mutual relations ...iew to enhance their interest in ...evement of a just, lasting and ...hensive peace. Both parties ...operate in this field in order to ...h a sound economic base for ... relations, which will be ...ed in various economic spheres ...principles of mutual respect of ... other's economic interests, ...city, equity and fairness.

...otocol lays the groundwork for ...ening the economic base of ...estinian side and for exercising ...t of economic decision making ...ccordance with its own ...pment plan and priorities. The ...arties recognise each other's ...ic ties with other markets and ...ed to create a better economic ...ment for their peoples and ...uals.

...e I FRAMEWORK AND ...E OF THIS PROTOCOL
This **protocol** establishes the ...ctual agreement that will govern ...onomic relations between the ...des and will cover the West ... and the Gaza Strip during the ... period. The implementation ...be according to the stages ...ged in the Declaration of ...ples on Interim Self Government ...gements signed in Washington ...on September 13, 1993 and the ...d Minutes thereto. It will ...ore begin in the Gaza Strip and ...richo Area and at a later stage ...lso apply to the rest of the West ... according to the provisions of ...nterim Agreement and to any ... agreed arrangements between ...o sides.

This **Protocol**, including its ...ndixes, will be incorporated into ...greement on the Gaza Strip and ...richo Area (in this Protocol - the ...ement), will be an integral part ...of and interpreted accordingly. ... paragraph refers solely to the ... Strip and the Jericho Area.

3. This **Protocol** will come into force upon the signing of the Agreement.
4. For the purpose of this **Protocol,** the term "Areas" means the areas under the jurisdiction of the Palestinian Authority, according to the provisions of the Agreement regarding territorial jurisdiction. The Palestinian Jurisdiction in the subsequent agreements could cover areas, spheres or functions according to the Interim Agreement. Therefore, for the purpose of this Protocol, whenever applied, the term "Areas" shall be interpreted to mean functions and spheres also, as the case may be, with the necessary adjustments.

Article II THE JOINT ECONOMIC COMMITTEE

1. Both parties will establish a Palestinian-Israeli Joint Economic Committee (hereinafter - the JEC) to follow up the implementation of this Protocol and to decide on problems related to it that may arise from time to time. Each side may request the review of any issue related to this Agreement by the JEC.
2. The JEC will serve as the continuing committee for economic cooperation envisaged in Annex III of the Declaration of Principles.
3. The JEC will consist of an equal number of members from each side and may establish sub-committees specified in this Protocol. A sub-committee may include experts as necessary.
4. The JEC and its sub-committees shall reach their decisions by agreement and shall determine their rules of procedure and operation, including the frequency and place or places of their meetings.

Article III IMPORT TAXES AND IMPORT POLICY

1. The import and customs policies of both sides will be according to the principles and arrangements detailed in this Article.

2.

a. The Palestinian Authority will have all powers and responsibilities in the sphere of import and customs policy and procedures with regard to the following:

1. Goods on List Al, attached hereto as Appendix I locally-produced in Jordan and in Egypt particularly and in the other Arab countries, which the Palestinians will be able to import in quantities agreed upon by the two sides up to the Palestinian market needs as estimated according to para 3 below.
2. Goods on List A2, attached hereto as Appendix II, from the Arab, Islamic and other countries, which the Palestinians will be able to import in quantities agreed upon by the two sides up to the Palestinian market needs as estimated according to para 3 below.

b. The import policy of the Palestinian Authority for Lists Al and A2 will include independently determining and changing from time to time the rates of customs, purchase tax, levies, excises and other charges, the regulation of licensing requirements and procedures and of standard requirements. The valuation for custom purposes will be based upon the GATT 1994 agreement as of the date it will be introduced in Israel, and until then - on the Brussels Definition of Valuation (BDV) system. The classification of goods will be based on the principles of "the Harmonized Commodity Description and Coding System". Concerning imports referred to in Article VII of this Protocol (Agriculture), the provisions of that Article will apply.

3. For the purposes of para 2(a) above, the Palestinian market needs for 1994 will be estimated by a sub-committee of experts. These estimates will be based on the best available data regarding past consumption, production, investment and external trade of the Areas. The sub-committee will submit its estimate within three months from the signing of the Agreement. These estimates will be reviewed and updated every six months by the sub-committee, on the basis of the best data available regarding the latest period for which relevant data are available, taking into consideration all relevant economic and social indicators. Pending an agreement on the Palestinian market needs, the previous period's estimates adjusted for population growth and rise in per-capita GNP in the previous period, will serve as provisional estimate.
4. The Palestinian Authority will have all powers and responsibilities to independently determine and change from time to time the rates of customs, purchase taxes; levies, excises and other charges on the goods on List B, attached hereto as Appendix III, of basic food items and other goods for the Palestinian economic development program, imported by the Palestinians to the Areas.
5.

With respect to all not specified in Lists Al, A2 and with respect to quantities ding those determined in ance with paras 2(a) & 3 above after - the Quantities), the rates of customs, purchase tax, excises and other charges, ing at the date of signing of the ment , as changed from time to hall serve as the minimum basis e Palestinian Authority. The nian Authority may decide on pward changes in the rates on goods and exceeding quantities imported by the Palestinians to reas.

With respect to all not specified in Lists A1 and nd with respect to quantities ding the Quantities, Israel and lestinian Authority will employ l imports the same system of ation, as stipulated in para 10 . including inter alia standards, ing, country of origin, valuation stoms purposes etc.

Each side will notify the side immediately of changes in rates and in other matters of t policy, regulations and dures, determined by it within its tive powers and responsibilities ailed in this Article. With regard anges which do not require diate application upon decision, will be a process of advance cations and mutual consultations will take into consideration all ts and economic implications.

The Palestinian Authority levy VAT at one rate on both y produced goods and services on imports by the Palestinians her covered by the three Lists oned above or not), and may fix he level of 15% to 16%.

Goods imported from Jordan, t and other Arab countries ding to para 2(a)(1) above (List will comply with rules of origin d upon by a joint sub-committee n three months of the date of the ng of the Agreement. Pending an ment, goods will be considered ve been "locally produced" in any ose countries if they conform ll the following:

They have been wholly grown, uced, or manufactured in that try, or have been substantially formed there into new or different s, having a new name, character, se, distinct from the goods or materials from which they were so transformed;

ii. They have been imported directly from the said country;

iii. The value or the costs of the materials produced in that country, plus the direct processing costs in it, do not fall short of 30 percent of the export value of the goods. This rate may be reviewed by the joint committee mentioned in para 16 a year after the signing of the Agreement.

iv. The goods are accompanied by an internationally recognized certificate of origin;

v. No goods will be deemed as substantially new or different goods, and no material will be eligible for inclusion as domestic content, by virtue of having merely undergone simple combining or packaging, or dilution with water or other substances, which do not materially alter the characteristics of the said goods.

9. Each side will issue import licences to its own importers, subject to the principles of this Article and will be responsible for the implementation of the licensing requirements and procedures prevailing at the time of the issuance of the licenses. Mutual arrangements will be made for the exchange of information relevant to licensing matters.

10. Except for the goods on Lists Al and A2 and their Quantities - in which the Palestinian Authority has all powers and responsibilities, both sides will maintain the same import policy (except for rates of import taxes and other charges for goods in List B) and regulations including classification, valuation and other customs procedures, which are based on the principles governing international codes, and the same policies of import licensing and of standards for imported goods, all as applied by Israel with respect to its importation. Israel may from time to time introduce changes in any of the above, provided that changes in standard requirements will not constitute a non-tariff-barrier and will be based on considerations of health, safety and the protection of the environment in conformity with Article 2.2. of the Agreement on Technical Barriers to trade of the Final Act of the Uruguay Round of Trade Negotiations. Israel will give the Palestinian Authority prior notice of any such changes, and the provisions of para 6 above will apply.

11.

a. The Palestinian Authority will determine its own rates of customs and purchase tax on motor vehicles imported as such, to be registered with the Palestinian Authority. The vehicle standards will be those applied at the date of the signing of the Agreement as changed according to para 10 above. However, the Palestinian Authority may request, through the sub-committee on transportation, that in special cases different standards will apply. Used motor vehicles will be imported only if they are passenger cars or dual-purpose passenger cars of a model of no more than three years prior to the importation year. The sub-committee on transportation will determine the procedures for testing and confirming that such used cars comply with the standards' requirements for that model year. The issue of importing commercial vehicles of a model prior to the importation year will be discussed in the joint sub-committee mentioned in para 16 below.

b. Each side may determine the terms and conditions for the transfer of motor vehicles registered in the other side to the ownership or use of a resident of its own side, including the payment of the difference of import taxes, if any, and the vehicle having been tested and found compatible with the standards required at that time by its own registration administration, and may prohibit transfer of vehicles.

12.

a. Jordanian standards, as specified in the attached Appendix I, will be acceptable in importing petroleum products into the Areas, once they meet the average of the standards existing in the European Union countries, or the USA standards, which parameters have been set at the values prescribed for the geographical conditions of Israel, the Gaza Strip and the West Bank. Cases of petroleum products which do not meet these specifications will be referred to a joint experts' committee for a suitable solution. The committee may mutually decide to accept different standards for the importation of gasoline which meet the Jordanian standards even though, in some of their parameters, they do not meet the European Community or USA standards. The committee will give its decision within six months. Pending mmittee's decision, and for not than six months of the signing Agreement, the Palestinian rity may import to the Areas, e for the Palestinian market in eas, according to the needs of arket, provided that:

this gasoline is marked in a tive colour to differentiate it the gasoline marketed in Israel;

e Palestinian Authority will take necessary steps to ensure that soline is not marketed in Israel.

The difference in the rice of gasoline to consumers in and to consumers in the Areas, ot exceed 15% of the official consumer price in Israel. The nian Authority has the right to ine the prices of petroleum cts, other than gasoline, for mption in the Areas.

If Egyptian gasoline rds will comply with the tions of sub-para (a) above, the tation of Egyptian gasoline will e allowed.

In addition to the points of nd entry designated according to Article regarding Passages in x I of the Agreement for the se of export and import of s, the Palestinian side has the o use all points of exit and entry ael designated for that purpose. import and export of the tinians through the points of exit ntry in Israel will be given equal and economic treatment.

In the entry points of the n River and the Gaza Strip:

ht shipment Palestinian Authority will have esponsibility and powers in the tinian customs points (freight- for the implementation of the d upon customs and importation y as specified in this protocol, ding the inspection and the tion of taxes and other charges, n due. li customs officials will be nt and will receive from the tinian customs officials a copy of necessary relevant documents d to the specific shipment and e entitled to ask for inspection in presence of both goods and tax ction.

Palestinian customs officials will sponsible for the handling of the ms procedure including the ction and collection of due taxes. case of disagreement on the ance of any shipment according to this Article, the shipment will be delayed for inspection for a maximum period of 48 hours during which a joint sub-committee will resolve the issue on the basis of the relevant provisions of this Article. The shipment will be released only upon the sub-committee's decision.

c. Passengers customs lane

Each side will administer its own passengers customs procedures, including inspection and tax collection. The inspection and collection of taxes due in the Palestinian customs lane will be conducted by customs officials of the Palestinian Authority. Israeli customs officials will be invisibly present in the Palestinian customs lane and entitled to request inspection of goods and collection of taxes when due. In the case of suspicion, the inspection will be carried out by the Palestinian official in a separate room in the presence of the Israeli customs official.

15. The clearance of revenues from all import taxes and levies, between Israel and the Palestinian Authority, will be based on the principle of the place of final destination. In addition, these tax revenues will be allocated to the Palestinian Authority even if the importation was carried out by Israeli importers when the final destination explicitly stated in the import documentation is a corporation registered by the Palestinian Authority and conducting business activity in the Areas. This revenue clearance will be effected within six working days from the day of collection of the said taxes and levies.

16. The Joint Economic Committee or a sub-committee established by it for the purposes of this Article will deal inter alia with the following:

1. Palestinian proposals for addition of items to Lists Al, A2 and B. Proposals for changes in rates and in import procedures, classification, standards and licensing requirements for all other imports;

2. Estimate the Palestinian market needs, as mentioned in para 3 above;

3. Receive notifications of changes and conduct consultations, as mentioned in para 6 above;

4. Agree upon the rules of origin as mentioned in para 8 above, and review their implementation;

5. Coordinate the exchange of information relevant to licensing matters as mentioned in para 9 above;

6. Discuss and review any other matters concerning the implementation of this Article and resolve problems arising therefrom.

17. The Palestinian Authority will have the right to exempt the Palestinian returnees who will be granted permanent residency in the Areas from import taxes on personal belongings including house appliances and passenger cars as long as they are for personal use.

18. The Palestinian Authority will develop its system for temporary entry of needed machines and vehicles used for the Palestinian Authority and the Palestinian economic development plan.

Concerning other machines and equipment, not included in Lists Al, A2 and B, the temporary entry will be part of the import policy as agreed in para 10 above, until the joint sub-committee mentioned in para 16 decides upon a new system proposed by the Palestinian Authority. The temporary entry will be coordinated through the joint sub-committee.

19. Donations in kind to the Palestinian Authority will be exempted from customs and other import taxes if destined and used for defined development projects or non-commercial humanitarian purposes. The Palestinian Authority will be responsible exclusively for planning and management of the donors' assistance to the Palestinian people. The Joint Economic Committee will discuss issues pertaining to the relations between the provisions in this Article and the implementation of the principles in the above paragraph.

Article IV MONETARY AND FINANCIAL ISSUES

1. The Palestinian Authority will establish a Monetary Authority (PMA) in the Areas. The PMA will have the powers and responsibilities for the regulation and implementation of the monetary policies within the functions described in this Article.

2. The PMA will act as the Palestinian Authority's official economic and financial advisor.

3. The PMA will act as the Palestinian Authority's and the public

r entities' sole financial agent, ly and internationally.

The foreign currency reserves uding gold) of the Palestinian ority and all Palestinian public r entities will be deposited solely the PMA and managed by it.

The PMA will act as the r of last resort for the banking m in the Areas.

The PMA will authorize n exchange dealers in the Areas will exercise control (regulation supervision) over foreign nge transactions within the s and with the rest of the world.

The PMA will have king supervision department that be responsible for the proper ioning, stability, solvency and dity of the banks operating in the s.

The banking rvision department will predicate upervision on the international iples and standards reflected in national conventions and ially on the principles of the e Committee".

The supervision rtment will be charged with the ral supervision of every such including:

The regulation of all of banking activities, including foreign activities;

The licensing of s formed locally and of branches, diaries, joint ventures and sentative offices of foreign banks the approval of controlling eholders;

The supervision and ection of banks.

e PMA will relicense each of the branches of the Israeli banks ting at present in the Gaza Strip the West Bank, as soon as its ion or the authorities regarding it e under the jurisdiction of the stinian Authority. These branches be required to comply with the ral rules and regulations of the concerning foreign banks, based e "Basle Concordat". Para I0 d, e, f below will apply to these ches.

· Any other Israeli bank ing to open a branch or a idiary in the Areas will apply for a se to the PMA and will be treated lly to other foreign banks, ided that the same will apply to the Palestinian banks wishing to open a branch or a subsidiary in Israel.

b. Granting of a license by both authorities will be subject to the following arrangements based on the "Basle Concordat" valid on the date of signing of the Agreement and to the host authority's prevailing general rules and regulations concerning opening of branches and subsidiaries of foreign banks. In this para 10 "host authority" and "home authority" apply only to the Bank of Israel (BOI) and the PMA.

c. A bank wishing to open a branch or establish a subsidiary will apply to the host authority, having first obtained the approval of its home authority. The host authority will notify the home authority of the terms of the license, and will give its final approval unless the home authority objects.

d. The home authority will be responsible for the consolidated and comprehensive supervision of banks, inclusive of branches and subsidiaries in the area under the jurisdiction of the host authority. However, the distribution of supervision responsibilities between the home and the host authorities concerning subsidiaries will be according to the "Basle Concordat".

e. The host authority will regularly examine the activities of branches and subsidiaries in the area under its jurisdiction. The home authority will have the right to conduct on site examinations in the branches and subsidiaries in the host area. However, the supervision responsibilities of the home authority concerning subsidiaries will be according to the "Basle Concordat". Accordingly, each authority will transfer to the other authority copies of its examination reports and any information relevant to the solvency, stability and soundness of the banks, their branches and subsidiaries.

f. The BOI and the PMA will establish a mechanism for cooperation and for the exchange of information on issues of mutual interest.

a. · The New Israeli Sheqel (NIS) will be one of the circulating currencies in the Areas and will legally serve there as means of payment for all purposes including official transactions. Any circulating currency, including the NIS, will be accepted by the Palestinian Authority and by all its institutions, local authorities and banks, when offered as a means of payment for any transaction.

b. Both sides will continue to discuss, through the JEC, the possibility of introducing mutually agreed Palestinian currency or temporary alternative currency arrangements for the Palestinian Authority.

a. · The liquidity requirements on all deposits in banks operating in the Areas will be determined and announced by the PMA.

b. Banks in the Areas will accept NIS deposits. The liquidity requirements on the various kinds of NIS deposits (or deposit linked to the NIS) in banks operating in the Areas will not be less than 4% to 8%, according to the type of deposits. Changes of over 1% in the liquidity requirements on NIS deposits (or deposits linked to the NIS) in Israel will call for corresponding changes in the above mentioned rates.

c. The supervision and inspection of the implementation of all liquidity requirements will be carried out by the PMA.

d. The reserves and the liquid assets required according to this paragraph will be deposited at the PMA according to rules and regulations determined by it. Penalties for non compliance with the liquidity requirements will be determined by the PMA.

· The PMA will regulate and administer a discount window system and the supply of temporary finance for banks operating in the Areas.

a. · The PMA will establish or license a clearing house in order to clear money orders between the banks operating in the Areas, and with other clearing houses.

b. The clearing of money orders and transactions between banks operating in the Areas and banks operating in Israel will be done between the Israeli and the Palestinian clearing houses on same working day basis, according to agreed arrangements.

· Both sides will allow correspondential relations between each others' banks.

· The PMA will have the right to convert at the BOI excess NIS received from banks operating in the Areas into foreign currency, in which

BOI trades in the domestic inter- market, up to the amounts mined per period, according to rrangements detailed in para 16 .

· The excess amount of NIS, o balance of payments flows, that PMA will have the right to convert foreign currency, will be equal to:

Estimates of all "imports" of goods and services the Areas, valued at market (inclusive of taxes), which were in NIS, less:

xes collected by the Palestinian rity on all Israeli "imports" from eas and rebated to Israel in NIS,

xes collected by Israel on all "imports" from the Areas and ed in their market value, and not d to the Palestinian Authority,

Estimates of all "exports" of goods and services Areas, valued at market prices sive of taxes), which were paid NIS, less

the taxes ted by Israel on such "exports" rebated to the Palestinian rity, and

the taxes ted by the Palestinian Authority ch "exports" and included in market value, and not rebated to

The accumulated net nts of foreign currency converted usly into NIS by the PMA, as ded in the BOI Dealing Room.

The said flows and amounts e calculated as of the date of the g of the Agreement.

s to para 16:

The estimates of the said rts and imports" of goods and es will include inter alia labor es, NIS expenditure of tourists Israelis in the Areas and NIS diture of Palestinians of the s in Israel.

Taxes and pension ibutions on "imports" of labor services, paid to "importing" side and rebated to the "exporting" one, will not be included in the estimates of the sums to be converted, as the "exports'" earnings of labor services are recorded in the statistics inclusive of them, although they do not accrue to the individuals supplying them.

· The PMA and the BOI will meet annually to discuss and determine the annual amount of convertible NIS during the following calendar year and will meet semi-annually to adjust the said amount. The amounts determined annually and adjusted semi-annually will be based on data and estimates regarding the past and on forecasts for the wi following period, according to the formula mentioned in para 16. The first meeting will be as soon as possible within three months after the date of the signing of the Agreement.

a. · The exchange of foreign currency for NIS and vice-versa by the PMA will be carried out through the BOI Dealing Room, at the market exchange rates.

b. The BOI will not be obliged to convert in any single month more than 1/5 of the semi-annual amount, as mentioned in para 17.

c. There will be no ceiling on the annual foreign currency conversions by the PMA into NIS. However, in order to avoid undesirable fluctuations in the foreign exchange market, monthly ceilings of such conversions will be agreed upon in the annual and semi-annual meetings referred to in para 17.

d. Banks in the Areas will convert NIS into other circulating currencies and vice-versa.

e. The Palestinian Authority will have the authorities, powers and responsibilities regarding the regulation and supervision of capital activities in the Areas, including the licensing of capital market institutions, finance companies and investment funds.

Article V DIRECT TAXATION

1. Israel and the Palestinian Authority will each determine and regulate independently its own tax policy in matters of direct taxation, including income tax on individuals and corporations, property taxes, municipal taxes and fees.
2. Each tax administration will have the right to levy the direct taxes generated by economic activities within its area.
3. Each tax administration may impose additional taxes on residents within its area on (individuals and corporations) who conduct economic activities in the other side's area.
4. Israel will transfer to the Palestinian Authority a sum equal to:

a. 75% of the income taxes collected from Palestinians from the Gaza Strip and the Jericho Area employed in Israel.

b. The full amount of income taxes collected from Palestinians from the Gaza Strip and Jericho Area employed in the settlements.

5. The two sides will agree on a set of procedures that will address all issues concerning double taxation.

Article VI INDIRECT TAXES ON LOCAL PRODUCTION

- The Israel and the Palestinian tax administrations will levy and collect VAT and purchase taxes on local production, as well as any other indirect taxes, in their respective areas.
- The purchase tax rates within the jurisdiction of each tax administration will be identical as regards locally produced and imported goods.
- The present Israeli VAT rate is 17%. The Palestinian VAT rate will be 15% to 16%.
- The Palestinian Authority will decide on the maximum annual turnover for businesses under its jurisdiction to be exempt from VAT, within an upper limit of 12,000 US $.
- The VAT on purchases by businesses registered for VAT purposes will accrue to the tax administration with which the respective business is registered. Businesses will register for VAT purposes with the tax administration of the side of their residence, or on the side of their ongoing operation. There will be clearance of VAT revenues between the Israeli and Palestinian VAT administrations on the following conditions:

The VAT clearance will apply to VAT on transactions between businesses registered with the VAT administration of the side in which they reside.

The following procedures will apply to clearance of VAT revenues accruing from transactions by businesses registered for VAT purposes:

be acceptable for clearance oses, special invoices, clearly ed for this purpose, will be used transactions between businesses tered with the different sides.
invoices will be worded either in Hebrew and Arabic or in English will be filled out in any of these languages, provided that the es are written in "Arabic" (not i) numerals.
the purpose of tax rebates, such ces will be valid for six months their date of issue.
resentatives of the two sides will once a month, on the 20th day of onth, to present each other with a f invoices submitted to them for ebate, for VAT clearance. This ill include the following details rding each invoice:

number of the registered business ng it;
name of the registered business ng it;
number of the invoice;
date of issue;
amount of the invoice;
name of the recipient of the ice.

The clearance ns will be settled within 6 days the meeting, through a payment e side with the net balance of ns against it, to the other side.

Each side will ide the other side, upon demand, invoices for verification oses. Each tax administration will esponsible for providing invoices erification purposes for 6 months receiving them.

Each side will take necessary measure to verify the nticity of the invoices presented for clearance by the other side.

Claims for VAT ance which will not be found d will be deducted from the next ance payment.

Once an inter-ected computer system for tax tes to businesses and for VAT ance between the two sides is ational, it will replace the ance procedures specified in sub-s (4) - (8).

The two tax inistrations will exchange lists of businesses registered with them will provide each other with the ssary documentation, if required, he verification of transactions.

7. The two sides will establish a sub-committee which will deal with the implementation arrangements regarding the clearance of VAT revenues set above.

- VAT paid by not-for-profit Palestinian organizations and institutions, registered by the Palestinian Authority, on transactions in Israel, will accrue to the Palestinian tax administration. The clearance system set out in para 5 will apply to these organizations and institutions.

Article VII LABOR

1. Both sides will attempt to maintain the normality of movement of labor between them, subject to each side's right to determine from time to time the extent and conditions of the labor movement into its area. If the normal movement is suspended temporarily by either side, it will give the other side immediate notification, and the other side may request that the matter be discussed in the Joint Economic Committee. The placement and employment of workers from one side in the area of the other side will be through the employment service of the other side and in accordance with the other sides' legislation. The Palestinian side has the right to regulate the employment of Palestinian labor in Israel through the Palestinian employment service, and the Israeli Employment Service will cooperate and coordinate in this regard.

2.
a. Palestinians employed in Israel will be insured in the Israeli social insurance system according to the National Insurance Law for employment injuries that occur in Israel, bankruptcy of employers and maternity leave allowance.

b. The National Insurance fees deducted from the wages for maternity insurance will be reduced according to the reduced scope of maternity insurance, and the equalization deductions transferred to the Palestinian Authority, if levied, will be increased accordingly.

c. Implementation procedures relating thereto will be agreed upon between the Israeli National Insurance Institute and the Palestinian Authority or the appropriate Palestinian social insurance institution.

3.
a. Israel will transfer to the Palestinian Authority, on a monthly basis, the equalization deductions as defined by Israeli legislation, if imposed and to the extent levied by Israel. The sums so transferred will be used for social benefits and health services, decided upon by the Palestinian Authority, for Palestinians employed in Israel and for their families.
The equalization deductions to be so transferred will be those collected after the date of the signing of the Agreement from wages of Palestinians employed in Israel and from their employers.
These sums will not include

Payments for health services in places of employment.

2/3 of the actual administrative costs in handling the matters related to the Palestinians employed in Israel by the Payments Section of the Israeli Employment Service.

4. Israel will transfer, on a monthly basis, to a relevant pension insurance institution to be established by the Palestinian Authority, pension insurance deductions collected after the establishment of the above institution and the completion of the documents mentioned in para 6. These deductions will be collected from wages of Palestinians employed in Israel and their employers, according to the relevant rates set out in the applicable Israeli collective agreements. 2/3 of the actual administrative costs in handling these deductions by the Israeli Employment Service will be deducted from the sums transferred. The sums so transferred will be used for providing pension insurance for these workers. Israel will continue to be liable for pension rights of the Palestinian employees in Israel, to the extent accumulated by Israel before the entry into force of this para 4.

5. Upon the receipt of the deductions, the Palestinian Authority and its relevant social institutions will assume full responsibility in accordance with the Palestinian legislation and arrangements, for pension rights and other social benefits of Palestinians employed in Israel, that accrue from the transferred deductions related to these rights and benefits. Consequently, Israel and its relevant social institutions and the Israeli employers will be released from, and will not be held liable for any obligations and responsibilities concerning personal claims, rights and

fits arising from these transferred ctions, or from the provisions of 2-4 above.

Prior to the said transfers, the tinian Authority or its relevant tions, as the case may be, will de Israel with the documents red to give legal effect to their said obligations, including ally agreed implementation dures of the principles agreed in paras 3-5 above.

The above arrangements rning equalization deductions r pension deductions may be wed and changed by Israel if an rized court in Israel will mine that the deductions or any thereof must be paid to iduals, or used for individual l benefits or insurance in Israel, at it is otherwise unlawful. In a case the liability of the tinian side will not exceed the l transferred deductions related to ase.

Israel will respect any ement reached between the tinian Authority, or an nization or trade-union esenting the Palestinians oyed in Israel, and a esentative organization of oyees or employers in Israel, rning contributions to such nization according to any ctive agreement.

The Palestinian ority may integrate the existing h insurance scheme for tinians employed in Israel and r families in its health insurance ces. As long as this scheme nues, whether integrated or rately, Israel will deduct from r wages the health insurance fees alth stamp") and will transfer to the Palestinian Authority for purpose.

The Palestinian hority may integrate the existing th insurance scheme for tinians who were employed in el and are receiving pension ents through the Israeli ployment Service, in its health rance services. As long as this me continues, whether integrated eparately, Israel will deduct the essary sum of health insurance fees alth stamp") from the equalization ments and will transfer them to the tinian Authority for this purpose.

The JEC will meet upon the uest of either side and review the implementation of this Article and other issues concerning labor, social insurance and social rights.

11. Other deductions not mentioned above, if any, will be jointly reviewed by the JEC. Any agreement between the two sides concerning these deductions will be in addition to the above provisions.

12. Palestinians employed in Israel will have the right to bring disputes arising out of employee - employer relationships and other issues before the Israeli Labor Courts, within these courts' jurisdiction.

13. This Article governs the future labor relations between the two sides and will not impair any labor rights prior to the date of signing of the Agreement.

Article VIII AGRICULTURE

1. There will be free movement of agricultural produce, free of customs and import taxes, between the two sides, subject to the following exceptions and arrangements.

2. The official veterinary and plant protection services of each side will be responsible, within the limits of their respective jurisdiction, for controlling animal health, animal products and biological products, and plants and parts thereof, as well as their importation and exportation.

3. The relations between the official veterinary and plant protection services of both sides will be based on mutuality in accordance with the following principles, which will be applied in all the areas under their respective jurisdiction:

a. Israel and the Palestinian Authority will do their utmost to preserve and improve the veterinary standards.

b. Israel and the Palestinian Authority will take all measures to reach equivalent and compatible standards regarding animal disease control, including mass vaccination of animals and avians, quarantines, "stamping out" measures and residue control standards.

c. Mutual arrangements will be made to prevent the introduction and spread of plant pests and diseases, for their eradication and concerning residue control standards in plant products.

d. The official veterinary and plant protection services of Israel and the Palestinian Authority will coordinate and regularly exchange information regarding animal diseases, as well as plant pests and diseases, and will establish a mechanism for immediate notification of the outbreak of such diseases.

4. Trade between the two sides in animals, animal products and biological products will be in keeping with the principles and definitions set out in the current edition of the OIE National Animal Health Code as updated from time to time (hereinafter - I.A.H.C.).

5. Transit of livestock, animal products and biological products from one side through the area under the jurisdiction of the other side, should be conducted in a manner aimed at the prevention of diseases spreading to or from the consignment during its movement. For such a transit to be permitted, it is a prerequisite that the veterinary conditions agreed upon by both sides will be met in regard to importation of animals, their products and biological products from external markets. Therefore the parties agree to the following arrangements.

6. The official veterinary services of each side have the authority to issue veterinary import permits for import of animals, animal products and biological products to the areas under its jurisdiction. In order to prevent the introduction of animal diseases from third parties, the following procedures will be adopted:

a. The import permits will strictly follow the professional veterinary conditions for similar imports to Israel as prevailing at the time of their issuance. The permits will specify the country of origin and the required conditions to be included in the official veterinary certificates which should be issued by the veterinary authorities in the countries of origin and which should accompany each consignment. Each side may propose a change in these conditions. The change will come into force 10 days after notice to the other side, unless the other side requested that the matter be brought before the Veterinary Sub-Committee specified in para 14 (hereinafter - VSC). If it is more stringent than the prevailing conditions - it will come into force 20 days after the request, unless both sides decide otherwise through the VSC, and if more lenient - it will come into force only if agreed upon by both sides through the VSC. However, if the change is urgent and needed for the protection of animal and public health, it will come into force immediately after notice by the

side and will remain in force
and until both sides agree
wise through the VSC.

The official
nary certificates will include the
sions regarding OIE Lists A & B
ses as specified in the I.A.H.C.
the I.A.H.C. allows alternative
ements regarding the same
se, the most stringent one will be
ed unless otherwise agreed upon
e VSC.

When infectious
ses which are not included in
A & B of the I.A.H.C. exist or
spected, on scientific grounds, to
in the exporting country, the
sary veterinary import conditions
will be required and included in
fficial veterinary certificates, will
iscussed in the VSC, and in the
of different professional opinions,
most stringent ones will be
ed.

The import of live
nes will be permitted only if so
ed by the VSC.

Both sides will
ange, through the VSC,
mation pertaining to import
sing, including the evaluation of
disease situation and zoosanitary
bility of exporting countries,
h will be based upon official
mation as well as upon other
able data.

Consignments
h do not conform with the above
ioned requirements will not be
itted to enter the areas under the
diction of either side.

Transportation of livestock
poultry and of animal products
biological products between areas
r the jurisdiction of one side
gh areas under the jurisdiction of
other side, will be subject to the
wing technical rules:

The transportation
be by vehicles which will be
d with a seal of the official
inary services of the place of
n and marked with a visible sign
mal Transportation" or "Products
Animal Origin" in Arabic and
ew, in coloured and clearly
le letters on white background;

Each consignment
be accompanied by a veterinary
ficate issued by the official
inary services of the place of
n, certifying that the animals or
products were examined and are
of infectious diseases and
nate from a place which is not under quarantine or under animal movement restrictions.

8. Transportation of livestock and poultry, animal products and biological products destined for Israel from the Areas and vice versa will be subject to veterinary permits issued by the official veterinary services of the recipient side, in keeping with the OIE standards used in international traffic in this field. Each such consignment will be transported by a suitable and marked vehicle, accompanied by a veterinary certificate in the form agreed upon between the official veterinary services of both sides. Such certificates will be issued only if permits of the recipient side are presented.

9. In order to prevent the introduction of plant pests and diseases to the region, the following procedures will be adopted:

a. The transportation between the Areas and Israel, of plants and parts thereof (including fruits and vegetables), the control of pesticide residues in them and the transportation of plant propagation material and of animal feed, may be inspected without delay or damage by the plant protection services of the recipient side.

b. The transportation between the Areas through Israel of plants and parts thereof (including fruits and vegetables) as well as of pesticides, may be required to pass a phytosanitary inspection without delay or damage.

c. The official Palestinian plant protection services have the authority to issue permits for the import of plants and parts thereof as well as of pesticides from external markets. The permits will be based on the prevailing standards and requirements.

The permits will specify the required conditions to be included in the official Phytosanitary Certificates (hence P.C.) based upon the standards and the requirements of the International Plant Protection Convention (I.P.P.C.)and those of the European and Mediterranean Plant Protection Organization (E.P.P.O.) which should accompany each consignment. The P.C.'s will be issued by the plant protection services in the countries of origin. Dubious or controversial cases will be brought before the sub-committee on plant protection.

10. The agricultural produce of both sides will have free and unrestricted access to each others' markets, with the temporary exception of sales from one side to the other side of the following items only: poultry, eggs, potatoes, cucumbers, tomatoes and melons. The temporary restrictions on these items will be gradually removed on an increasing scale until they are finally eliminated by 1998, as listed below:

11.

Note: The above figures refer to the combined quantities marketed from the West Bank and Gaza Strip to Israel and vice-versa. The Palestinian Authority will notify Israel the apportioning of these quantities between these areas concerning the quantities pertaining to the Palestinian produce.

12. The Palestinians will have the right to export their agricultural produce to external markets without restrictions, on the basis of certificates of origin issued by the Palestinian Authority.

13. Without prejudice to obligations arising out of existing international agreements, the two sides will refrain from importing agricultural products from third parties which may adversely affect the interests of each other's farmers.

14. Each side will take the necessary measures in the area under its jurisdiction to prevent damage which may be caused by its agriculture to the environment of the other side.

15. The two sides will establish sub-committees of their respective official veterinary and plant protection services, which will update the information and review issues, policies and procedures in these fields. Any changes in the provisions of this Article will be agreed upon by both sides.

16. The two sides will establish a sub-committee of experts in the dairy sector in order to exchange information, discuss and coordinate their production in this sector so as to protect the interests of both sides. In principle, each side will produce according to its domestic consumption.

Article IX INDUSTRY

1. There will be free movement of industrial goods free of any restrictions including customs and import taxes between the two sides, subject to each side's legislation.

2.

The Palestinian side the right to employ various ods in encouraging and oting the development of the tinian industry by way of ding grants, loans, research and lopment assistance and direct-tax fits. The Palestinian side has also ght to employ other methods of uraging industry resorted to in el.

Both sides will ange information about the ods employed by them in the uragement of their respective stries.

Indirect tax rebates nefits and other subsidies to sales not be allowed in trade between wo sides.

Each side will do its best to d damage to the industry of the r side and will take into ideration the concerns of the other in its industrial policy.

Both sides will cooperate in revention of deceptive practices, in goods which may endanger h, safety and the environment and ods of expired validity.

Each side will take the ssary measures in the area under jurisdiction to prevent damage h may be caused by its industry to nvironment of the other side.

The Palestinians will have right to export their industrial uce to external markets without ictions, on the basis of certificates rigin issued by the Palestinian hority.

The JEC will meet and ew issues pertaining to this cle.

cle X TOURISM

The Palestinian Authority establish a Palestinian Tourism hority which will exercise, inter the following powers in the as.

Regulating, nsing, classifying and supervising st services, sites and industries.

Promoting foreign domestic tourism and developing Palestinian tourist resources and s.

Supervising the keting, promotion and information vities related to foreign and estic tourism.

Each side shall, under its ective jurisdiction, protect, guard ensure the maintenance and good eep of historical, archaeological, cultural and religious sites and all other tourist sites, to fit their status as well as their purpose as a destination for visitors.

3. Each side will determine reasonable visiting hours and days for all tourist sites in order to facilitate visits at a wide variety of days and hours, taking into consideration religious and national holidays. Each side shall publicize such opening times. Meaningful changes in the opening times will take into consideration tourist programs already committed to.

4. Tourist buses or any other form of tourist transport authorized by either side, and operated by companies registered and licensed by it, will be allowed to enter and proceed on their tour within the area under the jurisdiction of the other side, provided that such buses or other vehicles conform with the EEC technical specifications [I. currently adopted.] All such vehicles will be clearly marked as tourist vehicles.

5. Each side will protect the environment and the ecology around the tourist sites under its jurisdiction. In view of the importance of beaches and maritime activities for tourism, each side will do its best efforts to ensure that development and construction on the Mediterranean coast, and especially at ports (such as Ashqelon or Gaza), will be planned and carried out in a manner that will not adversely affect the ecology, environment or the functions of the coastline and beaches of the other side.

6. Tourism companies and agencies licensed by either side shall enjoy equal access to tourism - related facilities and amenities in border points of exit and entry according to the regulations of the authority operating them.

7.

a. Each side will license, according to its own rules and regulations, travel agents, tour companies, tour guides and other tourism businesses (hereinafter - tourism entities) within its jurisdiction.

b. Tourism entities authorized by either side, will be allowed to conduct tours that include the area under the jurisdiction of the other side, provided that their authorization as well as their operation will be in accordance with rules, professional requirements and standards agreed upon by both sides in the sub-committee mentioned in para 9.

Pending that agreement, existing tourism entities in the Areas which are currently allowed to conduct tours that include Israel, will be allowed to continue to do so, and Israeli authorized tourism entities will continue to be allowed to conduct tours that include the Areas. In addition, any tourism entity of one side that the tourism authorities of the other side will certify as fulfilling all its rules, professional requirements and standards, will be allowed to conduct tours that include that other side.

8. Each side will make its own arrangement for compensation of tourists for bodily injury and property damages caused by political violence in the areas under its respective jurisdiction.

9. The JEC or a tourism sub-committee established by it shall meet upon the request of either side in order to discuss the implementation of the provisions of this Article and resolve problems that may arise. The sub-committee will also discuss and consider tourist issues of benefit to both sides, and will promote educational programs for tourism entities of both sides in order to further their professional standards and their ethics. Complaints of one side against the behaviour of tourism entities of the other side will be channelled through the committee.

Note: It is agreed that the final wording in the last sentence in para 4 will be adopted according to the final wording in the relevant provisions of the Agreement.

Article XI INSURANCE ISSUES

1. The authorities, powers and responsibilities in the insurance sphere in the Areas, including inter alia the licensing of insurers, insurance agents and the supervision of their activities, will be transferred to the Palestinian Authority.

2.

The Palestinian Authority will maintain a compulsory absolute liability system for road accident victims with a ceiling on the amount of compensation based upon the following principles:

1. Absolute liability for death or bodily injury to road accident victims, it being immaterial whether or not there was fault on the part of the

and whether or not there was or contributory fault on the part others, each driver being nsible for persons travelling in hicle and for pedestrians hit by hicle.

Compulsory nce for all motor vehicles, ng death or bodily injury to all accident victims, including rs.

No cause of action rt for death or bodily injury ing from road accidents.

The maintenance of atutory fund (hereinafter - the) for compensation of road ent victims who are unable to compensation from an insurer e following reasons:

river liable for compensation is own;

driver is not insured or his nce does not cover the liability ved; or

nsurer is unable to meet his ties.

Terms in this Article ave the same meaning as in the ation prevailing at the date of ng of the Agreement concerning ulsory motor vehicle insurance compensation of road accident ns.

Any change by side in the rules and regulations ding the implementation of the mentioned principles will re prior notice to the other side. ange which might substantially t the other side will require prior e of at least three months.

n the signing of the Agreement alestinian Authority will establish nd for the Areas (hereinafter - the tinian Fund) for the purposes led in para 2(a)(4) above and for purposes detailed below. The tinian Fund will assume the nsibilities of the statutory Road dent Victims Compensation Fund e West Bank and the Gaza Strip inafter - the Existing Fund) rding the Areas, according to the iling law at that time. rdingly, the Existing Fund will e to be responsible for any ity regarding accidents occurring e Areas from the date of signing e Agreement.

b. The Existing Fund will transfer to the Palestinian Fund, after the assumption of the above mentioned responsibilities by it, the premiums paid to the Existing Fund by the insurers for vehicles registered in the Areas, pro-rata to the unexpired period of each insurance policy.

c. Compulsory motor vehicle insurance policies issued by insurers licensed by either side will be valid in the territories of both sides. Accordingly, a vehicle registered in one side covered by such a policy will not be required to have an additional insurance coverage for travel in the areas under the other side's jurisdiction. These insurance policies will cover all the liabilities according to the legislation of the place of the accident.

d. In order to cover part of the liabilities which may incur due to road accidents in Israel by uninsured vehicles registered in the Palestinian Authority, the Palestinian Fund will transfer to the Israeli Fund, on a monthly basis, for each insured vehicle, an amount equal to 30% of the amount paid to the Israeli Fund by an insurer registered in Israel, for the sat-ne type of vehicle, for the same period of insurance (which will not be less than 90 days).

4. In cases where a victim of a road accident wishes to claim compensation from an insurer registered by the other side or from the Fund of the other side or in cases where a driver or an owner of a car is sued by a victim, by an insurer or by the Fund of the other side, he may nominate the Fund of his side as his proxy for this purpose. The Fund so nominated may address any relevant party from the other side directly or through the other sides' Fund.

5. In the case of a road accident in which neither the registration number of the vehicle nor the identity of the driver are known, the Fund of the side which has jurisdiction over the place of the accident will compensate the victim, according to its own legislation.

6. The Fund of each side will be responsible towards the victims of the other side for any liability of the insurers of its side regarding the compulsory insurance and will guarantee their liabilities.

7. Each side will guarantee its Fund's liabilities according to this Article.

8. The two sides will negotiate within three months from the date of the signing of the Agreement a cut-off agreement between the Existing Fund and the Palestinian Fund concerning accidents which occurred in the Areas prior to the date of the signing of the Agreement, whether claims have been reported or not. The cut-off agreement will not include compensation for Israeli victims involved in accidents which occurred in the Areas prior to the date of the signing of the Agreement.

9.

. The two sides will establish immediately upon the signing of the Agreement, a sub-committee of experts (hereinafter - the Sub-Committee) which will deal with issues regarding the implementation of this Article, including:

Procedures concerning the handling of claims of victims of the one side from insurers or from the Fund of the other side;

Procedures concerning the transfer of the amounts between the Funds of both sides as mentioned in para 4(b) above;

The details of the cut-off agreement between the Existing Fund and the Palestinian Fund, as set out in para 9 above;

Any other relevant issue raised by either side.

a. The Sub-Committee will act as a continuous committee for issues regarding this Article.

b. The two sides will exchange, through the Sub-Committee, the relevant information regarding the implementation of this Article, including police reports, medical information, relevant statistics, premiums, etc. The two sides will provide each other with any other assistance required in this regard.

10. Each side may require the re-examination of the arrangements set out in this Article a year after the date of the signing of the Agreement.

11. Insurers from both sides may apply for a license to the relevant authorities of the other side, according to the rules and regulations regarding foreign insurers in the latter side. The two sides agree not to discriminate against such applicants.

Done in Paris, this twenty ninth day of April, 1994

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