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TONY BLAIR INSTITUTE FOR GLOBAL CHANGE
Map of Israel,
The West Bank & The Gaza Strip
Jerusalem Area Map
Middle East Political Map
The South
TEL AVIV
GAZA
Mediterranean Sea
West Bank
Golan Heights
Sea of Galilee
Gaza Strip
Israel
Egypt

How has economic inequality between Israel and Palestine impacted the creation of a Two-State solution?

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Summary

The initial 1993 Oslo Accords discussions aimed at developing Israeli-Palestinian 'economic cooperation' but in the 9-month secret negotiations, political issues became central. The consequent outcome boosted Israel's economy but not Palestine's, instead entrenching Palestinian donor dependency.

Most Two-State solution debaters now believe the optimum possible outcome is One-State where Palestinians have equal rights. Few recognise an economic path leads to a political path, though some wonder about the potential economic impact of settlement policies and Israeli Arab-Jewish social inequality on economic inequality. Ironically, all accept economic inequality breeds political extremism, but few that economic inequality can force Israeli-Palestinian political solutions.

The Accords' implementation stalled around 2008. Hardliner opposition, Israeli security concerns, poor Palestinian negotiating and violence & extremism all playing their part. Economically, only Israel has gained. Underscoring this failure has been dramatic, intimidating and permanent settlement expansion in Israeli administered and controlled areas (Area C) - an Israeli Likud government policy which further diminished the prospects of a viable Palestinian state and its economic growth. Economic inequality has grown since the Accords' signature.

Nevertheless, economic inequality has potentially created the conditions for economic cooperation. Palestine's economy is better than official data suggests, austerity measures are underway and the entrepreneurial buds of successful export sectors are emerging to feed a booming Israeli economy which is short of skills that are available in Palestine's highly educated workforce – specifically and ironically for Israel's 'start-up' sector which traces its ancestry to Israel's Defence Forces and their experience fighting Palestinians. Palestinians soon may fill the 'blue-collar' jobs that Ultra-Orthodox Jews refuse. Currently, Israeli security restrictions inhibit that workforce flow, impacting both economies badly and Palestine's substantially.

Palestinian economic inequality is partially state initiated and unsustainable societally, within West Bank administered areas and between the West Bank and Gaza (an anchor on economic development). Young Palestinians now want equal rights, having lost faith in Palestinian leadership and the Two-State solution.

Israeli right-wing politicians have stoked unwarranted fears among Israelis and through settlement activity, Palestinian resistance, but almost inevitably Israel will cement the *status quo* by annexing ~64% of the West; an unwitting but inevitable pathway to Palestinian equal rights unless Israel can enable a better economic future for Palestinians inside the remnants of a Palestinian West Bank.

Palestinian (Fatah) politicians were unable/unwilling to deliver on their political commitments, losing their electorate to the extremist group Harakat al-Muqāwamah al-Islāmiyyah (Hamas) – an extremism that economic pressures are moderating. These pressures and the 'politics of economics' are also triggering reform of the security apparatus Fatah built to secure power. Concurrently, Iranian-Saudi and Islamist-Pan-Arab differences are driving a wedge between Gaza and West Bank Palestinians. Israeli-Palestinian economic cooperation will initially exclude Gaza.

Perhaps as intended, within this mix, the economic aspect of Trump's 'Deal of the Century's' cannot be ignored. Despite rejecting the 'Deal', economic conditions and lack of support will force Palestinians to re-engage, but both economic development and political options are limited. The time seems right for Israel-Palestine to re-open the Accords' Annex III 'Economic Cooperation' and together craft an Export-Orientated Industrialisation policy focused on Israeli-markets. From this economic cooperation, political solutions become possible.

Chapter 1 – Introduction

1.1 - The problem being addressed in the Dissertation

Pre-20th Century, Palestinian people, whatever their religion or ethnicity, lived in relative peace and shared economic fluctuations impacting their lands. The Arab-Israeli conflict over that land has dominated Middle Eastern international relations since 1948 (see Figures 1 and 2) when Arabs lost land in wars with Israel. The occupation of 1947 Arab Lands by Jordan (of the West Bank), Egypt (of Gaza Strip) and Israel, led to ~300,000 Palestinians becoming stateless refugees through flight or expulsion. Similarly, ~300,000 Jews fled or were expelled from Arab states and resettled in Israel. Both communities experienced hardship. The Palestinians' impact on their Arab-hosts complicated inter-Arab relations and encouraged wider-powers' engagement. A Two-State solution has many obstacles now; the relative economic situations of Israelis and Palestinians is a big one. However, Israeli-Palestinian economic dependence, perhaps inter-dependence, could overcome it.

1.2 - The Main Argument being made in the Dissertation

The 1993 Oslo Peace Accords aimed to deliver a Two-State solution through political negotiation over several years and rounds. In the Accords' secret discussions, economic matters were discussed first (Fawcett, 2016) but subordinated and hindered by political issues, which politicians have not delivered. Since 1993, only Israel has substantially benefitted economically. Arab markets are *de facto* open to Israel and international companies operate in Israel's regionally dynamic economy without fear of Arab and Muslim world sanction. The success of Israel's settlement policy is forcing a domestic 'One-State' debate - raising questions about becoming a Pariah-state or granting equal rights to One-State Palestinians and consequentially shifting Israel's politics leftwards. Most Israelis will not give up settlements and prefer economic cooperation with a Palestinian-State over equal rights with Palestinian-Arabs in One-State. Israel's economy needs highly educated labour, like that available in Palestine. Israel's inevitable choice is to lead economic cooperation and enable a reduced Palestinian-State to flourish. The economics of this reality are heralded in Trump's 'Deal of the Century'.

Palestine's elected bodies face increasing financial hardship, a politically disillusioned populace and changes in regional power-politics and economics which have reduced tacit and implicit support for them. The 'old guard' have realised this late, but perhaps not too late. They know Gaza will have to develop on a separate slower path. Palestine's highly educated youth look across their border with Israel and see the economic inequality and have increasing aspirations. They want equal rights under law with Israelis first and economic equality second: the second is politically deliverable.

Figure 1: UN Resolution 181 partition plan: Israel and Palestine
UN partition plan for Palestine adopted in 1947.*Encyclopædia Britannica, Inc.*

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Figure 2:
Map showing Israel, the West Bank, and the Gaza Strip before and after the 1967 six-day war.

The roots of economic equality exist now: cooperation in economic sectors; available demand and supply of labour; and a history of economic cooperation. Economic realities are creating a realpolitik in Palestine and Israel, that is leading toward economic cooperation. Domestic politics would prefer pursuit under Accords Annex III 'Economic Cooperation' to Trump's 'Deal of the Century' but the economic outcome is the same, convergence between the two states' economies and a reduction in economic inequality. Economic convergence precedes a Two-State solution.

1.3 - The Structure of the Dissertation

In Chapter 2, after setting the Accord's historical context, its intended implementation and outlining its support internationally, the reader is exposed to the fact that economic cooperation was the original intention of the Accord discussions, but during discussions, became subordinate to political issues. In Chapter 3, the current position of the Two-State solution debate is examined to reveal that 'economic cooperation' is coming back into discussion, though under a different paradigm. Chapter 4 examines Accords' implementation since 1993 from an economic perspective and shows the failure to date. Chapter 5 examines the consequent economic inequality and the political, institutional and regional challenge from which any future economic convergence must begin and how these circumstances have also created the conditions where economic convergence is possible and perhaps inevitable.

Chapter 6 examines Trump's 'Deal of the Century' and its true purpose, before offering an economic model which would develop economic convergence from which political solutions could follow.

1.4 – The Methodology

The research will be a combination of documentation examination and interviews with people in Palestine, where I frequently work on governmental reform.

Israel-Palestine elicits strong emotional views, so when selecting facts, I have used neutral, authoritative documented sources, like Encyclopaedia Britannica. I have drawn comparative facts, such as economic data, from the same timeframe, though reliable Palestinian Authority (PA) data post-2012, is scarce. For documented opinion or evidential argument/analysis, I have sought recent, balanced views from Jewish and Arab sources and reflected both equitably and unemotionally.

I conducted interviews in Palestine and not Israel because I felt Israeli media fairly reflected truth, mood or opinion. Interviews in Palestine were conducted opportunistically with individuals I met through work and based upon their openness and interest. Two specific sources (Gibson (and his team) and Elothmani) verified information I received initially from Palestinian sources. I cross-referenced Gibson and Elothmani's information with each other. To protect some primary sources, I have referenced only Gibson or Elothmani.

Chapter 2 – The 1993 Oslo Peace Accord

The 1993 Oslo Peace Accords changed the economic development of Palestine and Israel. Before then, the Palestine Liberation Organisation (PLO), the political body then representing Palestinians, rejected any sharing of sovereignty over Palestine (including territories then forming Israel). Between Israel and the broader Muslim world, normalised economic relations were officially almost non-existent. By signing the Accords, Palestinian and Israeli leaders recognised the right of each state to exist, laying foundations to move forward economically.

2.1 - Overview of the Oslo Peace Accord

A Peace Process begun by the United States in October 1991, started stalling 1992, in part because the PLO were excluded from negotiations for supporting Saddam Hussein's 1990 invasion of Kuwait (Fawcett, 2016). Stalemate in the official talks led to a diplomatically brave decision by Israel and the PLO to seek a back channel in Oslo for direct and secret talks (secret even from the negotiating teams participating in official USA sponsored Washington talks). Fourteen unofficial secret talks began in Oslo (January 1993) and started by focusing on 'economic cooperation' (Shlaim, 2016). Between January and September (when the Accords were signed in Washington) the discussions' focus had shifted from economic cooperation to political matters. This is clear from the weight and position of economic matters in Articles and Annexes of the Accords.

2.1.1. Economic Aspects of the Accord

Of the Accords' 17 Articles, only two cover economics. Article VII,4 agrees establishment of Palestinian authorities over electricity, a Gaza seaport, development bank, export promotion, environment, land, water and administration. Article XI agrees formation of an Israeli-Palestinian Economic Cooperation Committee (IPECC) whose first task is political – to oversee free and fair Palestinian elections – and second is to oversee the establishment of the Article VII,4 Palestinian authorities.

Of the Accords' 4 Annexes, one covers economic cooperation (Annex III) and another economic development (Annex IV). Annex III provides a (non-binding) focus for the IPECC to explore cooperation on water, electricity, energy, finance, transport, communication, trade, industry, HR development, labour relations, social welfare, R&D, media and the environment, suggesting promotion and development programmes and plans in several areas. Annex IV declares the two parties will cooperate with G7 initiatives to both 'Develop the West Bank and Gaza' and 'Develop the Region'. However, nothing binds the G7 to initiating the two development programmes. Unlike almost all the rest of the Accords, there are no timelines to begin or deliver the economic aspects.

2.1.2. Initial 'Political' intent of the Accord

On the 9th and 13th September 1993, two documents were signed. The best-known second, was a joint 'Declaration on Principles on Interim Self-Government Arrangements'. The lesser known first concerned mutual recognition. Together these documents represent the Two-State solution. Through them, both sides accepted the principle of partition by territorial compromise, to settle their historical dispute.

'Declaration on the Principles on Interim Self-Government Arrangements' Document. The Declaration was not a full agreement, but a timetabled agenda for negotiations. It gave Israel foreign affairs and external security but agreed security transfer within 4 months of Gaza and Jericho to a new Palestinian Authority Security Force (PASF) - consisting of former PLO fighters. It agreed power transferring to 'authorised [West Bank] Palestinians' over: education, health, social welfare, direct taxation and tourism. Within nine months, a Palestinian Council, elected by West Bank and Gaza Palestinians, should take-over all government functions except defence and foreign affairs. Within 2 years, a second round of negotiations should commence on territorial final status. At five years a permanent settlement should be reached, ending Israeli rule over 2 million Gaza and West Bank Palestinians (Medzini, 2020).

The Declaration's negotiators deliberately avoided sensitive issues: refugees 'right to return'; Palestinian borders; the future of West Bank and Gaza Jewish Settlements; and Jerusalem's status. These depended on the outcome of the Palestinian self-government experiment and would not be discussed before September 1998 (Zeiden, 2020).

'Mutual Recognition between Israel and the PLO' Document. Mutual recognition was achieved through two plain paper letters (no letterheads), signed by the PLO Chairman Arafat, on 9th September 1993 and by Israel's Prime Minister Rabin, 24 hours later. These letters gave meaningful agreement on Palestinian self-government. Through them, the PLO formally recognised Israel's right to live in peace and security, to accept UNSCR 242 and 338, to renounce the use of terrorism and other acts of violence and change those parts of the Palestinian National Charter that were inconsistent with these commitments. In reply, the Israeli government recognised the PLO as the Palestinian people's representative (implicitly recognising the Palestinian people's political rights) and to negotiate with the PLO within the official Peace Process (International Herald Tribune, 1993).

2.1.3. Original Local, International, Regional, Political Expectations of the Two-State solution

The Accords received popular local support, both communities giving ~65% approval ratings in polls (The Guardian, 1993). International, regional and political expectations flourished, especially over mutual recognition. PLO Chairman Arafat and Israeli Prime Ministers Peres and Rabin shared the Nobel Peace Prize for their efforts to create peace in the Middle East (Yasser Arafat | Nobel Peace Summit 1994). Hopes grew of resolving a long and open international sore. Donor institutions and nations pledged $2.4Bn until 1998 (Palestinian Human Development Report, 2004).

Regionally, the League of Arab States (LAS), formed partially to assist Palestinians' struggle for Palestine, no longer had compelling reasons to reject Israel and wage political, economic and ideological warfare against her (Fawcett, 2013). Just as their booming populations needed employment, LAS could now recognise Israel, normalise relations and potentially trade with the region's most dynamic, advanced and growing economy (Achcar, 2020). Morocco, Jordan, Tunisia and Saudi Arabia diplomatically approached Israel. LAS began discussions on lifting the 1948 economic boycott.

Lost Economic Opportunity? Actually, two states existed from 15th November 1988, when the PLO proclaimed the "State of Palestine," and themselves its' government-in-exile; the Palestinian National Council elected Yasser Arafāt State-President on 2nd April 1989 (Encyclopaedia Britannica, 2020). Pre-1993, this government recognized UNSCR 242 and 338, so theoretically acknowledging Israel's right to exist and a policy accepting separate Israeli and Palestinian states. Israel and others did not recognise the proclamation. The Accords simply affirmed a political position at the cost of an economic one, clearly seen by Prime Minister Rabin's comment when signing his letter to Arafat. "I believe, that there is a great opportunity of changing not only the relations between the Palestinians and Israel, but to expand it to the solution of the conflict between Israel and the Arab countries and other Arab Peoples." (International Herald Tribune, 1993).

At the start of the Accords' discussions, economic cooperation offered the possibility of both Palestinians and Israelis working together towards a mutually beneficial economy and the 'bones' of that lie within the Accords' Annexes on non-binding, unscheduled economic cooperation and development. By the end, a political outcome dominated, which relied upon politicians to deliver on their promises in ever more demanding circumstances. The political aspects of the Accords seem to have created the potential conditions for Israel to trade more and for Palestine to fall into a dependency hole.

Chapter 3 – Literature Review

The review maps the debate since 2008 and the temporal shift from a Two-State debate towards a One-State debate, primarily driven by the failure of political progress against the success of Israel's settlement policies. In all but a few cases, commentators lose sight of the broader more strategic economic basis for 'statehood'.

3.1 - The current state of the debate on the Two-State solution.

Most commentators argue, that without parties' willingness to restart a Two-State political process, stalled since 2008, nothing will happen. Kelman (2011) argues only a Two-State solution is possible, noting that Israeli and Palestinian populations have consistently poled in favour of a Two-State solution. His 'framework for a principled peace' to create those conditions has four components. First, formal recognition of "the other's national identity and acknowledgement of both people's historic roots in the land and authentic links to it". Second, recognising a military solution will not succeed. Third, the characteristics of a principled peace. Fourth, widespread acceptance of "a secure and prosperous existence for each society and mutually beneficial cooperation between the two societies in various spheres (economic relations, public health, environmental protection, telecommunications, tourism, cultural and educational programmes) …".

Arato (2015) supports Hannah Arendt's premise, that either a two or one-state solution "in some form of federal association of two peoples within the larger territory" is legitimate under different UN positions. The importance is that "to overcome doubts about the viability of the Two-State solution, it would be important to revive, at the very least, the UN General Assembly's Partition Plan for an economic union …" Rumley (and Tibon, 2015), expose Palestinian generational differences and emphasise that young Palestinians would reject a Two-State solution for "Israeli citizenship (and principally equal rights to live, travel and work wherever in the original Palestinian Mandate)". Consequently, by pursuing Israeli-citizenship, they may ironically secure a Two-State solution, because the majority of Israeli Jews prefer that outcome than to have 4.5m additional Arabs voting in Israeli elections.

Lahti's (2018) advantage-disadvantage analysis of one and Two-State solution models, concludes "that due to Israel's increasing settlement policy, Two-State solution models are getting even more difficult to establish... that a One-State solution based on a modified Confederation Model, is the most suitable for the long term." Similarly, in "recognition of the irrelevance today of the Two-State paradigm", Yehoshua's (2019) "de-facto partnership" model, encompasses the West Bank only, freezes territorial aspects, offers residency then citizenship to West Bank Palestinians under a restructured Israeli Presidency, Constitution and electorally reformed representation system. Munayyer (2019) is a little more direct: "The Two-State solution is dead ... the only alternative with any chance of delivering lasting peace: equal rights for Israelis and Palestinians in a single shared state."

3.2 - The main factors influencing the progress towards a Two-State solution

Paivinen (2004) makes the point that Palestinians and Israelis see the Two-States territorially from different perspectives. The Palestinians as per the British Mandate (1917-47) and the Israelis as either the 'promised land by God' or the *de facto* border created by the principle of security through buffer zones. Kelman (2011) claims mistrust over the willingness of the opposite side to negotiate honestly and seriously, hinders progress. Politicians on both sides in "mirror-image fashion, underestimated the extent of support on the other side for a Two-State solution": they lack confidence and trust in their opposite number to bring along their electorate towards a Two-State solution. While they both hold these views, progress will be challenging.

Lovatt (2016) sees Israelis settlement expansion, through illegal annexation of territory, as "the greatest and most immediate threat to the viability of a Two-State solution". Though argues, imposition of EU Differentiation Measures 'incentivises' Israel to pause, because measures "exclude settlement-linked entities and activities from bilateral relations with Israel" so feeding Israeli debate over national priorities by "framing the negative consequences" in economic terms to settlement expansion.

3.3 - The extent to which the debate has considered and/or neglected the role of economic inequality

Few writers address the economics of two potential states, except to recognise that a Two-State solution would require some economic model to enable a sustainable Palestinian state.

Fewer still examine economic inequality. Farsakh (2013) does and demonstrates that economic developments since 1993 have actually contributed to a One-State solution, because Israel has been able to dispense with the Palestinians both economically and politically, in part due to inadvertent contributions by the international community. Similarly, Bashir (2016) prefers integrative models, based implicitly on the political and economic inequality existing today for the people of Palestine vis-à-vis the Israelis. In a fifteen year old study, Weizman (2007), highlights that the division of resources in a Two-State solution would be “neither workable nor fair” to the survival of a sustainable Palestinian part.

Waxman (2011) reflects on the condition of Palestinians holding Israeli citizenship living inside Israel. They make up 20% of its population and although benefit from rising living standards compared to West Bank and Gaza Palestinians, they are “economically and politically inferior to Jewish citizens of Israel … effectively second-class citizens.” Such divergence fuels a growing ethno-national conflict within Israel between the Jewish and Palestinian communities. Consequently, Israeli-Palestinians are calling for Israel to be defined not as a Jewish State, but a “state for all its citizens”. The Jewish community will not accept this, though must placate increasingly political non-Jewish citizens. A redress of the economic imbalance, through government funding to Arab communities and more employment opportunities for Arab citizens, is proposed. A logical consequence of such action within Israel, is to mitigate potential problems between Two-States, through a replication of the concept between Israel and the Palestinian Authority (PA).

3.4 - The Political Impact of Economic Inequality

Thorbecke (and Charumilind, 2002) highlight that “economic inequality leads to political instability when political voices can be raised”, feeding extremism: either from those that have more, fearing loss through concessions to those that have less, or, in the ranks of those that have less, believing they are oppressed. This particularly concerns parties of a Two-State solution, because as Kuhn (and Weidmann, 2003) show, economic inequality between ethnic groups is more likely to lead to the depressed group choosing a political solution through conflict. The New York Times (2009) exposed that extremist politicians in both Palestinian and Israeli communities already exploit this situation.

Analysis by Solt (2008) demonstrates that “higher levels of income inequality powerfully depress political interests, the frequency of political discussion and participation in elections among all but the most affluent citizens, providing compelling evidence that greater economic inequality yields greater political inequality". Interestingly for Israeli and Palestinian politicians, which both have economically disadvantaged communities within their electorates, Andersen (and Fetner, 2008), warn that "economic development influences attitudes only for those who benefit most". The political implications suggest "state policies that have the goal of economic growth but fail to consider economic inequality, may contribute to intolerant social and political values." For the Israelis in particular, who have a large economically disadvantaged Arab community within its citizenship and a larger and even more disadvantaged Arab community within Gaza and the West Bank, a politically stable future seems increasingly dependent upon reducing that economic inequality both within Israel and with Israel's highly dependent Palestinian neighbour.

3.5 - The Hypothesis/Argument of, and Gap filled by, this Thesis

The literature seems to confirm pursuit of a political outcome has not so far brought the parties close to a Two-State solution. In fact, pursuit of political ambitions has actually created the likelihood of One-State. The neglect of economic considerations over political ones has allowed economic divergence to arise, creating dangerous political consequences. A political drift from the spirit of the Accords has occurred, creating economic inequality and potential instability within each state. This Thesis hypothesises/argues that because politicians failed and are still failing in both states, economic inequality will force them to seek economic cooperation and convergence, within a Two-State paradigm, from which political solutions could emerge.

In the next chapter, the extent of the drift during Accords' implementation will be examined to appreciate the start state for potential economic cooperation and convergence.

Chapter 4 – The implications of drifts from the Accords creating a 'driver' for convergence and common economic interest

In January 1993, economic cooperation was the first issue unofficially discussed (Shlaim, 2016). Only afterwards did statehood, territory, security and political representation, become dominant over economics. Both parties initially realised economic cooperation was the most likely and important issue they could progress. During Accords discussions, they shifted from economic matters to aspects whose implementation have worsened economic inequality.

4.1 - Gradual drift from the Accords in implementation, creating an economic inequality

The Accords were popular and Oslo II (Interim Agreement on the West Bank and the Gaza Strip) in 1994 agreed the transfer of civil administration and partial security control for Palestinian territories from Israelis to Palestinians. Accords' implementation did not follow expectations and impacted economic inequality for several reasons: hardliner opposition, Israeli security concerns, poor negotiations and violence & extremism.

4.1.1. Hardliners

Israeli hardliners saw the Accords as an abandonment of 120,000 Jews in the Gaza and West Bank settlements, a policy reversal of non-negotiation with terrorists and the end to 'Greater Israel'. In Israel's May 1996 elections, Benjamin Netanyahu's hardline Likud Party seized power. The Likud government's foreign policy guidelines were firmly opposed to a Palestinian-State, the Palestinian's right to return and dismantling of Jewish settlements. Likud aimed to lower Palestinian expectations by waging economic and political war against them. Likud asserted Israeli sovereignty over all Jerusalem and *de facto* annexed the Golan Heights. Normalisation and economic engagement between Israel and those Arab states, who in 1993 had been receptive to the idea, died (Shlaim, 2016).

Continuing a hard line will backfire on Israel's hardliners (Van Evera, 2018. Munayyer, 2019). It leads to a single 'Aparthied-like' state where Palestinians have no rights and secure the kind of global pressure South Africa faced, while Israel encounters hardening economic sanctions (like the EU's on settlements (Lovatt, 2016)) until it fundamentally changes. Eventually, Israel would need to give equal-rights – probably shifting Israeli politics leftward – or help a separate Palestinian-State develop economically.

The Arab world was considerably reluctant to compromise on some issues. One being sovereignty over Temple Mount, the site of the Al Aqsa Mosque (Islam's third holiest site though buttressed alongside significant Jewish and Christian sites). At Camp David in 2000, under Egyptian and Saudi Arabian pressure, Arafat rejected proposals that offered site custodianship but not sovereignty (Ross, Warner, Hoagland, 2001). The PLO could not ignore Egypt's political and Saudi Arabia's financial support (around $900m between 1976-89 (Galzebrook, 2018)) which gave both Arab states leverage over Palestinians. This leverage was demonstrated in 1990-91 when Arafat's support for Iraq (over Kuwait) upset its financial donors, the Gulf Oil states (Encyclopaedia Britannica, 2020). The PLO could not ignore the hardline expectations of its financial supporters. The Palestinians' international political and financial support has dwindled since 1993. The PA now runs a year-on-year budget deficit (The World Bank Group (WBG), 2018).

Ultimately, Israelis and Palestinians may need to moderate their positions to help Palestine economically.

4.1.2. Israeli Security Concerns

The Israeli-Palestinian committee discussing territorial transfer of authority met frequently but only reached a late compromise agreement (May 94) due to Israeli security concerns. The Israeli Defence Force (IDF) retained full responsibility for external security, control of land-crossings to Egypt and Jordan and significantly, despite the Accords, maintenance of a military presence in PA-governed areas. This has had a severe impact on economic inequality.

Maintaining security is an expensive responsibility. In 2014, the Israel "spent ~$950 supporting each West Bank resident, more than double its investment in people living in Tel Aviv or Jerusalem; in isolated settlements, it was $1,483 per capita" and the majority on security provision (New York Times, 2015). However, Israel's defence and security sector has 'boomed' from the experience acquired maintaining a military presence in Palestine. Israel's technical and innovative security and defence companies have grown from virtually nothing in 1987 to become a major Israeli industry (Table 1 - page 39) with increasing exports and market penetration.

Palestinians pay a higher price for Israel's security. They do not control their borders so cannot: directly raise taxes on imported or exported goods; ensure the free flow of goods; and prevent the movement of individuals into and out of Palestine. All arguably conditions for healthy economic development. More crippling are Israeli security restrictions within Palestinian territory. They have had a negative double-digit impact on Palestine's GDP (WBG, 2018).

4.1.3. Palestinian Negotiating and Compromise Intransigence

Israel's Prime Minister Barak believed Arafat did not want to compromise and negotiate a settlement because Arafat believed the mathematics of population growth and democracy favoured a long term, political outcome advantageous to Palestinians even within Israel (The Guardian, 2002). While plausible, the US team overseeing the Camp David Summit of 2000, thought Arafat was simply unable to negotiate coherently, "accepting a proposal one minute then unpicking it the very next sentence" (Ross, Werner, Hoagland, 2001).

The consequence of Arafat's deliberate or unintended negotiating approach meant the states did not engage in economic cooperation and certainly stimmed the G7 bringing forward and driving through (West Bank and Gaza) Economic Development and Regional Development programmes. Palestine's economy has not evolved as intended under Accords' Annex III (Economic Cooperation) and IV (Palestinian Territory & Regional Development).

4.1.4. Violence and Extremism

Whatever Arafat's negotiating ability, he resorted to violence to improve his negotiating position, though instead deepened economic inequality between Israel-Palestine and unexpectedly, within Palestine.

In 2000, post-collapse of the Camp David Summit, Barak and President Clinton claimed Arafat deliberately aborted the negotiations. Clinton said Arafat "refused even to accept it [the US proposal based on UNSCR 242 and 338, very close to the Palestinian demands] as a basis for negotiations, walked out of the room and deliberately turned to terrorism" (The Guardian, 2002). Barak believed Arafat did so to extract further political concessions. The 2nd Intifada (2000-05) followed, fuelling "… the rise of religious extremism on both sides" who rejected Two-States but drove an agenda that was politically, not economically focused (Van Evera, 2018).

In Gaza, where the 2nd Intifada raged, extremist Hamas emerged as the dominant political and military force, splitting Palestinian's political unity and coherence. Afterwards Gaza needed substantial infrastructure rebuilding and is decades behind the West Bank economically (WBG, 2018). Israel responded to the 2nd Intifada by electing (2001) a very right-of-centre Likud government which has held power for 17 of the last 20 years and pursued settlement policies in territory destined for a future Palestinian-State, curtailing that States' economic prospects.

Violence and extremism have exacerbated the economic inequality between Israel and Palestine and created another dimension to it, between the West Bank and Gaza.

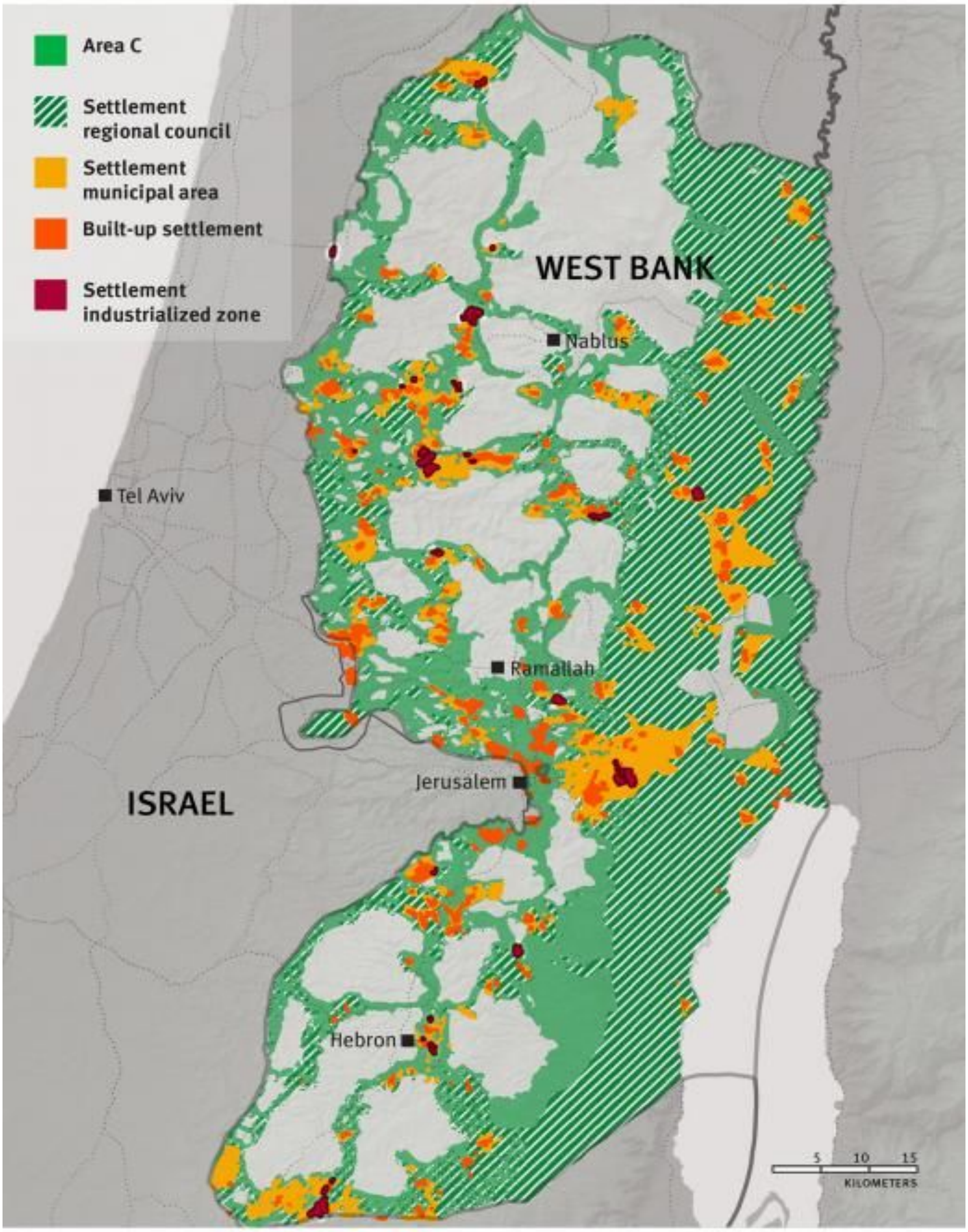
4.2 - Geographic Implementation and the economic implications of differences in practice

Following the signing of the Oslo Accords, the PA secured administrative control over Gaza and Jericho. Governance was extended to six other cities in 1995 by Oslo II and a seventh city, Hebron, in 1996 (Encyclopaedia Britannica, 2020). In principle PA-governance was to be extended across the entire West Bank, in practice, it was not, limiting Palestine's economic development and potential.

4.2.1. Areas A, B and C

This agreement split the Palestinian Territories into three area types: areas under Palestinian administration and security ("Area A" – 18% of West Bank), areas under Palestinian administration but joint Israeli-Palestinian security ("Area B" – 22% of West Bank) and areas under Israeli administration and security ("Area C" – 60% of West Bank). Areas A and B are not contiguous territories and contain 2.8 million Palestinians in 165 separate locations. Israeli citizens are forbidden entry into Area A, although IDF enter regularly, normally with the PASF's full cooperation (Cohen, Khoury, 2016). There are no official Israeli settlements in Area B, but Palestinians claim Israeli settlers are there and seize private Palestinian land for economic cultivation. Area C is a contiguous territory, now housing 300,000 Palestinians (in 532 residential locations) and ~600,000 Israelis (in 135 settlements and 100 outposts recognised by Israel's government).

There are now more than 500,000 Israeli settlers living in 237 settlements in the Israeli-occupied West Bank including East Jerusalem. Israel prohibits Palestinians from developing the areas it designates for settlement regional councils, which make up 70 percent of the part of the West Bank under its administrative control, called Area C.



Source: Btselem, February 2008, except the settlement industrial zones, which are based on geographic coordinates Israel's Civil Administration provided to Dror Etkes in November 2014.

Figure 3: Map showing Israeli Settlements in the West Bank in 2014

Israel has built 16 industrial zones, containing ~1000 industrial plants, in the West Bank and East Jerusalem on land the Accords planned for a future Palestinian-State. These industrial zones both entrench the occupation and provide work for Palestinians but allow Israel and commercial firms to profit from Palestinian natural resources and limit Palestinian access to economically exploitable land (The Guardian, 2011). In 2003, Israel built a separation wall in and around the West Bank (as per Gaza in 1996). UNOCHA estimate the wall places 10% of the West Bank on Israel's side. Despite the Accords, "Area C continues to be mostly off limits for Palestinians …"(UNOCHA, 2019).

The non-contiguous nature of Areas A and B mean a lack of access through Area C, constraints Palestinian's movement, access and trade, significantly impeding economic growth in all three Areas. Easing security restrictions concerning Area C "can generate momentous economic benefits" and despite Israeli commitments to ease them, restrictions remain. (WBG, 2018).

Figure 4: The Israeli Separation Wall, Bethlehem, West Bank

4.2.2. Israeli encroachment into Palestine.

Israel's encroachment into Area C primarily takes the form of security intrusions and settlement activity, the former often to underpin the latter. Under Oslo II, by 1999, "…except for issues that will be negotiated in the permanent status negotiations, [Area C] will be transferred to Palestinian jurisdiction …" (Haaretz, 2012). Area C not only remains with Israel, but Israel has ignored or encouraged Jewish settlement activity in the West Bank, altering its demographics, violating UNSCR 465 (aimed to prevent population transfers that change an areas' demographics). Israeli settler population has more than quadrupled since 1993 in over 200 official or unofficial Jewish settlements (The Jerusalem Post, 2014).

Settlements impose laws and regulations (especially on planning) almost across the entirety of Area C. They have also developed economic activity and employment for Palestinians.

4.2.3. How has Israeli encroachment into Palestine impacted economic cooperation?

The spread of settlements within Palestine has both a psychological and political dimension which goes beyond economics, but which touches on the economic aspects because it impacts the prospect of economic cooperation.

Psychological Dimension. The settlements are built on 'green field', often hilltop sites, physically occupy little land and tend not to buttress against Palestinian communities. They are modern, well-built, self-contained, surrounded by walls, security apparatus and effectively extensions of Israel proper, connected to it by their own roads which are bordered by high walls along their length (Gibson, 2019). The roads built by Israel to serve the settlements are closed to Palestinian vehicles' and act as a barrier often between [Palestinian] villages and the lands on which they subsist (Barahona, 2013). Where there is proximity, as in Hebron, the security infrastructure and sadly, intimidation (Gibson, 2019), are a reminder of the threat each community perceives the other. Before and since the Accords, there has been settlement related violence between both sides and violence against property, but not enough to alter the economic dynamics overall (WBG, 2013).

The 1979 UN Security Council Commission established a link between Israeli settlements and the displacement of the local (Palestinian) population. Palestinians who remained were under consistent pressure to leave to make room for further settlers who were being encouraged into the area. The commission concluded that settlement in the Palestinian territories was causing "profound and irreversible changes of a geographic and demographic nature" (Jacques, 2012).

The challenges of obtaining planning permission (see below) leave few options for local Palestinians but to break the law, build illegally and face the consequences of eviction and home demolition. Israel demolishes ~200 buildings per year in Area C (The Economist, 2015). Since 1988, over 14,000 demolition orders were made against Palestinian-owned structures in Area C (Al Jazeera, 2015). By January 2015, 20% of demolition orders issued had been executed. An estimated 17,000 structures are due demolition (UN OCHA, 2015).

In the past, settlement activity was not irreversible. In 2005, Israel unilaterally withdrew from Gaza, dismantling 21 Jewish settlements (Encyclopaedia Britannica, 2020). However, domestic Israeli politics would not allow withdrawal today and the settlements have ‘a sense of permanence’. Given their construction and infrastructure, if Israel withdraws from Palestine they could easily remain under Palestinian rule. Something expressed by left-wing Israelis, by Palestinians (Ma’ariv, 1995) who advocate the Two-State solution and by extreme Israeli right-wingers and settlers (Aljazeera, 2005) who object to any dismantling and claim links to the land that are stronger than the political boundaries of the State of Israel.

The settlements are impressive, visible and physical evidence to the Israelis and Palestinians (especially if visible from Area B) of the differences between their relative economic situations and status.

Provides ‘a flag’ for Politicians. The ‘settlement issue’ provides a flag for politicians to wave for their cause. Palestinian and some Israeli politicians argue that settlement activity is an effort to pre-empt or sabotage a peace treaty (including Palestinian sovereignty) (Rostow, 2010). Notably, Israeli Vice Prime Minister Ramon in 2008, saying "the pressure to enlarge Ofra and other settlements does not stem from a housing shortage, but rather is an attempt to undermine any chance of reaching an agreement with the Palestinians ..." (Haaretz, 2008). During elections, right-wing Prime Ministers Rabin, Sharon and Netanyahu have all stated their party’s intent to keep settlements. Even opposition parties support keeping the major settlements close to Israel’s borders, which contain over 80% of settlers.

The ‘settlement issue’ also provides a flag for politicians to distract from their incompetence, corruption and mismanagement. Palestinian politicians ask, “How can we achieve sustainable growth, when we have been deprived of investment in more than 64% of our land in [the West Bank] Area C?” (Bishara, 2019). This statement hides the outcome of choices politicians made. Between 1948-67, there was no Israeli administration or security presence in Areas A-C, few new settlements and Palestinians received more aid than Israel (Lasensky, 2006). From 1948-68, Israel invested its aid in industrialisation and agriculture, employing the ~300,000 Jewish refugees who were expelled from Arab countries in 1948-9. Palestinian aid was spent on roughly the same number of refugees to provide direct relief and later education, health care and social services rather than the public works projects UNWRA was established in 1949 to run. Post-1993, the Palestinian politicians used their $1Bn/year donation (1993-2012) to increase PASF’s size to twice that allowed under the Accords but did not revitalise Areas B which it administers. UNWRA supports 5m refugees today because the PA cannot (UNWRA, 2019).

4.2.4. How has Israeli encroachment into Palestine impacted economic inequality?

Accessibility. In Area C, tight controls are placed on the movement of Palestinian goods and people, denying access to much of the West Bank's natural resources and open spaces (Encyclopaedia Britannica, 2020). In September 2012, EU activists stated that the Palestinian economy "lost access to 40% of the West Bank, 82% of its groundwater and more than two-thirds of its grazing land" due to Israel's occupation and settlement construction (Spiegel, 2012). WBG claim access to it would enable the Palestinians to halve their budget deficit, expand their economy by a third, and denial caused a potential loss of $14Bn of revenue for the Palestinian economy. (WBG, 2013).

Development Rights. Settlements physically cover 1% of Area C, their jurisdiction and regional councils extend over 9% (officially) to 42% (unofficially) (CBS News, 2010) and around 70% of Area C is within settler municipal boundaries. "Much land in Area C is undeveloped" (Ynet, 2015) but permits for development are denied to Palestinians and overall 99% is excluded from Palestinian use for residential, commercial or industrial purposes. Palestinians also face severe restrictions on development and building in East Jerusalem where the 'Association for Civil Rights in Israel' claim poverty amongst Palestinians is 80%, in part due to their lack of housing (Forward, 2012). The UN claim Israeli planning allocates 13 times more space to Israeli settlers in Area C than to local Palestinians: allocating ~790m^2/Capita and ~60m^2/Capita respectively to Israeli settlers and local Palestinians (Al Jazeera, 2015). Palestinians require an expensive IDF Permit to build in Area C and ~5% are approved. According to a 2013 EU report, Israeli policies have undermined the Palestinian presence in Area C, with a deterioration in basic services such as water supplies, education and shelter (LA Times, 2013).

Trade. Israel's government spends up to 3 times more on settler communities than elsewhere in Israel, much is on security, though farmers and producers are given state assistance and companies receive tax breaks and direct government subsidies to set up in Area C and government funding to pay customs penalties (Spiegel, 2012). Goods produced in settlements remain globally competitive, in part because of these State-subsidies.

Palestinian officials estimate that settlers sell goods worth ~$500m to the Palestinian market (Reuters, 2010). Reciprocal support to Palestinian communities comes through employment.

Employment. Most Israeli settlers (~60%) commute into Israel to work. A few hundred settler households cultivate the land, mainly using Palestinian labour (Haaretz, 2015) although the PA has criminalized working in settlements. In practice Palestinian's Ministry of Labour, Director-General Salameh, takes a pragmatic view, saying in 2014, "we strongly discourage work in the settlements, since the entire enterprise is illegal and illegitimate ... but given the high unemployment rate and the lack of alternatives, we do not enforce the law that criminalizes work in the settlements" (Al-Monitor, 2014). According to the PCBS, Israeli settlements provided construction work for 20,000 Palestinians in the first quarter of 2013. There were 112 companies operating out of settlements in 2020 (The Times of Israel, 2020) employing 25,000 Palestinians for twice the salary they would receive from Palestinian employers (The Jerusalem Post, 2013).

In Summary. Israel occupies most of the West Bank and has annexed East Jerusalem. The potential for Palestinians to build and operate economically in Area C, land that should have transferred to PA governance by 1999, is severely impeded.

4.3 – Regional impact of lifting Economic Embargos & Boycotts and imposing Custom Union policies on trade.

The Accords freed Israel to trade with its neighbours while probably reducing Palestine's trade and leaving it more constrained due to security restrictions imposed by Israel at its borders.

4.3.1. The impact of lifting Economic Embargos and Boycotts

On Israel. In 1948 LAS imposed an economic embargo (land, sea and air blockade) boycotting economic and other relations between LAS (plus other Arab states) and Israel, to halt trade which added to Israel's economic and military strength (Turck, 1977). A secondary boycott targeted non-Israeli companies that do business with Israel. A third blacklisted firms that do business with other companies that do business with Israel. LAS' Central Boycott Office (CBO) coordinate the boycott.

Egypt abandoned its boycotts in 1980 after signing a peace treaty. The PA lifted their boycott by signing the Accords. Jordan followed (1993) and then Gulf Cooperation Council nations (1996) "as a necessary step for the economic development of the region" (Congressional Research Service, 2017). Most Arab-states today trade with Israel, imposing boycotts symbolically (passport restrictions and non-recognition of Israel) though Syria, Lebanon and Iran still actively enforce boycotts (US Congress, 2008).

Despite the boycotts potential impact, they had only a moderate effect compared to LAS' intention (Feiler, 2002). The CBO reported in the late 1980s, that \$750m-\$1Bn worth of Israelis goods (~10% of Israel's exports) were reaching Arab markets (Naylor). In contrast, the economic impact on the economies of boycotting states was estimated to be around \$10Bn in trade and \$30Bn in lost-opportunity cost between 2000-2010 (Strategic Foresight Group, 2009).

On Palestine. Ironically, the *de facto* lifting of boycotts may have impacted the Palestinians badly. Palestinians cooperated with Israel to evade boycotts by repackaging Israeli goods and forwarding them onto Arab markets (Friedman, 2010). As Arab nations began trading directly with Israel, the illicit boycott-evading trade must have reduced.

Many global corporations began circumnavigating the boycotts after 1980 and post-Oslo, entered the Israeli market fully, though not the Palestinian market. Despite lower wage costs, even today, corporations do not operate there (Encyclopaedia Britannica, 2020). In Palestine security is worse, corruption greater and infrastructure poorer by comparison with Israel where corporations can still employ Palestinian labour for comparatively low wages.

4.3.2. Custom Union Flaws impacting Palestine

The 1967 Customs Union (formalized by the post-Accords Paris Protocol in 1994) guarantees free-trade between Israel and Palestine and 'the same external tariffs on trade' both share with other trading nations. UNCTAD (2018) highlight the Union is "inherently flawed because of the structural differences between the two economies and their vastly different levels of economic development." Outcomes are "made worse by the absence of cooperation and the selective, unilateral setting and application of its terms by Israel". The report says, "Effectively, the Palestinians are isolated from the more competitive global markets, which in turn fosters an extremely high level of a trade diversion towards Israel."

4.3.2. The impact on economic inequality of Embargos & Boycotts and Customs Unions.

Just before Oslo, Israel's GDP/Capita was higher than all Arab states except Qatar and Kuwait at $14,457. From 1993 to 2000 as trade restrictions eased, it grew to $20,819. GDP rose from an average of 4.38%/annum (1985-1993) to an average of 5.87%/annum for the next 8 years, even though Israel's Chamber of Commerce estimates that Israeli exports and investment in Israel are 10% lower than they could be because boycotts remain in place today.

Reliable figures to determine the impact on Palestine of nations lifting boycotts are unavailable because Palestine was helping evade them illicitly. However, UNCTAD's analysis shows that due to flaws in the Customs Union between 1972 and 2017, Israel absorbed 79% of total Palestinian exports and accounted for 81% of Palestinian imports (UNCTAD, 2018).

Again, Israel gained from the Accords' implementation while Palestine lost.

4.4 - Assessment of the Accords: success or failure from an economic perspective?

The Accords' negotiations began with economic intentions, but the likelihood of 'economic cooperation' reduced as negotiations focused on challenging political issues. Hardline positions were taken, and compromise rejected, sometimes out of dogma and ignorance.

Accords' negotiations were poor. Successful negotiation requires a common acceptance of reality, preparedness to compromise and desire for a mutually beneficial outcome. These three aspects were missing, so Accords' implementation suffered. Israelis benefitted economically while Palestinians did not, widening their economic inequality.

Accords' implementation has fed hardline politics, extremism and violence. As late as 2016, UNSCR 2334, tried "salvaging the Two-State solution", demanding an immediate end to Israeli settlement building in Area C (Munayyer, 2019). Israel continues to build and expand settlements and Palestinians consequently violate Accords by importing arms and building up PASF (Araj, Brym, 2014).

Accords' implementation has not prevented a psychological and politically sensitive settlement policy which has reminded Palestinians of their economic inequality, deprived them of economically viable land and in the name of security, imposed economically damaging restrictions on them in Area C.

The Accords lifted LAS' embargos against Israel – which then flourished - while created a trading disadvantage for Palestine.

Fundamentally, Accords' implementation has not focused sufficiently on the issue of economic cooperation, which the Accords' originators thought most likely to secure mutual support. Consequently, Accords' implementation has so far failed from an economic perspective.

Chapter 5 – Is Economic Realpolitik and the Human dimension of inequality driving convergence?

The Accords have so far failed to deliver a Two-State solution and an economy built through economic cooperation, the premier negotiating point of the Accords. Economic inequality has grown since 1993 and may have created conditions to now drive convergence of Israel-Palestine towards economic cooperation. Realpolitik and the human dimension – individual aspiration – seem to be enabling that outcome. Political solutions may follow.

Convergence must begin from a challenging start-state captured by Tamari (2018): "… this question of One-State, Two-State debate totally ignores the current situation where the actual condition on the ground is the existence of One-State, One-State only ... which is the State of Israel, framing a rump statelet that was created by the Oslo Agreement, the Palestinian Authority ... helpless to do anything ... fragmented between the enclave in Gaza, which is totally surrounded by Israel, and the West Bank, which is segmented by Israel again and being invaded daily by land settlement and settlers."

5.1 - Economic inequality between the Two-States driving convergence

Economic inequality between Palestine and Israel is stark (Table 1 - page 39). Israel has a strong, diverse economy. Palestine a weak, narrow economy primarily feeding Israel. For security and political reasons, Israel tried to isolate itself from Palestine and its workforce, but inter-trade remains healthy. Israel now seeks skilled, highly educated Palestinian workers, opening potential economic cooperation.

5.1.1. Palestinian Vs Israeli Economy

The post-Oslo 1994 Paris Economic Protocol governs Israeli-Palestinian economic activity. Palestine is a Developing/Emerging economy (International Monetary Fund (IMF), 2019) in the lower-middle income group (WBG, 2019). Israel, an Organisation for Economic Co-operation and Development (OECD) member, and the most vibrant regional economy.

Palestine's Economy – Pre-Accords. Before 1993, indicators of a developing economy (GDP/Capita, Life Expectancy, Infant Mortality, Electricity and access to White Goods) were positive. Roughly 150,000 Palestinians held Israeli work permits – 1/5th of the workforce - for Israel or settlements and earned ~35% of Palestine's workforce income.

Palestine's Economy – Post Accords. Post-Accords figures declined. GDP/Capita fell ~36% between 1993-96 and is now below inflation (CPI) partially due to PA corruption and population growth lowering aggregate income levels. Primarily though, due to changing market relationships (from insecurity) and Israeli counter-terrorism closure policies, which restricted Israeli work permits to 45,000 Palestinians (2015) (International Labour Office (ILO), 2015). Israel is important to Palestine's economy.

GDP: GDP is the sum of Consumer Spending + Business Investments + Government Spending + (Exports-Imports). Examine Palestine's GDP closely and it may be higher than officially reported: the convergence gap smaller.

Working in Palestine, you discover a large 'black and barter' economy within Palestine and with Israel. Palestinians work illegally in Israel (~35,000) and legally inside Israel (45,000) and Israeli settlements (~25,000). Also, Agriculture, officially Palestine's second highest employer, actually absorbs ~90% (~190,000) of the unemployed, so is *de facto* the mainstay employer (CEPR, 2014). Therefore ~39% of Palestine's workforce avoid Income Tax payment, so decreasing Government Spending while boosting Consumer Spending.

The PA collect ~$34m/month in local taxes (Esther, 2010). In 2018 revenues began increasing: through domestic taxation (up 15%) in all major tax categories; income tax receipts (up 22%) resulting from higher collections by local tax offices and establishment of a PA 'Large Taxpayers' administration unit; collections from domestic customs on cars (up 19%); and tobacco excise (up 12%) after a Palestinian tobacco company was established. On Palestine's behalf, Israel takes ~$100m/month in Export/Import taxation (and VAT in goods and services) at borders (Reuters, 2010), transferring ~$60m/month to the PA (~1/3 of the PA's monthly budget) (Esther, 2006).

The West Bank and Gaza rely on donations (Bishara, 2019) typically International Aid. Donations declined in 2017 to ~$583.5m/year in 2018. Despite increasing tax revenues, LAS recently pledged $100m/month, to the PA, but with no transfer date (The Jerusalem Post, 2019) the PA continue balancing budgets and reducing spending, cutting public expenditure by 2.5% across all major spending categories, including 2.6% in salaries. Measures included stopping Gaza's PA employee salaries and forcing early retirements (WBG, 2018). Gaza receives ~$50m/month from Iran which is less than pre-2012 when Iran-Hamas relations ruptured. (DefenceNews, 2017). It is unclear how Hama's copes financially.

Palestine's Import-Export calculation is high and typical of a developing country where higher-end goods production is low (rising imports) and agriculture is economically important (rising exports), but Palestine's Import-Export figure appears low compared to similar economies (Goel and Korhonen, 2009). In Palestine, corruption is common as is smuggling to avoid both blockades and border taxation. Real Import-Export figures are probably higher.

Overall, Palestine's actual GDP is higher and economic inequality less than official figures suggest. From my personal experience living in Palestine, the overt sense of wealth is greater than in Iraq; an officially richer nation.

Employment: The largest official employing sector (and income generator) is Services (Financial) (fifteen large Arab banks headquarter in Ramallah) and Services (Tourism) (day trips to religious sites from Israel due to security constraints). Financial development is an Accords economic success story, built on cooperation with Arab states. 'Finance' would remain at Palestine's economic core and grow through economic cooperation with Israel. Although Tourism was not in Accords Annex III 'Economic Cooperation', Services (Tourism) is an Israeli-Palestinian success story – joint-Tourism development is essential given the geography of tourist destinations.

Official unemployment has risen from 5% (1980s) to 20%+ (since 2000), partially from 1980s population growth, but Palestinians are hardworking and entrepreneurial: the 'black and barter' economy absorbs most unemployed.

Potential Economic Growth Areas: Pre-Accords, East Jerusalem was Palestine's business and shopping-hub, but Israeli security controls locked it inside Israel (Lynfield, 2012), now Ramallah is Palestine's hub (The Jerusalem Post, 2010). Jerusalem is a major Israeli economic centre, physically expanding towards nearby Ramallah, so potential inter-city economic cooperation is high.

Gaza is Palestine's weakest economy and totally donor dependent (Central Intelligence Agency, 2014). Official unemployment is 53.7% (UN OCHA, 2019). However, youth education and skill levels are very high. With investment, Gaza's location, positioned on the coast between Egypt and Israel, offer potential for considerable economic growth, as occurs when violence diminishes (Haaretz, 2012).

Across Palestine tertiary education levels are extremely high (Achcar, 2020), while average daily wages in the West Bank and Gaza are respectfully a half and a quarter of Israel's (ILO, 2020). In the West Bank this attracts investment from Israeli industries, especially in High-Technology and Outsourced Services, who appreciate highly qualified, Palestinian engineers (Forbes, 2013). The WBG advised in 2017 that "to achieve sustainable economic growth in the Palestinian Territories, growth and job creation going forward will need to be private sector driven" (WBG, 2018) and the PA should focus "on removing the constraints to create the right conditions for it [Private Sector] to flourish." The PA have not yet undertaken these market-driven reforms, nevertheless, tentative steps towards Palestinian high-end employment and a growing High-Technology sector have started to strengthen and diversify Palestine's economy.

Palestine's Economy in Summary. Although in a poor condition, suffering from security restrictions and reliant on donors, Palestine's economy is stronger than reported and has foundations to diversify, develop and grow. The PA are taking sensible economic measures, maybe prior to commencing the WBG's recommended market-driven reforms. Encouragingly, Palestinians are highly educated, skilled, hardworking and entrepreneurial and the shoots of High-Technology and Outsourced Services sectors are developing within a private industry cooperating with Israeli counterparts. Economic cooperation takes place (Services (Tourism)) and works. Economic inequality may be less than perceived and could converge quickly, with the right conditions.

Israel's Economy – Pre-Accords: Before 1970, Israel was dependent on donations from Germany (reparations), the Jewish diaspora and USA economic aid. Israel invested these donations in agricultural and industrial development, achieving double digit growth annually from 1948-68 and became economically self-sufficient in the late 20th Century (Encyclopaedia Britannica, 2020). Israel's shift to market-reforms began in the late 1980s (Bruno, Minford, 1986) and coincided with a post-Cold War influx of 1m highly educated former Soviet Jews who underpinned Israel's emerging technology sectors (The Guardian, 2011).

Israel's Economy – Post-Accords. Post-Accords Israel's economy gained when the 1948 trading blockade/embargo was lifted - although some large employing industries, like textiles, almost vanished domestically as Israeli manufacturers moved production into neighbouring nations' workshops. Israel's High-Technology sector suffered 'the dotcom crash' and Tourism 'the Intifadas' (De Boer, Missaglia, 2007). However, as East Asia developed, new markets opened for Israel, the world emerged from the dotcom crisis (feeding Israel's High-Technology industries) and post-9/11 Israel's Security sector expertise was demanded. In 2007 the OECD offered Israel membership: it joined in 2010 (OECD, 2012). By then, Israel maintained a surplus current account, was a net lender country (Bank of Israel, 2012), had one of the lowest unemployment rates of any western nation (Haaretz, 2010) and was a recipient of considerable foreign investment (Israel Trade Commission, 2013).

In 2009, Israel discovered significant reserves of natural gas offshore, which it now exploits. Israel is net Agricultural (Jewish Virtual Library, 2013), a major Defence and Manufacturing exporter (Armstrade, 2012) and globally significant in High-Technology-Investing Venture Capitalism. It has one of the highest global R&D Investment-to-GDP ratios (Invest in Israel, 2012), ranks 4th globally in total number of scientific articles published (Haaretz, 2009) and has the second largest number of Start-Up companies globally (Huffington Post, 2014). In 2017 Israel was the world's second most innovative economy (World Economic Forum, 2017).

From 2010-2018 (see Table 1 - page 39): Israel's real GDP growth rose annually 2.3-5.5%; GDP rose $202.5Bn to $337Bn and GDP/Capita from $29,018 to $37,994; unemployment dropped 8.3% to 4.0% and government debt fell ~20% (IMF, 2018).

Israel's Economy in Summary. Since 1993, Israel's economy has become very resilient, diverse and grown. So much so, it now needs qualified manpower to continue (The Jerusalem Post, 2018); much of which can be found in Palestine.

5.1.2. Palestinian and Israeli economic interdependence

Violence and Workforce Dependency. Israeli-Palestinian intertrade increases markedly in peace. It grew in 2007 from almost zero after the 2nd Intifada ended (The New York Times, 2008) and by 2013 annual commercial intertrade was $20Bn (Kane, 2013). Correspondingly Palestine's GDP was 8% (2009) - Tourism alone rising 50%. Figures for 2011 to 2013 were higher and grew annually (Haaretz, 2013).

Violence and tension markedly decrease Israeli-Palestinian intertrade. During the 2nd Intifada, Romanians and Thais replaced Palestinians in Israel's economy (Financial Times (FT), 2007). In 2006 amidst tensions over Hama's electoral success, Israel disengaged and Palestine's stock-market fell 20%: the PA could not borrow from local banks (The New York Times, 2014). Presently, Israel withholds/delays Import-Export Tax transfers to coerce the PA against payments to terrorist's families, causing "severe fiscal shock" in Palestine, according to WBG's Acting Country Director (Palestine), Anna Bjerde (Middle East Monitor, 2019).

Israel's security cost increased, and unemployment rose (6.5% to 11.2%), during the 1st Intifada (1987-1993), recovered, then rose again during the 2nd Intifada (IMF, 2018). In 2016, Israeli economist Shir Hever estimated ~78% of foreign humanitarian aid to Palestine filled Israeli coffers because Palestine purchases goods and services from Israel (Cook, 2016). During violence, that trade reduces.

Palestinian-Israeli violence does create economic opportunity, primarily for Israel's Defence sector. In real terms Israel's economy (GDP growth, GDP/Capita), flourished during both Intifadas (FT, 2007), but Arms exports underpinned by IDF's experience fighting Palestinians, reached $12.9Bn between 2004-2011 (The Jerusalem Post, 2012): Drone [military] sales alone were 41% of global UAV exports between 2001-11 (Stockholm International Peace Research Institute, 2013). Success in Israel's 'Start Up Economy' is even attributed to IDF's development of talent, which on discharge fuels High-Technology sectors and ironically, stimulates Israeli-Palestinian economic cooperation.

Economic Cooperation and Opportunity. Israel's economy lacks specialists (15% of positions remain unfilled) and component suppliers, especially in High-Technology sectors (The Jerusalem Post, 2018). Due to Israeli-Palestinian insecurity, Israeli companies looked to Ukraine and USA to fill gaps (8allocate, 2019) but demand is rising, stimulating Israeli-Palestine engagement and boosting Palestine's High-Technology sectors. Despite insecurity, these emerged and expanded during the 2000s, partially through proximity to Israel. Palestine's IT sector grew 0.8%-5% of GDP (2008-10) (Globes, 2012), employing 4,500 Palestinians in software outsourcing telecommunication development and manufacturing IT equipment (Forbes, 2013). Foreign business (especially from Israeli companies) increased 64% (2009-2013). In May 2018, WBG confirmed Palestine's High-Technology sector was healthy and receiving external investment, including from Israeli Venture Capitalists (WBG, 2018). High-Technology sectors appear agnostic to Palestinian-Israeli insecurity.

Opportunities for Palestinians to fill Israeli workforce demands are slowly rising again in other sectors (if 'black and barter' economy is included), notably Blue Collar, Agriculture and Construction, where Palestinian's high skill but low wages, give them an advantage over locals. This demand will grow. Israel will have a materially lower employment-to-population ratio and a higher dependency ratio in the future (OECD, 2020). For religious reasons, Ultra-Orthodox Jewish men do not work, and their numbers are growing, especially around Jerusalem. They constitute ~60% of the 28% of Israeli's living below-the-poverty-line (most of the remainder are Israeli-Arabs). The Bank of Israel's governor believes "the growing poverty amongst the Ultra-Orthodox is hurting Israel's economy" (The Jerusalem Post, 2011). As that economy continues to grow, Palestinian workers and entrepreneurs, especially in Ramallah, have an opportunity fill Israeli jobs, cooperate with Israelis and grow both economies.

Sectors which could flourish with less insecurity. Palestinian-Israeli insecurity hinders economic cooperation. With less insecurity, cooperation could flourish in some existing sectors.

Services (Tourism): Services (Tourism) is a major source of income for Israel and Palestine and Tourism ministries cooperate to improve the sector (Enz, 2009). Israel attracted 3.6m foreign tourists in 2017 (up 25% on 2016), contributing $5.6Bn to Israel's economy (Atlanta Jewish Times, 2018). Palestine attracts ~2.2m foreign and 2m domestic tourists annually.

However, Israeli security constraints, make travel into Palestine lengthy and organisationally complicated, so most tourists overnight in Israel and enter Palestine during daytime, "rushing around tourist sites, spending little" (Palestine News Network, 2012). Palestine loses considerable tourism income, especially in hotels and restaurants, seemingly to Israel's advantage. More tourists would visit the region (benefitting both) if security restrictions were eased - Palestine would need investment in Hospitality and Services (Tourism) sectors' infrastructure.

Export-Import Sector: Under international and national law, Israel controls exports/re-exports of civilian and military items manufactured or assembled in Israel, that have 'dual-use'. Israel's 'dual-use' list applied to Palestinian territories includes 6 fertilizers, 2 pesticides, 23 chemicals and 26 types of materials, machinery or equipment. An additional 61 items are applied to Gaza, including reinforcing steel, cement, aggregates, insulating panels and timber. Dual-use restrictions hinder the development and export capacity of many Palestinian economic sectors. (WBG, 2018) report "relaxing the dual-use restrictions is critical for reviving the export sector in Gaza" and "… would bring about additional cumulative growth of 11% to the Gaza economy by 2025" and probably more in the West Bank due to its better infrastructure and industry. The dual-use restrictions affecting Palestinian manufacturing and export also affect Israeli industry and exporters.

Agriculture: Despite being Palestine's highest unofficial employer, the Agriculture sector is impoverished and losing billions in revenue. Palestine's economic potential is limited because 64% of it is occupied and unavailable for Palestinian economic exploitation (Bishara, 2019). Security barriers or blockades prevent produce exportation and importation of necessary inputs. On top of Area C planning constraints, land is widely confiscated for nature reserves, Israeli military use and settlers (including confiscation and destruction of wells) (The National, 2013). Under normal international relations and economic cooperation, Agriculture would flourish but 'Quick to Market' Agricultural produce needs better Palestinian support infrastructure.

Utilities – Water: Israelis retain ~$15m/month of Import-Export Tax revenues to pay for water and power supplied to Palestine. Most water Israel sells to Palestine is extracted from beneath Palestine. Israel extracts and uses 80% more water than allowed under the Oslo II Accords (WBG, 2009) and does not pay Palestine for it. Through economic cooperation, Palestine could earn revenue exporting its water to its neighbours.

Economic Interdependence – in Summary. Both states depend economically on each other. Economic cooperation works in Services (Tourism) and is developing in High-Technology sectors. Growth potential in other sectors exists and could flourish if both states cooperated more economically. Insecurity hinders them both and especially Palestine. With less insecurity, Palestine's economy could develop rapidly to reduce economic inequality.

Table 1: Economic Data of Palestine and Israel

Economic Criteria	Palestine	Israel
Statistics		
Population	4,569,087 (2018) (WBG, 2019)	9,021,00 (2019) (The Jerusalem Post, 2019)
GDP	$10 billion (2012e)	$387.717 billion (2019e) (IMF, 2019)
GDP Growth	3.1% (2017), 0.9% (2018), 0.5% (2019e), 2.5% (2020f) (WBG, 2020)	3.6% (2017) 3.4% (2018) 3.1% (2019e) 3.1% (2020e) (IMF, 2019)
GDP per capita	$1924 (West Bank), $876 (Gaza) (Washington Institute, 2014)	$42,823 (nominal, 2019e) (IMF, 2019)
GDP by Sector	Agriculture: 5.5%, Industry: 23.4%, Services: 71.1%. (UN, 2014)	Agriculture: 2.3%, Industry: 26.6%, Services: 69.5%, (2017e) (CIA, 2018)
Inflation (Consumer Price Index)	2.7% (Jun 2013) (Palestine Central Bureau of Statistics (PCBS), 2013)	1.3% (2020e) (IMF, 2019)
Population below the poverty line	25.8% (2011e) (PCBS, 2014)	24.8% (2012) (Canadian Jewish News (CJN), 2013)
Human Development Index	0.690 medium (2018) (119th), 0.597 IHDI (2018) (UNDP, 2019)	0.906 very high (2018) (22nd), 0.809 very high IHDI (2018) (UNDP, 2019
Labour Force	1,316,023 (2019) (Israel Central Bureau of Statistics (ICBS), 2019) 32.0% employment rate (2018) (WBG, 2019)	4,162,440 (2019) (WBG, 2019) 60.6% employment rate (Oct 2019) (ICBS, 2019)
Labour Force by Occupation	Agriculture: 12%, Industry: 23%, Services: 65% (2008e)	Agriculture: 1.1%, Industry: 17.3%, Services: 81.6%, (2015e) (CIA, 2018)
GINI Coefficient	33.7 (Knoema, 2020)	39 (2016) 42.8 (2019) (Knoema, 2020)
Unemployment	27.5% (Q1 2013) (PCBS, 2013)	3.4% (Oct 2019) (ICBS, 2019)
Main Industries	Cement, Quarrying, Textiles, Soap, Olive-wood Carvings, Mother-of-pearl souvenirs and Food Processing.	High-Technology products (including Aviation, Communications, Telecommunications Equipment, Computer Hardware and Software, Aerospace and Defence Contracting, Medical Devices, Fibre Optics, Scientific Instruments), Pharmaceuticals, Potash and Phosphates, Metallurgy, Chemical Products, Plastics, Diamond Cutting, Financial Services, Petroleum Refining and Textiles. (Global Edge, 2013)
Ease of doing business	117th (medium, 2020) (Doingbusiness.org, 2017)	35th (very easy, 2020) (Doingbusiness.org, 2018)
External		
Exports	$720 million (2011) (PCBS, 2013)	$60.6 billion (2017e) (CIA, 2018)
Export Goods	Olives, Fruit, Vegetables, Limestone, Citrus, Flowers and	Cut Diamonds, Refined Petroleum, Pharmaceuticals, Machinery and

	Textiles	Equipment, Medical Instruments, Computer Hardware and Software, Agricultural Products, Chemicals and Textiles & Apparel. (CIA, 2018)
Imports	$4.2 billion (2011) (PCBS, 2013)	$66.76 billion (2017e) (CIA, 2018)
Import Goods	Food, Consumer Goods and Construction Materials	Raw Materials, Military Equipment, Motor Vehicles, Investment Goods, Rough Diamonds, Crude Petroleum, Grain and Consumer Goods. (CIA, 2018)
Public Finances		
Public Debt	$4.2 billion (Jun 2013) (Palestine News and Information Agency (PNIA), 2013)	59.8% of GDP (2018e) (CIA, 2018)
Budget Balance	$1.3 billion (13% of GDP; 2012e) (PNIA, 2012)	−3% of GDP (2011e) (CIA, 2018)
Revenues	$2.2 billion (2012e)	$68.29 billion (2011e) (CIA, 2018)
Expenses	$3.54 billion (2012) (PNIA, 2012)	$75.65 billion (2011e) (CIA, 2018)
Foreign Reserves	$464 million (Mar 2016) (IMF, 2016)	$115,782 million (Jul 201e) (Maariv, 2019)
Development Indicators		
School Enrolment, primary (%) gross	94% in 2012 (WBG, 2014)	106.8% in 2012 (UNESCO, 2012)
CO2 Emission (metric tons per capita:	0.6 in 2010 (WBG, 2014)	9 in 2010 (WBG, 2011)
Poverty Rate:	25.8% in 2011 (WBG, 2014)	24.8% (2012) (CJN, 2013)
Improved Water Source Rural:	82% in 2012 (WBG, 2014)	100% in 2015 (WHO/UNICEF, 2015)
Life Expectancy at Birth total years:	73 in 2012 (WBG, 2014)	82.41 in 2012 (WBG, 2020)
GNI per Capita (current US $):	$2,810 in 2012 (WBG, 2014)	$30930 in 2012 (WBG, 2020)
Population:	4,169,509 in 2013 (WBG, 2014)	9,021,00 (2019) (The Jerusalem Post, 2019)

5.2 - Economic inequality within Palestine driving convergence

Palestinian controlled territory has separate administrative areas, (A and B), three types of employment/social status (Fortunate, State-privileged and Other) and two separate entities (the West Bank and Gaza). Overt economic inequality exists between all of them.

Between Areas A and B. Palestine's GINI coefficient is lower than Israel's, yet economic inequality within the PA-Governed West Bank is more obvious when journeying from Area B into Area A. The traveller passes through two separate realities: a desperate third world location and then into an aspiring developing nation. In Area A cities, like Ramallah, there are apartments or offices under construction, normally funded by diaspora returning or sending money home. Streets are tarmac, paved, cleaned and lit. Rubbish is collected, niche boutiques and shops exist, supermarkets are well-stocked and police can be seen upholding the law. Aspects visibly absent in Area B. There, the PA may have administrative responsibility and provide schools, public transport and medical facilities, but roads are appalling, communities need investment, people are notably poor and their surroundings filthy. In Area B, there is a sense of survival but not aspiration and hope.

Between Fortunate, State-privileged and Other. In Ramallah, expensive, chic cafes and restaurants are common and full of aspiring, hopeful, urbanite Palestinians, who drive top-of-the-range luxury cars (incurring 100% Israeli import tax). These 'Fortunate' Palestinians are born into wealth or "high earning professionals, amongst whom tax avoidance is still widespread" (WBG, 2018), but they do not suffer the $1924 average monthly salary.

If you are not one of these fortunate individuals, 'State-privileged' employment within PASF comes close (DCAF, 2019). Until 2020, a PASF employee had: employment for life; automatic promotion every 5 years; 70%-of-salary pensions after three decades with no pressure to retire; perhaps the shortest working week in Palestine; and free medical care for themselves, family and near relatives in PASF hospitals – covering ~9% of Palestine's population (Gibson, 2019).

The 'Other' Palestinians are officially employed in Israel or Palestine, commuting daily through rush-hour. If permitted work in Israel/Area C settlements, they earn considerably more and enjoy better conditions-of-service (and protection under enforced Israeli employment law) than Palestinians doing the same work in Areas A and B (DCAF, 2019). The 25%+ unemployed working in the 'black and barter' economy (also 'Others'), can be seen at dawn and dusk, trudging along roadsides to farmers' fields or queuing for vans/buses to travel to/from Israeli border crossing-points, to pass through on foot and be collected on the far side, onward to an Israeli building site/farm/settlement or home. Working illegally in Israel/Area C settlements, they earn well, but less than legal employees and without protection (Gibson, 2019).

5.2.1. The Gaza Challenge and Gaza-West Bank Economic Inequality

Hamas seized control of Gaza in 2007. Gaza's distance from the West Bank, the absence of genuine PA-governance, infrastructure challenges, population growth and Israel's security restrictions have led to economic inequality with the West Bank.

Gaza is in dire straits economically. Hamas govern Gaza without much international community support. Disbursements to Gaza after the last donor's conference (Cairo, Oct 2014) have plateaued, causing a funding shortage. Economic (and maybe realpolitik) pressures have led the PA to shed economic responsibilities towards it. Gaza-based PA institutions have been moved to the West Bank and ~30,000 PASF-Gaza employees, who were sent home on full pay in 2007, are currently being pensioned off (Elothmani, 2019).

Israel's constraints on movement, access and trade impede economic growth in the Palestinian territories (WBG, 2018). Unlike in the West Bank, Israel has not issued work permits to Gaza's workers since 2000 (despite the 1994 Paris Protocol stipulating free movement of labour between Israel and Palestine) and cancelled 51% of business permits granted to Gaza's traders in 2016 (UNCTAD, 2018). Goods imported/exported at Gaza's only commercial crossing are subjected to complicated, lengthy security and clearance procedures not applied by Israel at West Bank crossings, increasing trader's transportation cost.

Gaza's Prospects. Tight trade restrictions are a severe deterrent to investment. WBG "analysis suggests that lifting the blockade alone could lead to additional cumulative growth in the range of 32% by 2025 for the [Gaza] Strip's economy" (WBG, 2018).

Except for housing, most 2nd Intifada physical damage is fixed, but "recovery needs remain large and development of Gaza's infrastructure is necessary" (WBG, 2018). WBG link Gaza's highly educated, innovative unemployed youth with infrastructure development, arguing with 'Start-Up' finance, higher-connectivity and a stable supply of electricity, Gaza could develop modern exportable services in ICT sectors. Critically, Gaza's power sector fails to meet 50% of demand and without investment this will rise 63% by 2030 (WBG, 2018).

Gaza has very high fertility rates (4.5 children/woman) compared to the West Bank (3.2 children/woman) (CIA, 2014). Gaza's 1.9m population grows 3.6% annually and will increase 30% by 2025 (WBG, 2018).

If economic growth rates compared to expected population growth are insufficient to increase per capita incomes, living standards will fall; unemployment will not (Fischer, 2019). So, unless trade restrictions are eased Gaza will depend on donor support for the foreseeable future (WBG, 2018).

Internal Palestinian Economic Inequality - In Summary. Economic inequality within Palestine's workforce and especially West Bank Areas A and B is overtly visible. 'Fortunate'

Palestinians, those living in Area A or 'State-privileged' enjoy living standards and security above 'Others', although illegal work in Israel reduces that imbalance. Economic inequality between the West Bank and Gaza is considerable. Gaza has the potential for rapid economic growth to reduce the inequality but faces severe infrastructure and population growth challenges even if Israel relaxed tight trade and security restrictions.

5.3 - The aspirations of ordinary citizens driving convergence

Palestine's population is predominantly under 40, the most educated in the Middle East (Achcar, 2020), hard-working and very entrepreneurial. They are conscious of the inequality in their society, failings of their political leadership and PA-government institutions. They compare themselves with Israelis and Jewish settlers on Palestine's hilltops and aspire for more. "Given the choice, Palestinians will leave jobs in Palestine to work in Israel" (Gibson, 2019).

In polls, 65% of Palestinians aged 50+ support a Two-State solution, only 48% aged 18-28 do (PCPSR, 2013). Young Palestinians associate it with a failed, tyrannical and corrupt old Palestinian leadership, and "… would prefer to get Israeli citizenship" (Rumley, Tibon, 2015) or "equal-rights" (The New York Times, 2014).

Remarkably, the popular regional revolutions a decade ago, did not overtake Palestine. Maybe Palestinians' collectively feared an IDF reaction or Fatah's PA plus PASF maintained *status quo* (Achcar, 2020 | DCAF, 20190). Either way, after 27 years, Palestinians recognise the failings of PA-governance and the young want equality and "the PA to go and take their Two-State paradigm with them" (The New York Times, 2014).

5.4 - Disaffection with politicians and an inevitable failure of the politics of fear and resistance driving convergence.

Democratic politics and state economic development are linked. Failure in democratic politics hinders state economic development (Fisher, 2019). Israel's democratically elected government changed 5 times since 1993. From 2006 the West Bank 'Fatah' emergency-cabinet and Gaza Hamas-entity have faced no election. The politics of fear and resistance supplant the politics of hope, peaceful aspiration and economic equality. Israeli-Palestinian politicians agreed the Accords' Annex III 'Economic Cooperation': political failure is not inevitable, neither is economic inequality.

5.4.1. Israeli Political failures

Israeli politicians deliver much to their electorate, but not peace. Hardline governments, like Benjamin Netanyahu's, or multi-party coalitions, like Ehud Barak's (that collapsed prematurely before the Camp David Summit constructed to deliver a 'framework agreement' and full-fledged peace-treaty), have prevented or been unable to deliver the Accords' Two-State solution and cooperate economically.

Netanyahu's Likud governments (1996-99 and 2009-today) though economically successful, obstruct the Two-State solution: exploiting fear of terrorism and extreme Islam (Encyclopaedia Britannica, 2020); exacerbating the Fatah-Hamas schism; and delaying implementation of Accords agreements by insisting first on negotiations beginning with the future of Jerusalem - an issue deliberately shelved in 1993 for Final Negotiations because of its divisiveness (Shalim, 2016). Israeli-Palestinian political negotiations have become more difficult under Likud, deteriorating the prospects for an economically viable Palestinian-State (Munayyer, 2019).

Concurrently, Likud has continued land seizures, settlement building and no longer pretends to seek a Two-State solution – the concept now has little Israeli public support. Perhaps emboldened by a strong pro-Israeli Administration in the White House, during Israel's September 2019 elections, Netanyahu announced his intention to annex the Jordan Valley and Israeli West Bank settlements – ~60% of the West Bank – and Israeli polls showed 48% support for annexation and only 28% against (Munayyer, 2019). If implemented, annexation would cantonise Palestine and make its economic development harder.

In opposition, Israeli-Arab politicians rallied their economically depressed and previously politically disinterested voters and increased their seats (13 to 16) during the 2019/20 elections to Israel's 120-seat Knesset chamber. Briefly, it seemed Arab-Israelis politicians (who allied in coalition with Benny Gantz, the centrist 'Blue and While Alliance' leader) could enter government, halt settlement activity and re-catalyse Two-State negotiations. To general surprise, on 21 April 2020, Netanyahu and Gantz signed a government forming coalition agreement. Israel's new centre-right coalition government is unlikely to include Gantz's Arab-Israeli allies (The Times of Israel, 2020) and although it may deliver the fairer economy Israeli-Arabs wants, it is unlikely to pursue their aspirations. The Netanyahu-Gantz agreement proposes annexation of territories which the USA allow Israel to annex (Haaretz, 2020), as soon as July 2020 (The Times of Israel, 2020).

The politics of fear will fail to prevent economic convergence. Many Israelis hope cementation of the *status quo* gains Israel security, stability, growth, escape from international isolation and a reversal of the moral rot that the occupation has produced in Israeli society (Munayyer, 2019). However, they realise the necessary price is recognising the equal rights of ~300,000 Palestinians who could then vote in Israeli elections. Israeli mainstream debate is shifting to discuss 'One-State with equal rights for all'. A year ago, this seemed unthinkable.

Israel's new government intend to annex ~64% of the West Bank and ~300,000 Palestinians. It must have considered: 1, the terrible implications of becoming an international Pariah-state where a Middle Eastern version of apartheid exists (Munayyer, 2019); 2, creating economic conditions in annexed areas and PA-controlled West Bank that encourage Palestinians to move out of annexed areas; and 3, giving annexed Palestinians equal rights, while expecting a leftward shift in Israeli politics (based on previous Arab-Israeli voting patterns). Within mainstream Israeli politics there appears to be little appetite for Pariah status or equal rights. Despite this, many expect the new government to be "more 'moderate' than the last" (Munayyer, 2019) and (joint) Prime Minister Netanyahu has made no secret of his desire for 'economic cooperation' with Palestine. So, consideration 2, the economic one, is most politically acceptable and could mitigate the other two.

Israel's government could signal their intent to pursue this economic path by: an offer to initiate talks on economic cooperation, perhaps using the still binding Accords Annex III 'Economic Eooperation' proposals as the basis; and by easing West Bank security restrictions to show trust and a willingness to remove a serious cause of Palestinian economic inequality.

5.4.2. Palestinian Political Failures

PA politicians still seek a separate state, but after years of failure and frustration, many Palestinians no longer believe it possible. PA leaders resist giving up "the hard-won consensus, rooted in decades of activism and international law, that the Palestinians have a right to their own state", even though that consensus, "has produced little for the Palestinians" (Munayyer, 2019). They seem fixated on 'statehood', rather than securing a territory which could be economically viable, economic cooperation with neighbours and improving living conditions and the rights of their electorate.

Palestinian failed politics of resistance. Even when fixated on statehood however, they failed to provide leadership to secure that goal. At Camp David (February 2000) Barak went further than previous Israeli politicians to meet Palestinian's expectations. His proposals divided the Palestinian delegation, yet without providing a single counter proposal, Arafat displayed neither courage nor statesmanship by rejecting them all (Shlaim, 2016). The US President's special envoy to the Middle East, wrote "at no point during Camp David or in the six months after it, did Yasser Arafat demonstrate any capability to conclude a permanent status deal." (Ross, Warner, Hoagland, 2001). President Clinton told Arafat after one failed negotiation, that he [Arafat] was "leading his people and the region to catastrophe" (The Guardian, 2002). Arafat was not the last Palestinian politician to provide the leadership needed to secure a Two-State solution. In June 2013, PA President Abbas said, "In a final resolution, we would not see the presence of a single Israeli - civilian or soldier - on our lands" (The Jerusalem Post, 2013), an undeliverable claim when ~500,000 settlers or Palestinian-Jews then lived in Palestine and 1.8m Palestinian-Arabs lived in Israel. Predominantly single-party state politics have perhaps produced rejectionist Palestinian leaders, incapable of leading compromise political negotiations.

Although Arafat co-founded the democratic 'Fatah' party which has dominated Palestine's liberation movement since 1968 (Encyclopaedia Britannica, 2020). He resisted dissent and political pluralism, believing liberal democracy and political parties a threat to social harmony and the national unity of the Palestinian people. People working with Arafat claimed it was "too hard for him to give up what had been the mythologies that had guided him. It is too hard, as a revolutionary - and that is what he is - to give up struggle, to give up claims, to give up grievance, because they have been the animating factors of his life" (Ross, Warner, Hoagland, 2001).

Arafat's replacement, President Abbas is criticised for his authoritarianism, ruling by presidential decree (after dismissing the legislature in 2007) and cracking down on individuals who criticized him on social media. He remains President 12 years beyond his 4-year term (The Hill, 2020), resisting calls to step-down, by insisting presidential and legislative elections be held simultaneously (Encyclopaedia Britannica, 2020) – knowing they will not happen while PA control the West Bank and Hamas control Gaza (Gibson, 2019).

By accepting the Oslo Accords, Palestinian leaders, "… have had to rely on the United States to treat Israel with a kind of tough love that American leaders, nervous about their domestic support, have never been able to muster" (Munayyer, 2019). Palestinian leaders failed to comprehend the nature of democratic politics (Israeli and USA) and how they would need to personally compromise as Israeli and USA democratic politics played out during Oslo Accords' negotiation and implementation. Consequently, these Palestinian leaders resisted negotiated compromise and "reduced the chances for a workable partition." Instead, "they consented to a formula that encouraged Israel's expansion, relinquished their ability to challenge it and side-lined the international community and international law" without realising any State they could negotiate, "would not allow Palestinian refugees to return to their ancestral towns and villages or offer full equality to Palestinian citizens of Israel …" (Munayyer, 2019).

Politicians' resistance and failure to recognise their electorate's needs. Munayyer argues this "giant strategic mistake" was not about resisting compromise on Palestinian nationalism but about securing "a personal path back to influence and relevance" after their own 1980s/90s political setbacks internally and in the Arab world. Whatever the truth, evidence suggests Palestinian politicians have been unable to accept the disillusion their uncompromising resistance has caused within their electorate and so failed to recognise real electoral needs. Having rejected their politicians' Two-State political concept, young Palestinians see 'rule of law' as their principle concern (the punishing of offenders committing crimes against civilians), followed by economic related issues: freedom to travel and movement; job opportunities; and reducing unemployment (Interpeace, 2017). By resisting political realities while failing to deliver equality both before the law and economically for their people, space developed between Palestinian politicians and their constituency. Into this space, stepped Hamas.

Fatah's political failure and the emergence of Hamas. During the 1st Intifada Ḥamas was formed by members of the pan-Islamic Muslim Brotherhood and religious PLO factions. Religiously intolerant, politically uncompromising but highly disciplined and prepared to fight, unlike Fatah, Ḥamas embodied the defiance of many young Palestinians against Israeli occupation. Hamas rejected Oslo's Accords and a Two-State solution.

Concurrently, Hamas challenged the PA's authority by providing, through the Muslim Brotherhood, free, efficient and effective services in the form of charities, clinics and schools across Palestine (Encyclopaedia Britannica, 2020). As Accords' negotiations stalled and the 2nd Intifada petered out, Fatah (and particularly Arafat) began losing support to Hamas' populist approach and 'hard power'. Amid charges of widespread Fatah (political and economic) corruption, most Palestinians turned to Ḥamas in the 2006 Palestinian Legislative Council elections (Shlaim, 2016). Hamas formed a Palestinian government but fighting broke out between their and PASF-Fatah fighters, especially in Gaza, Hamas' stronghold. In June 2007, President Abbas declared a state-of-emergency and the Hamas-led government was dissolved, leaving the West Bank under a discredited Fatah-led emergency PA cabinet and Gaza under a humiliated Ḥamas.

Economics exposed the failure of Palestinian politics. The political partition of Palestine has helped neither the PA nor Hamas economically. PA institutions in Gaza had to be relocated and much financial and significant personnel documentation was lost in violence. Financially the PA had (or chose for political reasons) to continue paying for services and salaries of 30,000 PA (mainly PASF)) employees in Gaza – ~13% of PA's budget - even though Hamas did not allow PASF personnel to work. As International Aid decreased in real terms (dropping from $1Bn (2013) to $400m (2019)) (Bishara, 2019), Fatah-PA (and PASF) faced growing economic and correspondingly public pressures. In 2018, the PA accepted its financial weakness (and the prospect of losing face in the wider Palestinian community) by stopping payments (Elothmani, 2019). In 2019 the PA finally gave up on any pretence of political control in Gaza by removing PASF from Gaza's only remaining crossing point with Egypt.

Economic pressures are slowly forcing Hamas to compromise on their politics. International donors (who considered Hamas a terrorist organisation) imposed economic sanctions against the 2006 Hamas-led PA (Sayigh, 2007) and later Gaza's Hamas administration. Israel declared Hamas a hostile entity' and introduced: power cuts; heavy import restrictions; and border closures. Iran stepped-in, provided financial support (~$200m/year) but greatly reduced it twice: when Ḥamas declared public support for the Syrian opposition (2012); and again when Muslim Brotherhood Egyptian President Morsi was overthrown and replaced by a military-led government (2013) (Encyclopaedia Britannica, 2020). The new Egyptian government severely restricted crossings at the Gaza-Egypt border and closed smuggling tunnels, causing Hamas to lose a major source of tax revenue and a significant means to supply the goods Gaza's population expected. By late 2013 Hamas struggled to pay its public sector employees. Desperately it tried and failed to hand back administrative responsibility for Gaza's 1.9m Palestinians (of which 1.3m refugees) to PA-Fatah (UN OCHA, 2019). Increasing economic pressure strengthened the hand of Hamas' moderate members and in 2017 their 'Document of General Principles and Policies' enshrined support for a Two-State solution based on pre-1967 borders (Hamas, 2017).

The 'politics of economics' have forced Fatah and Hamas to cross previous political red-lines.

5.4.3. Politicians converging to the 'politics of economics'

The 'politics of fear' in Israel and resistance in Palestine are failing. Israeli and Palestinian politicians now face circumstances where they will need to converge from different directions, towards the 'politics of economics'. For Israeli politicians that is a choice they can take – some may argue must take – in order to engage and economically cooperate with the West Bank's PA-government because Israel's government intends to annex much of the West Bank very soon.

After many years and missed opportunities, Fatah politicians lost sight of their electorate's aspirations. They are converging towards the 'politics of economics' because West Bank Palestinians, especially the young, want equalities that can only be delivered by engagement with the Israelis and primarily through political economic cooperation, perhaps under the Oslo Accords Annex III proposals.

For Palestinian politicians in Gaza the 'politics of economics' has exposed them to the realities of governing under intense economic pressures and forced them to compromise and moderate. Nevertheless, there is no evidence to suggest Israel will economically cooperate with Gaza while Hamas control it, unless Hamas rejects extremism entirely.

5.5 - The implications of institutionalised security structures on economic inequality

Fatah faced no real challenges to its power before Hamas and exercised it in Palestine through the PA and secured it through PASF which answers in reality, only to the Party leader. Over time, Fatah-PASF became a state-within-a-state. To those invested in Fatah-

PASF, power became the important currency. Economic equality and the needs of the Palestinian people have not been of concern for some time, but that seems to be changing.

5.5.1. The State within the State: Fatah and PASF

Fatah's leaders were shaped in the 1950s/70s PLO and fashioned by its moral economy, grand narrative against western (and particularly Zionist) powers and 'its portrayal as an anti-hegemonic, anti-colonial force with an abiding commitment to achieving social justice and lifting the Palestinians out of abject poverty and cultural decline'. Despite these goals, 'Fatah's revolutionaries prioritised securitisation, particularly internal security (regime survival) over individual liberty and free political association – the party was all and everything and its loyalty was to its leader, Yasser Arafat'. Through the PLO and then PASF (its replacement), Arafat built a multilayer security apparatus, placing loyalist (to him) in positions of authority. These security chiefs began competing for resources and influence, until rival power centres emerged which answered solely to Arafat. Many of the 'old guard' still occupy senior positions but now answer to President Abbas (Shlaim, 2016 | Encyclopaedia Britannica, 2020).

Working with the 'old guard' it seems they view power as an end and not as a means-to-an-end. Political survival and power control appear all. Absolute loyalty and those who tow the 'party line', are granted lucrative positions and advancement: measures which reinforce dominant structures and internal culture, silence critics and clone leaders that favour *status quo* (Gibson | DCAF, 2019).

The Muslim Brotherhood, which operated in circumstances like those of Fatah, offer cultural insight. Brotherhood 'old guard' concede they were psychologically socialised into a culture of secrecy. "Remember that we are socialised into a tribal mentality, one that is deeply suspicious of the other." Their underground existence impaired their vision and judgement (Gerges, 2017). Fatah's old guard grew in a system that survived by being resistant to Israeli agent infiltration, internal rivals and developing a culture that neither trusts nor forgives or forgets (Gibson | DCAF, 2019). This culture is inherently difficult to change.

Despite becoming a PA, there has been 'no normalisation of state-society relations.' Fatah faces increasing pressure from Hamas but has not been able to institutionally or sociologically change. Its 'old guard' unable to transition from revolutionary to democratically accountable PA politician. Fatah's PA is opaque in decision making, secretive in assignment selection and vague over financial dealings - Table 1 (page 39) indicates the paucity of recent PA financial information.

Under autocratic leaders like Abbas, who monopolise power, Fatah-PA (and PASF) have neither modernised nor recognised the change in Palestinian society, despite dominating social space, public discourse and the political-security-military body most prevalent in that society. Their decades in unchallenged power, their culture and resistance to change has prevented them from doing so. They have been unable to articulate a cohesive identity for the Palestinian people. For many Palestinians, especially the younger generation, Fatah's 70-year political project no longer engages their imagination. It is not a credible vision for the future.

Fatah are having to recognise their disconnection from Palestinian society and lack of imagination to meet economic needs. They faced a similar problem before when donations froze after Hamas won the 2006 elections. Then, Prime Minister Fayyad (2007-13), a former Finance Minister, implemented a neo-liberal state-building agenda to develop government institutions and spur economic growth in preparation for a fully functioning independent state. Palestine's economy grew and foreign observers hailed "Fayyadism" as constructive for a future Palestinian state and nonconfrontational toward Israel (DCAF, 2020). However, Fayyad's reforms challenged *status quo* and the President removed him (Gibson, 2020). Today, Palestinians talk about Fayyadism as an opportunity lost (Smith, 2020). West Bank politicians seem ready for change and reform. Some are reaching out again, like the 2008 Finance Minister Safiyiq did, for thinkers, theorists and reformers (Gibson | DCAF, 2019).

President Abbas recently indicated he will soon step down and has designated the current Minister of Transport / Health (a reformer) as his successor, though in the politics of Fatah, that right belongs to the current Prime Minister (a lesser reformer). Perhaps the first hurdle for either appointee will be to challenge the *status quo* and reform, actually and financially, PASF.

5.5.2. PASF's economic impact

PASF reform is a necessary economic task but not an easy task. PASF absorbs ~26% of the PA's budget (Elothmani, 2019) and has become accustomed to state-privilege. The

President personally appoints and controls the heads of PASF's 13 Services and 18 Commissions and is the final decision-maker on anything affecting them. He confirms their organisational structures and size, keeping both secret between himself and individual heads (Gibson, 2019). Services' budgets are decided by the President, but that figure is not shared with the Service – the Service simply makes requests for resources to the Ministry of Finance which releases funds or not, without explanation (DCAF, 2020). Unless PASF structures can be reformed and size reduced, its cost will remain a significant strain on the PA's ability to fund a developmental programme which could revitalise Palestine's economy.

PASF is too big and both incredibly expensive. The PA spends 1/3 of its budget on the salaries of 160,000 Palestinian civil servants, of which, ~60,000+ are PASF. However, PASF swallows 26% of the PA's budget and the majority of that expenditure is salaries. So, ~78% of the PA's personnel costs are expended on ~38% of its personnel. An extraordinary figure but probably due to decades of unhindered promotion and the failure to enforce retirement: PASF structurally has more Brigadier Generals than the USA military. PASF is now twice the size authorised under the Oslo Accords and has grown because the President's power is underpinned by PASF 'old guard' who are an immensely powerful force within Palestine and sought structural growth to underpin their own power.

The situation is nevertheless unsustainable and despite a history of preventing real change from taking place within PASF and the PA more broadly, PASF leaders reluctantly recognised the economic necessity in 2018 to retire 30,000 PASF personnel in Gaza (Gibson, 2019). Further current PASF reform efforts stimulated by the Prime Minister (DCAF, 2019) will loosen the grip of the 'old guard' and stimulate appropriate change to modernise and ultimately reduce the size and scope of PASF, including its call on the PAs budget. If he is successful and that is not certain in the power-politics of the PA, any reduction in PASF's budget will be invested in other sectors of the PA's responsibilities to improve the economy (Gibson, 2019). These reforms will take time however to both enact and implement. A reform-minded President may be more successful in driving through necessary change.

Encouragingly, young middle-ranking PASF officers have a different viewpoint than the 'old guard' at the top and are leading current reform work. These officers want to improve the effectiveness and efficiency of PASF, to instil professionalism, accountability and responsibility over corruption, nepotism and cronyism. They seek practical solutions to pressing problems like balancing the budgets, developing meritocracy and rightsizing the organisation. They are not blind or deaf to the primacy of politics and the imperative of public engagement. Quite possibly, within a few years, PASF will be better, smaller and its budgetary impact less.

5.6 - International and Regional power struggles driving the economics of convergence

Since Nasser's humiliation in the 1967 war, the Palestinians have led the vanguard of pan-Arabism, encouraged and supported by Gulf Arabs (Gerges, 2018). Hosting millions of Palestinian refugees, Lebanon, Syria and Jordan are bound to their cause. However, supporting Palestinians costs Arab nations billions of dollars and political influence at home and abroad. Relations with Israel (the region's power) and its USA (Superpower) ally have suffered. Relations with Palestinian leadership can also be hard. Support for Palestinians remained strong for many decades, though is gradually falling away.

Donor-fatigued Arab leaders possibly hoped for release from their Palestinian obligations once the PA was established. Maybe Arafat's negotiating foolishness and obstructionism frustrated them, or they saw the subsequent rise of Hamas as a consequence of the PA's mismanagement, corruption and neglect (The Hill, 2020). Perhaps the prospect of trading with a developing Israel (Elgindy, 2018) or allying with it against a greater Persian threat, slowly trumped their Palestinian allegiance. Whatever the actual reason(s), when the Trump plan was released, Palestinians were "numb, angry, betrayed or shocked" (Smith, 2020) by their Arab neighbours' response to it. The Arab League supported Abbas a few days later but it was weak support and man-on-the-street Palestinians realise this too (Smith, 2020). Palestine faces re-engaging Israel politically from a weaker position and may have to offer concessions. They could propose economic cooperation.

5.6.1. The impact of the Saudi-Iranian Power struggle on economic inequality

Saudi Arabia (within LAS) has principally financed PA for decades (Bishara, 2019) and its opposition to Israel since 1973, bound the possibilities of Palestinian engagement with Israel (Abadi, 2019). Now, Saudi Arabia's regional conflict with Iran, fear of Iran obtaining nuclear weapons and the Persians' harsher stance against Israel, are driving rapprochement between Saudi Arabia and Israel (Abadi, 2019): though partial re-engagement through trade began 1996 when LAS lifted its embargo. The Saudis (and aligned Gulf States) have reportedly agreed to finance Trump's 'Deal of the Century' (SWP, 2019) with a $50Bn financial package. If true and the deal goes ahead, development in the Palestinian territory would transform its economy.

While Hamas control Gaza, Saudi funding there, despite any deal, may be withheld. The rift between Fatah and Hamas is underpinned by a longer and much deeper difference which places Saudi Arabia on one side and Iran on the other. It is an extension of what Ahmed Abdul Majid (a close associate and contemporary of Sayyid Qutb (the father of modern Islamism)) calls a confrontation “between two ideologies, two identities and two radically opposing ways of life – Islam versus apostasy” and the “real objects of the struggle are: the state, its power and its position as custodian of the public sphere” (Gerges 2018). The struggle between Fatah and Hamas is an extension of the Islamic Arab-Nationalist struggle: Islamic Hamas in Gaza vs Arab Nationalist Fatah in West Bank, and the power struggle between their respective benefactors. Gerges argues convincingly that the ideological struggle is in effect about power, because “Arab Nationalism and Islamism are constructed in part through interaction with each other” (Gerges, 2018). Given the two levels of power struggle, ideological and regional, Gaza it is unlikely to receive substantial Saudi investment and at Saudi insistence, be kept out of ‘economic cooperation’ with Israel.

5.7 - Has Economic Realpolitik and the Human dimension of inequality driven convergence?

The forces of economic inequality have created conditions such that Palestinian West Bank is positioned to exploit economic cooperation with Israel and converge economically. Politicians in Palestine and Israel have, unwittingly, created the appetite for it within their populations. Politics of economics (in Palestine) are stimulating reform and democratic politics (in Israel) stimulating the possibility of Israeli-Palestinian economic cooperation to mitigate the impacts of annexing much of the West Bank. Regional power struggles are unlikely to allow Palestinians to engage Israel as one entity – Gaza will remain in the second lane for some time. Nevertheless, into this mix, President Trump’s ‘Deal of the Century’ was released.

Chapter 6 – Looking to the future: Trump's 'Deal of the Century' and a possible inevitable economic outcome.

In February 2017 President Trump's administration began to revive the peace process. Initial optimism in both Israel and Palestine began dissipating among Palestinians in December 2017 when the USA recognized Jerusalem as Israel's capital and then moved its Embassy there the following May (Encyclopaedia Britannica, 2020). In June 2019, to cautious interest, the USA released the first, economic part of President Trump's 'Deal of the Century'. The economic, 'Peace to Prosperity' proposal offered significant development in Palestine's economy and infrastructure and was extremely detailed, possibly ambitiously optimistic and linked economic implementation to acceptance of the second, political part of the 'Deal'. Palestinian 'cautious interest' turned jaded in November 2019 (Gibson, 2019) as the USA declared "the establishment of Israeli settlements in the West Bank is not *per se* inconsistent with international law" (CBS News, 2019), previewing aspects of the political 'Deal'.

Reaction to the Political 'Deal'. The political 'Deal' when released (January 2020) envisioned predetermined solutions to final status issues. Most West Bank settlements would remain, Israel would impose sovereignty over the Jordan Valley (the West Bank's eastern border) and retain an undivided Jerusalem. The Palestinians would receive demilitarized self-governance within a reduced West Bank territory and Gaza, but must abandon international legal action against Israel and USA and comply with all other terms and conditions in the 180-page plan (US DoS, 2020). The 'Deal' is similar to two previous plans, the 1979 World Zionist Organisation 'Drobes Plan' and the 1997 Likud government 'Allon Plus Plan'.

Israeli leaders liked the 'Deal', Palestinian leaders and the West Bank Settlers' Yesha Council rejected it and International Community reaction was mixed. General opinion has characterised the 'Deal' as requiring too few concessions from the Israelis and imposing too harsh requirements on the Palestinians (Encyclopaedia Britannica, 2020).

After USA's November 'settlement' declaration, Palestinian leaders determined President Trump's administration was unable to "play a fair role as mediator" in the Israeli-Palestinian conflict (Encyclopaedia Britannica, 2020). Reminiscent of Arafat's behaviour 25 years earlier and offering no alternate, President Abbas rejected the 'Deal' with a "thousand no's", before it was even released (The Hill, 2020). A meeting of the LAS rejected the 'Deal' a few days after its release, but only after several LAS states gave it tentative support by not rejecting it.

Saudi Arabia in particular. The Saudi-based newspaper Al-Arabiya's, chairman, criticised the Palestinian President for his obstructionism. Palestinians were very disappointed and surprised by the reaction of the Arab world when the full 'Deal' was released, noting wider Arab support for Palestine drifting away and feeling abandoned and isolated (Smith, 2020).

6.0.1. Is the 'Deal's' political outcome inevitable?

Munayyer (2019) argues that Israel, over decades "developed enough power and cultivated enough support from Washington … to occupy and hold the territories and to create … a One-State reality of their own devising." That with US support, they want to "ratify" the *status quo*. Israel's electorate will not give up West Bank settlements and Israeli politicians seem keen to seize a political advantage while it lasts, so with or without an agreed 'Deal' they will put in place its 'political' aspects. Annexation has been promised by an elected Israeli government. There will be negative implications but Israeli politicians can mitigate these by offering 'economic cooperation' with Palestine – it gives them a way to meet Israeli skills and labour shortages, offsets potential criticism of annexation, encourages annexed Palestinians to move into Areas A and B and will help Palestinians reduce economic inequality both with Israel and within Palestine. Politically, Israel could propose doing so under the Accords Annex III 'Economic Cooperation', if doing so under the 'Deal' is too troubling politically for Palestinians.

This may be the case, Palestinian leaders to have taken a strong stance against the 'Deal' and firmly rejected the 'Deal's' political aspects. They could not give up Jerusalem - a red-line across the Arab world. The PA would need to resume administration over Gaza by presumably, removing Hamas: the PA could neither economically nor peacefully. There is no 'right of return' for Palestinian refugees. The political 'Deal' will not meet the aspiration of young Palestinians, it is a deal that "will enshrine Israeli dominance over Palestinian subjects, not one that will grant the parties equal rights" (Munayyer, 2019).

In addition, Trump's son-in-law, Jered Kushner, stirred a big Palestinian challenge to the 'Deal' by his comments: "The Palestinian leadership have to ask themselves a question: Do they want to have a state? Do they want to have a better life? If they do, we have created a framework for them to have it, and we're going to treat them in a very respectful manner. ***If they don't, then they're going to screw up another opportunity like they've screwed up every other opportunity that they've ever had in their existence***" (The Times of Israel, 2020). Palestinians are a proud and decent people. To them, Kushner's comments sound like threats and are very disrespectful, missing entirely the historical grievance Palestinians genuinely feel, triggering their defiance to resist. Quite possibly Palestinian leaders will prefer any way of engaging on economic cooperation than under the mantle of the 'Deal' because of this ignorant, insulting challenge from Kushner, no matter how close it reflects Palestine's reality.

So, although Palestinian leaders have rejected the 'Deal's' political aspects, they cannot ignore the whole 'Deal', because of the timing conditions within it and the reality that every new deal the Palestinians are offered is less than the last and with every passing year, the Palestinians' conditions deteriorate economically and politically. Gaza and West Bank politicians may anticipate weathering political storms, being isolated and dominate within their own political weather system, but they cannot weather the economic storm much longer.

As shown, their people and international supporters do not tolerate the costs, financial or otherwise, of the economic inequality which exposed Palestinian politicians' indifference to improve Palestinians' conditions (especially in Gaza) and aspirations, legal (equal rights) and economic. A return to violence is unwise; it only serves to exacerbate Palestinians' economic inequality. Palestinian politicians are now subject to the 'politics of economics' and must pursue action to reduce economic inequality within Palestine and with Israel. The 'old guard' of Fatah recognise the need to reform their own state-privileged structures and budgets; a reformer may soon be President. Palestinians seem poised to suffer change and maybe radical change, by realising *status quo* is their new paradigm, either territorial (losing the majority of Area C through Annexation) or political (dual-speed and separate development of Gaza and the West Bank). If invited to negotiate, because of the stance they have taken publicly on the 'Deal', Palestinian politicians could only politically accept opening negotiations if it was to re-examine economic cooperation under the cover of Annex III of the Accords.

6.0.2. The Art of the Deal.

It is very possible that Israel will offer to begin negotiations based on 'economic cooperation'. Everyone waited for the second part of the 'Deal', the political, considering that the important part. However, was this just a negotiating tactic: what Trump would call, 'The Art of the Deal'? The Israelis have offered a two-part, phased proposal; the first seemingly OK ('the devil's in the detail') but less than wished for; the second, completely unacceptable and increasing the likelihood of the first being taken. Netanyahu wants 'economic peace' with Palestine: not a political solution. The only real deal on offer within the 'Deal of the Century' is the economic one. The political aspect is s*tatus quo* – not really something over which the Palestinian have any negotiating power: it is a big bluff for domestic and international consumption.

The Palestinian's 'best' option is to ignore the political aspects and pursue the economic aspects – play Netanyahu at his own game and call his bluff – but insist it takes place under Accords Annex III 'Economic Cooperation'. After taking such a strong stance against the 'Deal', without a strong economic rationale to move forward politically, the Palestinian leadership may lose more supporters to Islamic or radical extremism portending a violent future for Israel-Palestinian relations. Neither Israel nor Palestine want this outcome. Israel also needs to mitigate annexation. The current PA therefore have some negotiating space over economics and could begin measures to cooperate economically with Israel. If that cooperation created better conditions for Palestinians, the PA would be supported and over time, the case for political negotiation could be made.

This approach places the pressure to contain the political aspect of the 'Deal' back onto Israeli politicians. It would require them to rein in their own extremist elements. Under the new Centrist Gantz-Netanyahu government (less dependent upon right-wing support) that is more possible. The Palestinians therefore have the chance to ignore the Political aspects of the 'Deal' while engaging with Israel in tentative steps towards economic cooperation.

Figure 4: 'Vision for Peace' a conceptual map of 'The Deal of the Century'

6.1 - How does Trump's 'Deal of the Century' impact economic inequality?

The 'Deal's' economic aspect proposed significant development in Palestine's economy and infrastructure and herald Israeli Prime Minister Netanyahu's preferred option of 'economic peace': substituting massive investment in the Palestinian economy for self-determination within a sovereign state. The economic aspects are both detailed and remarkable (SWP, 2019).

Table 2: Proposed Economic Outcomes of the 'Peace for Prosperity' Plan.

Economic Criteria	Pre-Plan	Post-Plan
Statistics		
Palestine's GDP	X	Doubled
Palestine's Exports	17%	40%
Palestinian Unemployment	31%	Below 10%
New Jobs	X	1m
Female Labour Force Participation Rate	20%	35%
Reduce Infant Mortality	18/1000	9/1000
Average Life Expectancy	74 years	80 years
Poverty Rate	X	Cut by 50%

6.1.1. Trade and Investment Proposals.

The 'Deal' advocates a free market and a "pro-growth tax structure" (The Times of Israel, 2019) to attract Arab-state and wealthy private investment (The Times of Israel, 2019) in 179 infrastructure and business projects, collectively costing $50Bn, administered by a "multilateral development bank" and protected by accountability, transparency, anti-corruption and conditionality safeguards (Huffington Post, 2019). Spending is divided: $26Bn in loans; $13.5Bn in grants; and $11Bn in private investment. Although most money would be spent in Palestine, $9Bn will be spent in Egypt, $7Bn in Jordan and $6.3Bn in Lebanon (Jewish Telegraphic Agency, 2019).

Projects include: construction of a travel corridor crossing Israel, to link the West Bank and Gaza with a highway and possibly a rail line; expansion of border crossings; power plant upgrades; infrastructure improvements to boost tourism; career counselling and jobplacement service; re-building and modernizing Palestinian hospitals and health clinics; upgrading cargo terminals and roads; improving the potable water supply and waste-water treatment; and establishing a new Palestinian university in the global top 150 (The Jerusalem Post, 2019).

Impact on Economic Inequality. Investment in transport and Import/Export infrastructure certainly chime with improving 'economic cooperation' in the Agriculture, Import/Export and Services (Tourism) sectors and help reduce economic inequality. However, Palestine could investment in its own Utilities (Water) infrastructure if Israel paid for the 80% of excess water it extracts from under Palestine. Also, Palestinian education standards are already high, a new University would not add much. Investment to develop quick arterial transport routes intra-Gaza and intra-West Bank territories would be a better return-on-investment than an inter Gaza-West Bank road and rail link. Investment should be channelled elsewhere for economic development, like digital infrastructure to support High-Technology sectors and speed-up economic inequality reduction.

6.1.2. Accessibility and Development Rights Continuous Territorial Movement.

Approximately 97% of West Bank Palestinians would be incorporated into contiguous Palestinian territory and 97% of Israelis into contiguous Israeli territory (The Times of Israel, 2020) and new special access roads would reduce the time and costs of cross-border trade and travel (The Times of Israel, 2019). Promised are greater protections of property rights and creation of a modern database to register land-ownership (The Jerusalem Post, 2019).

Impact on Economic Inequality. Any investment to speed up and ease Import/Exports is welcome although much could be achieved already by the reduction of existing restrictions within existing infrastructure. Land registration would ease some tensions within and between communities, if implemented impartially.

6.1.3. Security Challenges.

The 'Deal' proposes easing security restrictions. There are practical difficulties of doing this because financially and professionally PASF cannot replicate the IDF's capability to prevent terrorist attacks against Israel originating from Palestine, especially from Gaza where PASF no longer operate (Miller, 2020). IDF and PASF would need to cooperate much more than today to maintain 'security' at levels that would not derail politics while enabling 'economic cooperation'. PASF and IDF do cooperate now, so easing restrictions is possible.

Impact on Economic Inequality. As the WBG has declared, reducing security restrictions would have positive double-digit impacts on Palestine's GDP by easing movement and cross-border trade (WBG, 2013).

While Hamas remain extreme and its backer, Iran, fundamentally opposed to Israel's existence, the easing restrictions could not be applied to Gaza too. The West Bank and Gaza would be on separate, different speed paths towards economic equality with each other and with Israel. Although very unlikely, for regional and internal political and economic reasons, Palestinian politicians may find this unacceptable and delay possible 'economic cooperation' until restrictions were reduced across Palestine.

6.1.4. Lost Economic Potential for Palestine's Economy.

There are implications of the Deal' which will reduce Palestine's economic potential in some sectors. Agriculture, because Israeli would gain the entire Jordan Valley, Commerce, as Palestine loses East Jerusalem, and Import-Export, Transport and Communications because Israel would retain control of Palestine's borders, air space and electro-magnetic spectrum (BBC News).

Impact on Economic Inequality. Annexation would end Palestine's hopes of developing in Area C and East Jerusalem. WBG figures indicate the inability to access the West Bank already has had a negative double-digit impact on Palestine's GDP (WBG, 2018). The potential losses are therefore significant. Similarly, the River Jordan irrigates 80,000 hectares of agricultural land in the West Bank. Palestinians fear that post-deal, Israel would divert water away from Palestinian agriculture (Al Jazeera, 2020) or could threaten to do so, limiting potential investment in Palestinian's Agriculture sector. The PA loses potential revenue too because it does not control its borders, airspace and electro-magnetic spectrum. It does however receive revenue from Israel for border trade, it has no airport (yet) and can access commercial networks from Israel and Jordan. So, the loss in economic terms in these sectors remains a subject for debate.

6.1.5. The 'Deal's' impact on Economic Inequality.

If economic potential was the consideration, the 'Deal' is not a good one economically overall for Palestinians because they will lose so much land and do not get control of some key economic resources and activities. Palestine has been denied these for so long though, that it is an aspirational loss rather than a tangible one. Tangibly, the 'Deal' offers investment, which is sorely needed, even if the proposals for investment-areas need alteration. Additionally, security restrictions need to be eased - realistically in the West Bank first and one would hope, in time, with Gaza. The 'Deal' offers both States the opportunity to cooperate economically and forge sectors of their economies which over time will converge their economies. This will reduce economic inequality within the West Bank and in time Gaza. Given the likely pace of Palestinian economic growth, the gap with Israel will close. For a while, the West Bank-Gaza gap will widen.

The 'Deal' could lead to economic convergence and address some economic inequality but will require compromise on both sides. Any economic cooperation may continue under the guise of the Accords Annex III. The alternatives: deepening economic hardship (Palestine); slowing of economic growth and Pariah status (Israel); or a return to violence, are all bad and neither State want them: something perhaps appreciated by the 'Deal's architects. As seen in other parts of the world, closer economic convergence helps build trust from which further political agreements could follow. The question remains, what kind of economy could Israel and Palestine develop through 'economic cooperation' that may lead to a political Two-State solution?

6.2 - What could a Two-State economy look like?

Palestinians cannot build an economy based on Primary Goods because they have insufficient access to Area C to develop substantial agriculture or mineral extraction for export. Palestine's economy must be based on diversification. Options are limited though. The current road infrastructure and security constraints do not support economic activity that needs rapid transportation and movement. 'Quick to market' agricultural production would be uneconomic. Tourism needs better Transport, Hospitality and Service infrastructure to dramatically grow. Land is expensive to buy and construct upon (due to the terrain) and PA-controlled land is not contiguous – in the future, that may change but PA-controlled territory may shrink. Land may also be required for a returning diaspora. Palestinian land therefore needs to be used very efficiently. The population is highly educated and will not settle for low paid jobs for long. High-Technology (production and services) and 'land efficient' Agriculture have emerged so far without state intervention to feed primarily, the Israeli market. Services (Financial and Tourism) will endure. The latter, like Construction, Export-Import and Blue-Collar sectors, could develop further if security restrictions were eased. With the right state intervention, Palestine's economy could grow around these sectors.

Isolated as Palestine is (due to security measures), state intervention to enable Import-Substitution Industrialisation (ISI) may seem obvious and politically desirable (isolating from Israel). The potential for a post COVID19 retrenchment of globalisation may also suggest ISI ought to be seriously considered. However, as Saad-Filho (2020) notes, small nations are less successful under ISI models due to their domestic market size and lack of resources. Nations where economic and social inequality persist also struggle with the ISI model.

Palestinians are an entrepreneurial and industrious people and even within demanding export conditions, Palestinians have shown their capacity to export (goods or their highly skilled services) to Israel. A state Industrialisation Policy based upon Export-Orientated Industrialisation aimed at dramatically exporting to, and economically cooperating with Israel, could bear fruit rapidly. It would enable Palestine's greatest resource, its highly educated, entrepreneurial people, to be successful. A smart policy would be one developed cooperatively with Israel, to build the kind of high-end supporting industries (producers and services) Israel needs. If implemented with the right tax incentives and fiscal policies, wider foreign investment would likely follow, and other export markets open up. The PA has pursued constructive economic policies before and could again.

6.3 - The Future is one of Economic Cooperation

Trump's 'Deal of the Century' was never intended to be a serious political offer, though it was a serious economic one. On the surface, the Palestinians seem to have little choice but to accept the 'Deal' as it stands. While they have rejected it, they cannot ignore it, and now have the opportunity to turn it to their advantage, especially if Israel annexes ~64% of the West Bank as its government declares. With Israel, Palestine has the capability to develop an Export-Orientated Industrialisation policy focused on exporting to Israeli and in time, Israeli-Export markets. Indicators show that Palestine's economy will grow rapidly and as the two economies converge, a dependence, perhaps interdependence may follow. Initially

Palestinian West Bank and Gaza may be on separate economic convergence paths with Israel, but closer economic cooperation (based on the Accords Annex III) between Palestinians and Israelis will build political relationships, perhaps trust and from there lies the possibility of re-examining the political 'Two-State solution' aspects of the Accords.

Chapter 7 – Conclusion(s)

The Oslo Accord discussions started out focused on economic cooperation but when signed, laid before Politicians political agreements they could not implement. The reasons are many: Israeli right-wing politics, Palestinian single-party politics, extremism, violence, political incompetence and corruption or abuses of power. While these have played out, economic inequality between Israel and Palestine has increased: Israel developing and Palestine not, in part due to Israeli actions, but not entirely.

Within Palestine, the economic inequality has grown within society, between Areas A and B and between the West Bank and Gaza. Now, young Palestinians would prefer equal rights and economic advantages over citizenship of a 'classic' Palestinian state. Palestinian politicians who lost touch with their electorate's aspirations, are being forced by the 'politics of economics and realpolitik to reform and seeds of reform are being sown.

In Israel, most Israelis are not prepared to give up West Bank settlements and have elected a government which intends to annex the majority of the West Bank very soon, cementing the *status quo*. To the avoid international condemnation and the granting of equal rights to the Palestinians living on lands which will be annexed, Israel will need to offer economic cooperation with what remains of Palestine.

Economic cooperation would need an easing of security restrictions which are a significant hindrance to Palestine's economic development today. Reduced security restrictions could not be offered to Gaza while Hamas control it. Economic cooperation between Palestine and Israel will therefore move on two separate temporal paths, one for Gaza and one for the West Bank. Faced with the 'politics of economics' Palestinian politicians in the West Bank have already begun cutting their ties with Gaza and in the process of beginning their own internal reforms, may be ready for a more radical change and accept this separate path approach.

The roots of economic cooperation exist in a number of sectors already and both Israel and Palestine have economic reasons for developing that cooperation. The smart thing to do would be to work together on an Export-Orientated Industrialisation Policy for Palestine which focuses on exporting to Israel and especially its High-Technology sectors.

Trump's 'Deal of The Century' was not meant to be a credible political deal but was a credible economic one. Palestinians could not accept the 'Deal' because of the political aspects associated with it. However, driven by factors underpinned by economic inequality, they can and will begin exploring the economic proposals it contained under the Oslo Accords Annex III 'Economic Cooperation.' This would bring Oslo Accords back into the frame and in the correct order originally envisaged by the negotiators who sat down together in January 1993: establish economic cooperation first, then politically it becomes possible to deliver a Two-State solution.

Interview List and Bibliography

Interview List

The Author is extremely grateful to the following interviewees for their time and wisdom:

- Administration & Organisation Commission (AOC) Col. Ahmed Elothmani.
- Ministry of Interior (MOI) Head of the Strategic Planning Development Unit (SPDU) Lt Col Mamoun Ziada.
- Palestinian Authority Security Force (PASF) Officer Committee Secretariat, Col Mohammed Al Bakri.
- National Security Force (NSF) – Brigadier General/Director of NSF Human Resources and Colonel Ferhan.
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