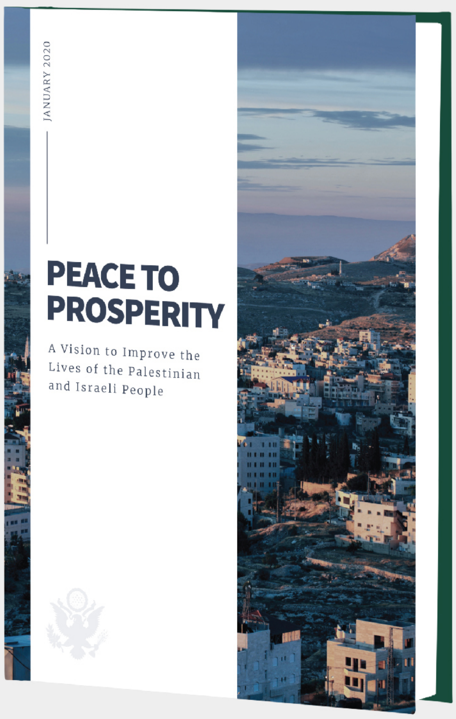
النهضة العربية للديمقراطية والتنمية
Arab Renaissance for Democracy & Development

The Question of Palestine

A Reading into the Economics of the "Deal of the Century"

(West Bank and Gaza Strip)



By Dr. Yusuf Mansur
Arab Renaissance for Democracy and Development (ARDD)

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Introduction

> “Israel’s illegal occupation of Arab lands is one of the most pervasive obstacles to security and progress in the region geographically (since it affects the entire region), temporally (extending over decades) and developmentally (impacting nearly all aspects of human development and human security, directly for millions and indirectly for others). The human cost extends beyond the considerable loss of lives and livelihoods of direct victims. If human development is the process of enlarging choices, if it implies that people must influence the processes that shape their lives, and if it means the full enjoyment of human rights, then nothing stifles that noble vision of development more than subjecting a people to foreign occupation.
>
> Arab Human Development Report 2002

The “Deal of the Century,” which was released on January 28, 2020, promises the Palestinian people prosperity and well-being. However, it is simply a document that unilaterally empowers an illegal and self-proclaimed entity (according to the hundreds of decisions of the United Nations and the competent international bodies) to obtain concessions from the rights holder (the Palestinians), expand the occupation of the West Bank by 30%, legitimize (unilaterally) the occupying force’s power over 240 illegal settlements, and terminate the historical, current or future rights of Palestinians.

On the other hand, the Palestinians will only dwell on small pieces of land without being able to defend or even guarantee their borders. This is because Israel will later decide who will be responsible for maintaining the security of these lands as it is ultimately positioned to choose whether to grant the Palestinians certain “privileges” or not. As learned from previous negotiations with Israel, such promises of limited self-rule will result in additional concessions on the part of the Palestinians, more oppression and displacement by Israel, and further legalization and institutional expansion of the occupation.

The privileges that the document of the “Deal” promises to the Palestinians in the West Bank and Gaza Strip are solely based on the current and future desires, aspirations and approval of the occupier. As such, we completely reject the provisions of the “Deal” and affirm its illegality. Further, we deplore the biased roles of the United States or any country that participated in, contributed to, negotiated or coordinated this “Deal”, and their attempt to place obligations upon an occupied and forcibly displaced people. This analysis discourses some of the economic aspects and presumptions and the proposed projects that the “Deal” is based upon.

The Conditions to realizing prosperity: surrender, loss of rights, no right of return, no weapons, and subsequent further negotiations

1. The Trump Economic Plan proposed by the “Deal” requires the Palestinians’ full adherence to the “Peace Agreement” that would result from the “Deal”. The Plan is based on three pillars: the economy, people, and government. In order to realize any benefits for the State of Palestine it requires, subject to the approval of Israel, institutional, governance and legislative changes.

2. Hypocritically, the Plan also states that Israel will be responsible for the protection of the new Palestinian State’s borders; thus providing the latter with a “great benefit”. However, “Israel will be essentially” responsible for the protection of the new State’s internal security. In addition, the role of the new State in maintaining its own security will be restricted to maintaining public order and law enforcement. The method and details will be later negotiated. And “in any case” the new State’s borders security will be maintained in cooperation with Israel, Jordan, and Egypt. The new State’s security forces will be in charge of protecting their government officials and combating terrorism against neighboring countries (Gaza is to be fully demilitarized). The State’s security forces may be allowed to take a limited part in border security in cooperation with the Israeli, Jordanian and Egyptian security, provided that this part shall not in any way jeopardize the security of Israel.

3. Israel will maintain security force stations in different areas of the new State as early warning stations to Israeli security authorities. The document does not specify the size of the force, and stipulates that State of Palestine will ensure Israel’s unhindered access to or operation in the lands of the new State. This means that the occupation will not end according to this “Deal”.

The Economic Projects and Activities in the West Bank and Gaza Strip as Described in the "Deal"

The following table summarizes the projects and activities that the "Deal" promises to implement and complete in the West Bank and Gaza Strip, as described in the Appendices and according to the amounts and schedules indicated in the document.

The Projects and Activities Proposed in the "Deal"

West Bank and Gaza Strip	Loans ($million)	Grants ($million)	Private Sector ($million)	Total Amount ($million)	Period (years)
Reform Strategy	0	475	0	475	13 -
Human Capital	250	1100	150	1500	110 -
Entrepreneurship and Innovation	300	110	0	410	2
Medium and Small Businesses	470	180	0	650	13 -
Roads and Rails	3750	652	1250	5652	28 -
Border Crossings	0	910	0	910	1-10
Energy	1778	249	555	2582	1-10
Water and Wastewater Treatment	741	1462	119	2322	0-10
Digital Services	1869	50	706	2625	1-7
Tourism	865	300	285	1450	2-10
Agriculture	708	115	88	911	3-8
Housing	500	500	0	1000	3-7
Manufacturing	600	125	150	875	3-8
Natural Resources	1080	10	360	1450	8
Quality Education	0	645	0	645	110 -
Access to Education	250	600	0	850	1-10
Educational Affordability	0	400	0	400	1-6
Empowering Women and Youth	0	20	0	20	1-5
Science, Technology, Engineering & Mathematics (STEM)	0	50	50	100	4
Technical and Vocational Training	0	40	35	75	3
Internships & Apprenticeships	0	35	65	100	1-10
Workforce Training	0	50	0	50	1-5
Healthcare Services	600	400	0	1000	1-9
Healthcare Quality	0	120	0	120	2-5
Preventive Healthcare	0	200	0	200	2
Arts and Culture	50	180	0	230	1-5
Sports	0	100	0	100	2-5
Municipal Services	0	300	0	300	1-4
Property Rights	0	140	0	140	1-5
Legal and Tax Framework	0	50	0	50	3
Capital Markets and Monetary Policy	0	25	0	25	2
International Trade and Foreign Direct Investment	0	75	0	75	2
Judicial Independence	0	175	0	175	1-5
Accountability	0	75		75	3
Transparency	0	50		50	3
Civil Society	0	180		180	1-10
Fiscal Sustainability	750	1075	0	1825	1-5
Civil Service	0	400	0	400	1-5
Service Delivery	0	335	0	335	3-5
Total	14561	11958	3813	30332	

Observations on the “Deal”

The following are initial observations on the economics of the “Deal”.

Inaccurate Amounts

1. The total amount allocated for the projects in the above table is US$30332 million which differs from the total amount specified in page 97 of the “Deal”, which is US$27813. This is attributed to the fact that some of the projects in the top of the table above (as per the document) are repeated; however, the document does not provide a means or method to validate the numbers; thus making the projects and the relevant amounts look unclear. Consequently, the totals in the table are used to calculate the percentages of funding resources, which are as follows: loans (48%), grants (39%), and private sector investment (13%).
2. If we calculate the total amounts of the projects, grants and loans as per the pie chart in page 96 of the “Deal”, the total amount is US$31,143 million and not US$27813 million according to the “Deal”; however, there is an excess of US$2,560 million and an excess of US$811 million to the amount of projects (US$30,332 million) calculated above.
3. There is also a mistake in the “Business Development” item, where the “Deal” allocated $560 million in page 96 of its electronic copy, and $650 million in the detailed tables.
4. It is indeed strange and unusual to find inaccuracies and spelling errors in an official and important document (“Deal of the Century”) that was supposedly prepared by the United States Government.

Investments

1. According to the relevant table included in the “document”, the private-sector investments will reach US$3813 million over a period of ten years; with an average of US$381.3 million per year. The amount of investment is insignificant and can hardly be considered meaningful for a country whose infrastructure and supra structures have been destroyed as a result of a brutal occupation.
2. The private sector investments will probably be made by governments of countries that are in favor of the “Deal”. However, if they are actually made by private investors, their status becomes uncertain as such investments will be subject to negotiated contractual terms and conditions (such as the return on investment, investment period, investor’s qualifications, a project’s venue and size, environmental and local impacts, etc.). Therefore, these investments should not be considered part of the support given to the State of Palestine; particularly if they will be executed in the first or even second phases of the “Deal”, which will focus on building and rebuilding those institutions that were diminished and destroyed by Israel over the past decades. In all cases, we assume that these investments will be made by governments and not private companies, and if approved by the State of Palestine, it will be a take-it-or-leave-it process, which would undermine the Palestinian side.

3. Israel will be responsible for regulating and zoning the lands and cities near its stipulated borders. Areas that are far from the Israeli borders will be zoned by the new State of Palestine. This reduces not only the zoning authority of the new State but also the potential investment opportunities and makes them exclusively subject to Israeli approval and control. Furthermore, in the neighboring areas, which are areas with unidentified borders and may include vast tracts of land that are distributed on the map provided in the "Deal," as miniscule cantons surrounded by the occupier.

4. In addition, projects that involve neighboring countries such as Jordan, Egypt and the Israeli occupation require approval of the relevant terms and conditions, projects, costs and fees which will be defined by Jordan and Egypt and according to Israel's desires.

5. The funding related to the amendment of laws and regulations and regulatory institutions (which is of utmost importance to Israel and subject to its supervision and approval) will be made in the form of grants over the first three years, while 17% of the investment that will be used for human capital development is in the form of loans and 10% will come from private sector investments.

6. It is well known that investors look for long term safety and security in the first instance. Therefore, a foreign investor will look for a stable country that provides security for its people, for the investors, and for their investments and that has defined borders respected by other countries. Consequently, it is not guaranteed that investments will flow into the State of Palestine, particularly since such borders and the very existence of the state they would be dealing with is subject to Israel's approval in all phases.

Free Trade

1. The "Deal" stipulates that Israel will allow the State of Palestine's economy the right to free trade, and the United States will sign a trade agreement with the State (after obtaining a certificate of good conduct from Israel) that is similar to the ones signed with Israel, Jordan and Egypt. However, the new State will use the ports of Israel (Haifa and Ashdod). The charges are levied solely by Israel. Additionally, after a period of five years, Israel may allow the new State to establish its own port and airport in Gaza (which were previously destroyed by Israel) if it believes that the new State is ready. On the other hand, the charges imposed by Israel will increase the costs of shipping, transit, transfer and use, which undermines international free trade as traders will fully depend on trade directly through Israel and its institutions as an alternate and more certain solution to dealing with the shackled Palestinian institutions.

2. Israel will be in charge of approving or refusing the passage of goods in general and regardless of the point of entry.

3. The State of Palestine shall obtain the approval of Israel before signing any agreement or joining any organization. Therefore, the "Deal" may prevent the State of Palestine from joining the World Trade Organization (WTO) as an active member. It is worth noting here that currently the WTO does not require its members to be sovereign nations, they only need to be independent in establishing their own international trade policies and relations and making their WTO related decisions. By signing the "Deal", the new State abrogates its right to freely join the WTO.

4. Israel will be completely free to sign any free trade or investment agreement with the Arab countries to legally attract the Arab markets and investments and sign partnership agreements with any party it desires.

5. Goods shall enter through the Jordanian and Egyptian land borders and under the supervision of Israel. However, Israel may refuse the entry of any item in accordance with the terms and conditions agreed upon. Furthermore, these terms are not binding to Israel and it has the right to amend them unilaterally and in a manner that best suits its interests and own security. The security excuse has been used aggressively by Israel over the past decades.

6. A new airport will be developed in Southern Shouna in Jordan to support the free-trade zone. Its size and location were not specified in the documents of the "Deal". The State of Palestine will be allowed to use this area; however, the goods will only enter Israel after obtaining Israeli approvals. According to the "Deal", Jordan will dedicate a special area for the Palestinian goods in the Port of Aqaba, which will be under the supervision of the Jordanian authorities and subject to the fees and charges specified by Jordan.

Tourism

1. The State of Palestine will not benefit greatly from the tourism sector. It is expected to develop a tourism center in Atarot (north of Qalandia) after negotiating and later obtaining Israel's approval on the related security measures to welcome Muslim tourists who wish to visit the Holy Shrines. In case the required security measures are complicated and ever changing which would make any trip to the holy sites uncertain, it is most likely that most tourists would instead travel directly through Israel.

2. The employment of Palestinian tour guides in religious areas is to be negotiated with Israel and will always be subject to its approval. In other words, even the prospect of having Palestinian tour guides is uncertain.

3. In addition, a Jerusalem Tourism Authority is proposed to be established jointly by Israel and the new State to promote for the touristic destinations in the State of Palestine and Israel. However, Israel will be solely responsible for developing a mechanism for stipulating and sharing the tourism revenues.

Aid

1. The United States prides itself, in the document of the "Deal," on having granted the Palestinian refugees $6.15 billion since Al-Nakba (1948). However, the assertion overlooks the fact that, according to Haaretz, the US granted Israel $233.7 billion (in current value) in the form of official aids (the unofficial aids considerably exceeds what is included here) in the same period, which is 75 times the amount of aid granted to Palestinians during the same period.

2. The "Deal" offers to all parties (Palestinian State, Egypt, Jordan, and Lebanon) US$13.38 billion in grants, US$25.689 billion in loans (interest rates were not specified), and US$11.6 billion in "private sector" investments; thus totaling approximately US$50.67 billion. These amounts will be geographically distributed as follows: Gaza and West Bank (US$27.813 billion), Egypt (US$9.167 billion), Jordan (US$7.365 billion), and Lebanon (US$6.325 billion).

3. Upon reviewing the grants that will be given to the State of Palestine, the total amount is approximately US$12 billion over a period of 10 years, which is equivalent to the US grants to Israel during 2016 – 2018 (three years). The grants offered to the State of Palestine are to be coupled with a US$14,561 million of debt, which will render the new State heavily indebted.

4. It seems that the author of the “Deal” does not believe in the Palestinians’ entrepreneurial and innovative abilities and potentials or does not desire to develop such potentials. Hence, the percentage of loans in the “Innovation and Entrepreneurship” item is around 70% (US$300 million out of US$410 million).

5. As to small and medium enterprises (SMEs), the majority (US$470 million) will be financed through loans and the remainder (US$180 million) will be in the form of grants. The total amount of US$650 million will be allocated over three years (the value of this amount is somewhat vague in the document of the “Deal” as previously stated).

6. The “Infrastructure Projects” item will commence in the second year and last through the eighth year. Its value is US$5652 million: US$3750 million funded through loans, US$1250 million from private investments, and US$652 million through grants. The projects will include the development of a US$5 billion railway system that will be connected to the railway project of Jordan and will be mainly funded by loans. On the other hand, the State of Palestine will be allowed to establish Gaza’s potential port and airport upon complying with all the terms and conditions and the additional stipulations required by the security and environmental interests of Israel. Once the port and airport of Gaza are in operation, the State of Palestine will no longer be able to use the ports of Haifa, Ashdod and Aqaba (unless otherwise agreed by Jordan and upon terms to be negotiated between the State of Palestine and Jordan).

7. The crossing points will be renovated through US$910 million in grant funds.

8. The spending on the “Energy Sector” will continue for five years at a total cost of US$2581 million, most of which (US$1178 million) are in the form of loans, while the grants will not exceed US$249 million, and the rest (US$555 million) from private sector investments.

9. The “Water Sector” will be funded over a period of ten years by a total of US$2322 million, of which: US$462 million will be as grants, US$741 million will be loans, and US$119 million will be private sector investments. The State of Palestine will buy water from Israel at a cost of US$50 million in the first year.

10. “Digital Services” will be funded at US$2625 million over a period of six years, US$1869 million of which are loans (nearly two thirds of the total amount), while US$706 million will be investments from the private sector.

Overall Impact on the Gross Domestic Product (GDP)

1. The “document” boasts that the Palestinian economy will double from US$14.6 billion to US$33.1 billion within a period of ten years from the date of signing the “Deal” with growth rates ranging between 8.10% and 9.9%. There is no need to brag here. The Palestinian economy has grown (in spite of the occupation and the lack of aid) in the period 2008 – 2018 by 57%, where the annual average growth rate was 5.1%. It even exceeded 8% in some years (such as 2008 and 2009) and achieved a growth rate of 12.4% in 2014.

2. The “document” makes, either deliberately or because it was hastily written, a serious economic mistake as it is based on nominal (and not real) figures, such as nominal GDP and nominal growth rates, which include inflation; i.e., they disguise the real growth rates. The proposed growth rates might result from inflation and not from real growth. It is worth noting that inflation in the West Bank and Gaza had risen in some years to 9.9%, exceeding the highest nominal growth rate proposed in the “Deal”. To reiterate, the “Deal” should have used the real growth rates, which is the standard practice in economics. Therefore, the “Deal” should revise the estimates therein to avoid being misleading and in contradiction with established economic principles.

3. As for the per capita income, the nominal growth rate will be constant at 4% annually after the third year. This is a very small percentage. Furthermore, the nominal annual per capita income as per the document is US$2952 whereas it is actually US$3199 for the year 2018 as per the World Bank database. Also, the average per capita income growth rate as per the World Bank database reached 6% annually during 2008-2018, and 19% and 14% in the years 2010 and 2011, respectively. These rates way exceed the highest growth rate (9.9% in the second year after its signing) that is proposed by the “Deal”.

4. Additionally, by simply reversing the calculation of the per capita income growth rate in the “Deal”, i.e. dividing the GDP by the average per capita income, it appears that the population growth rate suggested in the “Deal” is 3.5% annually during the ten years of the “Deal”. This growth rate is close to the population growth rate (2.5%) during (2008 – 2018) as per the World Bank database. This also means that the “Deal” does not expect the return of refugees over the years, which is confirmed in the document and explained in detail in the following section.

The Return of Palestinian Refugees

1. A study conducted by the Talal Abu Ghazaleh group estimated the number of Palestinians around the world at 24 million people. As per the Palestinian Central Bureau of Statistics, the number is estimated at 13 million, 5 million of whom live in Palestine. Regardless of which total number one should consider, the question here is how the "Deal" will compensate the Palestinian refugees for the properties, infrastructure, resources and livelihoods that they lost over more than 70 years, in addition to other non-material losses caused by to them being refugees all over the globe.

2. The "Deal" does not provide Palestinian refugees the right of return, and will ask some Islamic states, including Arab states, to accept 5000 refugees per year, for up to ten years and as per the legislative frameworks of these states. In addition, some will be "integrated" within the economies of their host countries in accordance with the laws and regulations of these states.

3. The "Deal" does not recognize the UNRWA definition of Palestinian refugees, and proposes the establishment of a fund for the compensation of Palestinian refugee "the Palestinian Refugee Fund". The compensation will be availed only to those who didn't commit any "hostile activities" against Israel and according to terms and conditions to be agreed upon later by both the State of Palestine and the United States. The "Deal" doesn't state the compensation amounts, if any, but rather indicates that they will be provided by third party countries. Also, refugees who have already settled in a permanent location will not be eligible for resettlement in the new State but will only be eligible for compensation from the Palestinian Refugee Fund. The Palestinian Refugee Fund will be administered by two trustees that are to be appointed by the United States and the State of Palestine.

Compensation of Jewish Refugees

1. The "Deal" claims that there are also Jewish refugees as a result of the Arab-Israeli conflict. Hence, Israel will receive compensation for accepting the Jewish refugees who fled the Arab countries and immigrated to Israel and elsewhere, and this will be implemented through an appropriate mechanism to be decided in the future by Israel.

2. This means that the states that agree to the "Deal" must realize that they will be committed, through the "Deal", to compensate Israel for the Jews who emigrated from these states to Palestine.

3. Furthermore, since Israel did not determine the mechanism in the "Deal", parties that agree to the "Deal" must commit also to whatever compensation Israel will unilaterally determine as appropriate, which may lead later to billions of dollars in compensation claims. Here, it is important to note that the amount of compensation paid by Germany to Israel since 1952 is more than $50 billion, which, when adjusted to inflation, becomes in excess of US$150 billion in current dollars.

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Arab Renaissance for Democracy & Development

P.O.Box: 930560
Amman11193 Jordan
Tel: +962 6 46 17 277
Fax: +962 6 46 17 278
www.ardd-jo.org
ar_renaissance
ArabRenaissance