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DEVELOPMENT DIPLOMACY: U.S. ECONOMIC ASSISTANCE TO THE WEST BANK AND GAZA

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PREFACE

With the recent U.S. decision to begin official talks with the PLO, it is clear that the Israeli-Palestinian conflict has entered a new stage. Coming on the heels of the year-long Palestinian uprising (*intifadah*) in the West Bank and Gaza and King Hussein's decision to sever Jordan's ties to the territories, the emergence of a U.S.-PLO dialogue further challenges some of the key assumptions and principles that have guided U.S. policy toward the Arab-Israeli peace process.

For more than a decade, U.S. policymakers have sought, at least indirectly, to supplement their efforts to promote political reconciliation between Israel and the Palestinians with an economic component that attempts to improve the socio-economic conditions of the West Bank and Gaza. U.S. efforts, initiated largely out of humanitarian concern for the inhabitants of the territories, have also been premised on the assumption that economic progress can help build the foundation of social stability and moderation necessary to support an Israeli-Palestinian settlement.

In her study, Dr. Joyce Starr provides the first comprehensive summary of the extensive international efforts carried out over the years to promote economic development in the West Bank and Gaza. Tracing the history of U.S., European, Jordanian, and Israeli economic programs in the territories, Dr. Starr's report includes an examination of the economic and political consequences of the *intifadah* and Jordanian withdrawal. She argues that these aid programs, plagued by an absence of strategic planning and an excess of shortsighted political constraints, have failed either to foster strong economies in the West Bank and Gaza or political moderation among the Palestinian residents. Dr. Starr urges the new administration of President George Bush to address the historical shortcomings of America's economic development strategy, and recommit U.S. Middle East policy and resources to a systematic effort to promote the "economic integrity" of the West Bank and Gaza.

This Policy Paper raises a number of significant questions at a time when both U.S. policy and events in the Middle East appear to be in flux. American foreign policy has long been informed by the proposition that economic development and political stability are symbiotically related. But in a period of economic stringency at home, and violent insurrection in the West Bank and Gaza, it is only proper that the new administration reexamine this proposition as it relates to the territories. In particular, U.S. policymakers will have to come to grips with the difficult issue of how U.S. aid affects the Palestinian *intifadah*. Assessing how well America's interests are being served by continued economic assistance is a difficult, but necessary, task awaiting the Bush Administration.

Barbi Weinberg
President
January 1989

EXECUTIVE SUMMARY

The U.S. approach to economic development in the West Bank and Gaza began as a minor program, with limited, albeit well-intended goals. While U.S. commitment has grown and the focus shifted in the intervening years, the fact is that until the mid-1980s, American policy was primarily reactive.

With Secretary Shultz's 1983 quality of life initiative and his later decision to reinforce the 1986 Jordanian Five-Year Development Plan, the U.S. moved to a proactive role. Yet at no time has Washington been motivated to devise a development strategy that considers different visions of West Bank and Gaza economic independence.

Israel has long been concerned that foreign-funded and administered development programs could establish the infrastructure for a Palestinian state. Israel claims that the West Bank and Gaza economies have improved under its rule. Critics maintain, however, that Israel has impeded development, tightening its control in the region. In particular, the attraction of Palestinian workers to Israel is said to have weakened the economic infrastructure of the territories.

The *intifadah*, the Israeli response, and the Jordanian withdrawal of administrative and economic support have wreaked havoc on the West Bank and Gaza economies. American authorities estimate that their combined G.D.P. of approximately $1 billion has now been reduced by as much as 25 percent.

The social and economic needs of the Palestinian people will remain constant, irrespective of the political umbrella under which the territories are ultimately placed. Thus, the U.S. can and should separate politics from economics, while reassuring Israel that economic support of the territories will not be at Israel's expense or threaten Israel's security.

To this end, the United States should:

- *Acknowledge, as a basic guiding principle, the right of West Bank and Gaza Palestinians to exert control over the economic and administrative aspects of their own destiny,* including use of local land and resources, licensing for wells, building permits, and issuing of export licenses.

- *Help the Palestinians develop a competitive financial and marketing system, encourage private American investment, and extend the U.S.-Israel free trade agreement to the territories.* Both Israel and Jordan should be encouraged to ease restrictions that prohibit fluid movement of goods.

- *Increase steady U.S. financial aid to the territories.* Predictable U.S. budget levels would lend stability and confidence to a region long plagued by political uncertainty.

CONTENTS

I. INTRODUCTION

The purpose of this study is to provide an historical background and to examine the future of American economic development policy in the West Bank and Gaza. To understand the United States' policy in the region, it is first necessary to review the Israeli, Jordanian, and European efforts, as well as those of the United Nations and private voluntary organizations (P.V.O.s). However, no such summary of these extensive international efforts exists. Thus, another purpose of this study is to fill that void.

Research for this study began, coincidentally, on the day that King Hussein cancelled the majority of his country's administrative and financial support to the West Bank and Gaza – July 28, 1988 — and it was completed on the day the Palestine Liberation Organization (PLO) publicly recognized U.N. Security Council Resolutions 242 and 338, and Israel's right to exist, and received the announcement by the U.S. State Department that the United States would open official talks with the PLO — December 14, 1988. Whatever one's assessment of these events, it is certain that the Israeli-Palestinian conflict is in the throes of dynamic change.

With a new administration in Washington and a continuing uprising in the West Bank and Gaza, it is time to explore the possibilities for far-reaching and creative American contributions to the economic future of these territories. For even if a peace process were to get under way, it could not begin to resolve the conflicts over the economic aspects of power and scarce resources that the Israelis and Palestinians will ultimately need to address.

If this study is "ahead of events," so be it. The philosopher, Martin Buber, wrote that if we are guided by a sense of doom, our worst fears will be realized. The great American poet, Carl Sandburg, wrote similarly: "Man is a long time coming. Man will yet win."

II. THE U.S. PROGRAM

Following World War II, the strategic concerns of the United States around the world led to policies that emphasized economic reconstruction and development, particularly to "friendly" regimes in sensitive regions. Economic programs were seen as potential sources of influence to achieve broader American policy goals, including the containment of Soviet influence. These policies also sought to act as inducements for parties to regional conflicts to set aside their differences, to cooperate in the development of scarce, shared resources, and to concentrate on the greater geopolitical threat posed by the Soviets.

The Middle East was one of the regions in which these efforts were played out extensively. The U.S. established assistance programs in Jordan, Egypt, and Israel in the early 1950s; Palestinian communities received small amounts of aid provided through these programs. There was no effort to provide U.S. development assistance directed specifically to the West Bank and the Gaza Strip, but some projects in the West Bank were funded before 1967 through the Agency for International Development's (A.I.D.) relationship with Jordan. No funding to Egypt filtered down into Gaza Strip development, but U.S. P.V.O.s operated in both territories using Public Law 480 (P.L.480) commodities to establish "Food for Peace" and "Food for Work." In addition, the U.S. was, and continues to be, the largest single contributor to the United Nations Relief and Works Agency (U.N.R.W.A.), the Agency established in 1950 to administer the social needs of Palestinian refugees.

After Israel captured these two territories in the 1967 war, U.S. aid continued through P.V.O.s that had previously operated in Jordan, but that had been able to reposition themselves under Israeli rule.

Direct U.S. assistance to the Arabs in the West Bank and Gaza began in fiscal year 1975 as a Congressional initiative. A Special Middle East Requirements Fund (M.E.S.R.F.) of $100 million was authorized by Congress for U.N.R.W.A. for a new bilateral aid program for Syria, a national project for Jordan, and for development projects in the two territories.

Allocations for the West Bank and Gaza, however, totaled only $1 million in 1975 or one percent of the entire package. Congress increased this figure to $2 million in 1976, and the legislative mandate for the program stated broadly that:

> ...some funds authorized for the Special Requirements Funds should be made available to support projects and expand institutions in the occupied territories of the West Bank and Gaza. It is believed that such assistance can help build the socio-economic underpinnings necessary to preserve peace

both for the immediate and long-term futures. In particular, the committee believes that such funds should be used to expand the activities of educational and vocational training institutions in the occupied territories.[1]

The report of the House Committee on Foreign Affairs on the International Security Assistance Act of 1977 underscored support for voluntary agencies as the primary conduit for these funds and for the bilateral American-Arab focus of the Fund:

> The Committee believes that the activities and programs of American private voluntary organizations in that region which are already funded under the Fund should continue to be supported and that the bilateral American-Arab character of these programs be maintained.[2]

In July of 1978, the General Accounting Office (G.A.O.) was asked to prepare a study on U.S. economic aid for the West Bank and Gaza. The G.A.O. emphasized in its final report that U.S. program objectives had never been clearly formulated, nor had comprehensive assessments of economic conditions or needs been undertaken, primarily because of political uncertainties and limitations. "Under normal circumstances," the authors wrote, "U.S.A.I.D. would work directly with the host country to develop and monitor the project."

The first effort to clarify U.S. policy objectives relating to economic development in the West Bank and Gaza appeared in a July 1976 interim A.I.D. report prepared by the Office of Technical Support, Bureau of Near Eastern and South Asian Affairs, Department of State. Five "unofficial" objectives were identified:

1. Development of locally trained skills and of leadership that can function independently when the political status of the refugees has been decided;

2. Establishment of constructive contacts with the Palestinian people;

3. Development of skills, training, local agriculture, rural development, and other income-generating capabilities for the affected zones;

4. Encouragement of self-help projects that can build up the physical and social infrastructures of the area; and

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1 "U.S. Economic Aid for the West Bank and Gaza – A Positive Contribution," Report by the U.S. General Accounting Office, July 5, 1978. p.2.

2 *Ibid,* p.3.

5. Development of family planning activities and preventive medical and health services that can be self-sustaining after initial outside support.[3]

Only in the late 1970s did official goals begin to shift from humanitarian assistance (welfare, vocational training, health care) in the direction of economic development assistance, including infrastructure and projects to expand income earning potential. The 1983-84 period saw a renewed thrust toward "quality of life" efforts. However, even with the passage of almost a decade, American policy objectives remained quite general. A draft statement prepared by A.I.D. in December 1987 defined U.S. goals as the following:

Goal 1: Promote West Bank and Gaza economic growth by:

a) facilitating market entry, market access, management and production in the agricultural and manufacturing sectors;

b) stimulating financial market development; and

c) stimulating community-based income generation.

Goal 2: Create a more favorable policy environment for West Bank and Gaza individuals and enterprises, in particular in the agriculture and manufacturing sectors, to stimulate and expand export markets and promote efficient financial market development.

Goal 3: Increase capacity of public and non-public institutions to support economic activity in the Occupied Territories.

Goal 4: Improve social services in the West Bank and Gaza.[4]

The A.I.D. statement further described these goals as a congruence of objectives that have as their outcome greater economic and social latitude for the Palestinian people and a higher standard of living.[5]

Secretary of State George Shultz attempted to clarify U.S. policy in 1983 and 1984. The result was a specific policy emphasis on quality of life in the occupied territories and economic development initiatives. Shultz's turn to economic issues

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3 "Interim Report on Economic Assistance to the West Bank and Gaza," Office of Technical Support, Near Eastern Bureau, Department of State, p.3.

4 "Strategy Statement: The Direct West Bank/Gaza Program and the Jordan West Bank/Gaza Development Program," The Agency for International Development (A.I.D.), December 9, 1987, p.1.

5 *Ibid,* p.2.

apparently derived in large part from his personal disillusionment with political efforts to forge a breakthrough in the peace process. The September 1, 1982 Reagan peace initiative had stalled by the spring of 1983. The May 17, 1983 agreement between Israel and Lebanon had also come to naught. Reflecting on these events over the summer, Shultz returned to Washington with renewed interest in the quality of life vision.

In late August 1983, Department of State officials William Kirby (Bureau of Near Eastern and South Asian Affairs) and Peter Rodman (Office of the Secretary), traveled to the region. The main purpose of their trip was to alert the Israeli and Jordanian governments to the new approach and to learn of their initial reactions. The delegation found the Israeli coordinatior for the activities in the occupied territories, Ephraim Sneh, personally sympathetic to the Secretary's objectives.

The Palestinians at these discussions stressed three priorities to be conveyed to Secretary Shultz:

- The establishment of an Arab bank in the West Bank and Gaza (until then, only Israeli banks had operated in the territories).

- The opening of the flow of funds across the Jordan River (at the time, scarcely any funds could officially enter the West Bank and Gaza from Arab sources, although "black money" was being smuggled in).

- Israeli government authorization of large-scale industrial projects. The initial focus was on a cement plant in Hebron, for which feasibility studies had been conducted long before and a board of directors formed. Palestinian cement plant proponents had come up against the monopoly of Israeli cement companies, which were apparently unable and/or unwilling to accept the concept.

Throughout the remainder of 1983 and 1984, Secretary Shultz's quality of life plan took shape. "To any self-respecting Palestinian, it may have looked like we were just spinning our wheels," acknowledged one senior U.S. official at the time, "but from our perspective, sensitizing the Israeli upper echelons that we were serious was a major task, telling them over and over again, here's the bullet we're expecting you to bite." Those involved have emphasized that at no time did anyone, least of all the Secretary of State, "have grandiose ideas for turning the West Bank and Gaza into the Ruhr Valley."

The reaction of the Palestinians themselves included both those who viewed the quality of life initiative as a political ploy, a maneuver to substitute economics for the peace process, and those who saw the initiative as an opportunity to convert bureaucratic obstacles into quality of life issues. However cynically the quality of life concept may have been viewed by some Palestinians, Palestinian businessmen were seemingly more eager to assess what might be accomplished by it.

The first real success for the Shultz plan came in 1984, with a new Israeli election and a coalition agreement that gave the Premiership to Labor Party leader Shimon Peres. Peres was determined to respond affirmatively to the Secretary's ideas. One of his first actions in office was to order a serious review of the controversial cement plant. Peres and Defense Minister Yitzhak Rabin were also amenable to requests for allowing funds to move more freely across the Jordan River.

Nevertheless, even with positive intentions at the highest level of Israeli leadership, it soon became clear that neither the Israeli Prime Minister nor the U.S. Secretary of State would be able to budge a reluctant Israeli government bureaucracy on these two points (the cement plant and flow of funds) with any degree of alacrity.

The Department of State and A.I.D. shifted their emphasis to P.V.O. project approvals. Most of the discussions during this period involved a sizeable backlog of more than 40 projects. One expert termed U.S. strategy, "the pest approach to diplomacy -- we kept asking Israel to show cause why things shouldn't be approved."

No U.S. threats were ever issued, but the message was clearly transmitted that rejection for political purposes would be deemed unacceptable. By the end of 1984, Peres and Rabin, responding to the priorities of George Shultz, had managed to move forward a sizeable number of the long-awaited project approvals. While the cement factory did not receive approval (and still has not)* there was a relatively prompt opening up of the flow of funds across the river.

Peres also gave the go-ahead "in principle" for a West Bank bank, but the idea was stymied as a result of rivalries among various Palestinian groups. During his visit to Washington in the summer of 1986, King Hussein proposed the reopening of the Cairo-Amman Bank's West Bank branch offices, closed since the 1967 war. Fearing that Jordan's worsening foreign exchange problems would only be exacerbated if a new indigenous bank were created in the territories, Hussein offered a compromise. This theme was quickly adopted by the Department of State as the most feasible approach under the circumstances. Within a matter of months the Cairo-Amman Bank was reestablished and was successfully operating in Nablus under the dual regulation of both Jordanian and Israeli central banks. While no U.S.A.I.D. or other U.S. government funding was used to reestablish the bank, the U.S. was instrumental in the effort by making its "good offices" available.

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* Both Israel and Jordan have long feared competition with their own cement industries.

By the latter part of 1986, senior Department of State and A.I.D. officials concluded that the most effective means of meeting their objectives in the territories would be to bolster Jordan's development program for the West Bank and Gaza, which had been first announced during the summer of 1986. (For a full discussion, see The Jordanian Program, Section IV.) Indeed, I was told by State Department officials in mid-July 1988, that support for Jordan was the "linchpin" of U.S. economic development policy for the territories. This strategy was abruptly dashed in late July 1988, when King Hussein declared the withdrawal of Jordan from the West Bank and Gaza. In a region where the more things change, the more they remain the same, King Hussein had done the unthinkable: he had radically altered the rules of the game.

The Impact of the U.S. Program

The American government's approach to economic development in the West Bank and Gaza had begun as a minor program, with limited, albeit well-intended, goals. The Department of State and U.S.A.I.D. were initiators of the U.S. presence in the area and still remain the strongest advocates for increased levels of funding. Congress expanded the concept of increased aid (even beyond A.I.D. requests) at different times. Nevertheless, while U.S. commitment has grown and the focus shifted in the intervening years, the fact is that until the mid-1980s, American policy was primarily reactive, largely responsive to development ideas from the P.V.O.s and Palestinians in the territories. With Secretary Shultz's quality of life initiative and his later decision to reinforce the Jordanian program, the United States moved into a role of taking the initiative, striving to implement economic development goals. Unfortunately, this policy was in great measure tied to the anticipated achievements of the Jordanian program.

Moreover, U.S. financial commitments to the West Bank and Gaza remain minor by comparison to other significant American A.I.D. programs, notably Israel and Egypt, and are essentially structured to meet the constraints of the status quo.* At no time has the Executive Branch been directed by Congress, nor has it been self-motivated, to devise an economic development strategy or approach that considers different visions of West Bank and Gaza economic independence. As one authority has summarized the American approach:

> Any country's economic development strategy must be conceived directly with the people in the area. But with whom do you work in the West Bank

* State Department officials note that these programs should be viewed in the context of aid money *per capita*, however. The West Bank and Gaza have averaged approximately $10 per capita, Egypt about $20-25 per capita, and Israel about $150 per capita.

and Gaza? So we worked for economic autonomy. No one ever really thought of devising a development strategy, for example, like Zambia.

Ironically, the American government maintains an unwritten understanding with the P.V.O.s (at their behest) that they identify as little as possible with their benefactors, lest they be branded among the Palestinians as American "fronts" for the Israeli occupation. The P.V.O.s apparently fear as well that if they were to credit the U.S. overtly for its contributions of aid, Israel and Jordan would expect similar treatment.

Nonetheless, the P.V.O.s are described by A.I.D. officials as the "backbone of the direct U.S. assistance program." The program is administered by A.I.D. through grants and cooperative agreements, currently with six P.V.O.s: American Near East Refugee Aid (A.N.E.R.A.), Agricultural Cooperative Development International (A.C.D.I.), Catholic Relief Services (C.R.S.), Community Development Foundation (C.D.F.), America-Mideast Educational and Training Services (A.M.I.D.E.A.S.T.), and the Society for the Care of Handicapped Children (S.C.H.C.) [see Appendix for full description of these programs]. The program is currently funded at a level of $15 million for fiscal year 1989, with an additional $7 million under review for deobligation from the Jordanian program. The U.S. also provides a modest amount of P.L.480 food aid for 90,000 families and general support funds to world operations of the United Nations Development Program (U.N.D.P.) and contributes heavily to U.N.R.W.A., both of which have substantial programs in the West Bank and Gaza (see Appendix).

The U.N.D.P., however, unlike U.N.R.W.A. (whose charter limits its activities to the refugee camps), is specifically involved in development projects in the West Bank and Gaza. The U.N.D.P. has won high marks from U.S. government observers and has also established good working relations with both the Israeli government and local Palestinians. Twenty-five percent of the U.N.D.P. budget derives from the American government, although not specifically earmarked for West Bank and Gaza projects.

According to the 1987 A.I.D. policy statement, the purpose of direct U.S. support through the P.V.O.s is to "improve the standard of living of the Palestinian people and to demonstrate the continuing concern of the American people for their humanitarian and economic needs."[6] From the inception of the program in 1975 through 1988, more than $86 million in U.S. funds had been provided, with the potential addition of up to $22 million through fiscal 1989. In most cases, the U.S. contribution was approximately one-half to two-thirds of the total amount required for any particular project or activity, with P.V.O.s and/or the indigenous population expected to provide the remainder.

6 "Strategy Statement," A.I.D., p.1.

While initial projects focused largely on welfare, vocational training, or health care, A.I.D.'s focus began to shift in the early 1980s from humanitarian activities to those addressing longer-term development needs, particularly projects designed to expand opportunities for earning income.

In 1986, for example, C.D.F. began a revolving loan fund program to provide credit and technical assistance to farmers and small-scale entrepreneurs. As already noted, the Cairo-Amman Bank was reestablished in the West Bank in 1987 with American political assistance, and a proposal is now under review for bonds guaranteeing certain loans through this bank. Management-training programs with marketing components have also been approved by A.I.D. The Department of State and A.I.D. have also been working hard to convince both Israel and Jordan to ease constraints on trade entering and leaving the territories.

By 1984, A.I.D.-funded projects had contributed to the construction of more than 60 village and town water systems, 60 road projects, 40 schools, clinics, community centers, and other buildings; A.N.E.R.A. had assisted 28 cooperatives in land reclamation and mechanization, and another 22 in electrification, dairy and food processing, agricultural marketing, and irrigation; and C.R.S. had completed 100 village self-help projects, including roads, schools, and health care facilities. More than 10,000 mothers received full courses in preventive health, nutrition, first-aid, and hygiene through A.I.D. projects. A.M.I.D.E.A.S.T. provided trained faculty and scholarships for almost 300 faculty and 1,600 students.[7]

A senior consultant asked by A.I.D. to review the program in 1984 estimated that 50 percent of the people in the West Bank and Gaza (excluding those in refugee camps) had benefitted from one or more of the A.I.D.-funded activities. Most of the projects were and remain concentrated in poorer, rural areas.[8]

Political Environment

The U.S.A.I.D. program for the West Bank and Gaza operates in a unique political environment. It is the only overseas bilateral A.I.D. program in the world that has no operating agreement with a host government, and, in addition, one of the few where there is no formal representation by A.I.D. personnel. The program operates successfully, however, in spite of the complex political and diplomatic

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7 "Evaluation of the A.I.D.-funded P.V.O. Development Assistance Program in the West Bank and Gaza, 1975-1984," prepared for the United States Agency for International Development by The International Science and Technology Institute, Inc., September 1984. p.1.

8 *Ibid*, p.1.

context in which it functions. The program is viewed as an outreach to the Palestinian people rather than to a specific country.

The program reflects the ill-defined status of the occupied territories, a status which is viewed differently by the American and Israeli governments. The American government specifically defines the West Bank and Gaza as "Occupied Territories." Israel, while recognizing that its government of the West Bank and Gaza constitutes a de facto occupation, prefers the nomenclature of "Administered Territories" or simply "Territories."*

Israeli authorities have been sensitive from the start about foreign-funded development programs, fearing the establishment of an infrastructure for a Palestinian state, and the consequences for the Israeli economy. The P.V.O.s must submit every project and subproject to the Israeli military authorities for clearance. The delay for approval is typically six to nine months, while some can take years to move through the Israeli system, and many do not move through it at all.

Projects typically vetoed or subjected to the most extreme delays include:

- Activities providing assistance to cooperative economic societies, especially agricultural cooperatives.

- Assistance to villages that the Israelis consider "uncooperative."

- Efforts aimed at economic development (in terms of increased production and marketing), particularly in the agricultural area.

The effect of the pattern of disapprovals is greater than these figures suggest. Villagers and P.V.O.s avoid proposing many projects that they know from experience will be disapproved (irrigation wells, for example). Nonetheless, the majority of projects eventually do receive clearance and are implemented. The P.V.O.s, it appears, have patience on their side, but at a cost in salaries and staff time.

Consequences of the Intifadah and the Jordanian Withdrawal

"Basically, we're in the middle of a cloud of dust" was the characterization of one senior U.S. official describing U.S. policy in the aftermath of the *intifadah* and the Jordanian withdrawal.

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* For the purposes of this study, all three terms ("occupied territories," "administered territories," and "territories") are employed.

The uprising sundered American hopes for substantial quality of life improvements and reestablished the territories as "occupied." For the U.S., the dilemma became how to help the Palestinians without seeming to condone either the uprising or the Israeli response. Palestinians refuse to desist from their attacks until political conditions are improved. Israel claims it will not allow improvements in economic conditions until the Palestinians cease their attacks. Nonetheless, the Civil Administration is recommending that the U.S. increase its aid programs to the West Bank and Gaza now in order to promote the appearance of normalcy in the region.

If the uprising continues for the long-run, the U.S. may be forced to rethink its strategy, redirecting its efforts from the private sector to the services and municipalities. At present, however, there are no plans to restructure, although the prospect is under consideration.

But of the two historic upheavals (the *intifadah* and the Jordanian withdrawal), the *intifadah* seems to be of comparatively lesser consequence. "The *intifadah* meant a lot to the way we did business," explained an American official based in Tel Aviv, "but it didn't stop us." He added:

> The assumptions we made have generally held firm. We could go out in the field and talk to the same people, but we couldn't do it on a Thursday. We found we could work. Overall, while the *intifadah* hasn't raised new walls, it certainly hasn't broken down any either. What Jordan has done has had much more of an effect. Our planning horizon before the *intifadah* was four or five years. After the *intifadah* began it was two or three years. Now it's let's wait and see.

While the *intifadah* made the climate for delivery of services more difficult, U.S. Embassy officials in Tel Aviv and American Consulate officials in Jerusalem have not found the Israeli bureaucracy more obstructionist.

In 1986, the American government had chosen to strategically position its funding by proceeding "as if the Jordanians were exerting their sovereignty" and to navigate in Congress by stressing the Jordanian role. With the Jordanian focus on infrastructure, municipal support, and education, the U.S. could concentrate on institution-building, cooperatives, management and training, and the private sector. King Hussein, however, "dashed the whole channeling infrastructure through Jordan in one fell swoop."

The Jordanian effort began at the very point that the U.S. program dropped from an historic high of $14 million to $8 million, because of a two year Congressional supplement spent in fiscal years 1985 and 1986.

To what extent did the Jordanian pullout actually undermine the American program? The consensus seems to be that U.S. hopes were impaired more seriously than U.S. projects. The Jordanians had actually committed only $20 million as of the July 31st withdrawal date, but they were undertaking projects and feasibility studies in areas in which A.I.D. could not play a role, such as planning for building hospitals and schools, buying fire equipment, or expanding salary payments.

There is also a risk if it should appear that the U.S. is attempting to fill the Jordanian void, thus circumventing the PLO. An ideology of hardship has developed in the West Bank and Gaza, expressed in the thought that "the people prefer to endure...The more miserable you are, the longer you stay in the streets." Perceived hardship is also a sign of solidarity with the *intifadah*.

At the same time, however, the energies of the *intifadah* have until now been inwardly directed, but never against U.S. development efforts. The U.S. has successfully avoided conflict with Islamic fundamentalist groups in the region, and has continued to encourage American-funded projects that help their community. The U.S. Embassy in Tel Aviv could not provide a single example of Palestinian obstruction or destruction of U.S.-funded development efforts or even of threats against groups who receive A.I.D. funds. Some of the most radical groups Israel permits to operate in the territories are, in fact, recipients of American government support, yet have not been subjected to either condemnation or harassment. American diplomats report that they have not yet been made to feel unwelcome in either the West Bank or Gaza, although there have been isolated incidents in which meetings with U.S. officials were postponed or cancelled by Palestinian organizations.

III. THE EUROPEAN ECONOMIC CONTRIBUTION

The European Economic Community (E.E.C.) claims to be the largest financial contributor to the West Bank and Gaza, providing an average of $20 million a year since the early 1980s and an additional $6 million in emergency aid since the *intifadah* began.* E.E.C. funds are used to improve health, education, and hospital facilities and equipment. The funds are sent directly to the recipient Palestinian organizations. Following the example of the American government, the E.E.C. refuses to pay duties or taxes on material aid, on the grounds that it will not lend support to Israel's policy of occupation. Although Israel's relations with the E.E.C. on this matter have been tense, the E.E.C. representative in Tel Aviv, Ambassador Gwyn Morgan, told me in an interview that "the Israelis are being as fair (in our negotiations) as they can be under the circumstances."

In addition to E.E.C. assistance, Germany, Britain, and France provide small grants of assistance, totalling several million dollars a year. Italy is planning to finance a juice factory in Gaza and to conduct a feasibility study for a commercial port there. Several European countries are also sending volunteers, including orthopedic doctors, physicians, and therapists to the region.

The E.E.C. budget increased 15 percent in real terms over the last several years. One-third is devoted to development projects, and funding increases have occurred primarily in the development area. Until late 1987, the E.E.C. relied on its own delegates in Amman and Cairo to speak for their interests in the West Bank and Gaza, but, according to E.E.C. official Gwyn Morgan, they "finally realized the folly of their position – that you can't be effective if you don't talk to Israel." It took a personal decision by former French Foreign Minister Claude Cheyson, for example, to enable the French representative to talk directly with Shmuel Goren, the head of the Israeli Civil Administration.

At the end of 1987, the E.E.C. agreed to give Palestinian exporters the same immunities from tariffs as those granted to Israel. The primary purpose of this move was to encourage direct exports, with eleven chambers of commerce in the West Bank and Gaza authorized to provide certificates of origin. The chambers were already in place; the E.E.C. simply recognized them. The E.E.C. relationship with the West Bank and Gaza on agricultural exports is the first economic event of its kind in the two territories. The agreement was consummated after nine months

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* As there is no comprehensive outside study available concerning the European program, the information for this section is based upon E.E.C. documents and interviews with E.E.C. officials.

of negotiations between the E.E.C. and Israeli authorities on the one hand, and the E.E.C. and Palestinian marketing organizations and private exporters on the other.

In March 1988, the European Parliament vetoed three major protocols with Israel, one of which would have reduced customs taxes on Israeli products by about $50 million a year. The second protocol included aid for small industry equalling about $75 million over a period of five years; and the third included adjustments in agreements should Spain and Portugal be allowed full entry into the E.E.C. The European Parliament's decision was a protest against Israel's treatment of Palestinians in the West Bank and Gaza.

But on October 12, 1988, the European Parliament approved the three protocols, simultaneous with Israel's agreement to terms that will, in principle, lead to direct Palestinian exports from the West Bank and Gaza through the port of Ashdod. Israel's primary concern in these negotiations, according to senior Western diplomats, was its fear of creating a precedent that would allow Israeli exporters to circumvent the country's agricultural marketing monopolies.

IV. THE JORDANIAN PROGRAM

Although Jordan maintained control over the West Bank from 1948 until the 1967 war – officially annexing the territory in 1950 – Jordanian economic links remained limited. While the rate of growth varied, reaching approximately 8 percent from 1959 to 1966, the West Bank is generally characterized during this period as Jordan's "stepchild":

> Agriculture remained largely undeveloped. The industrial sector had little say in investment, the government authorizing no investment for more than 10,000 JD [Jordanian Dinars] – about $28,000 – in the whole period. The East Bank was given preference in all development plans, with government investment in irrigation, land reclamation, electricity, transport, and communications directed primarily to the East Bank.[9]

Before the creation of the State of Israel, the West Bank had been an integral part of Mandatory Palestine, and thus the integration with the East Bank proved initially difficult and a destabilizing force. Palestinians and native Jordanians remained largely separate communities, with an uneasy coexistence between them. Jordan sought to assimilate the Palestinians into the broader Jordanian society, effectively quashing Palestinian nationalist sentiment. King Abdullah's simultaneous cooptation of West Bank Palestinians into the greater Jordanian bureaucracy and the institutionalization of Jordanian rule on the West Bank served to subjugate the Jerusalem-based Palestinian leadership to political authority in Amman.

Amman and the East Bank as a whole remained the center of political and socio-economic power. Although the West Bank was, in fact, more advanced in the areas of industrial development and agriculture than the East in the late 1940s, Amman's emphasis on East Bank development and relative downgrading of economic development in the West soon altered this status. West Bank agriculture suffered because of inefficient land and water use, poor training of labor, and dependence upon weather patterns for the success or failure of crop yields. Industry was virtually ignored with annexation, since investments and industrial expansion were almost entirely limited to the East Bank, specifically in the Amman region.[10] More attractive economic conditions on the East Bank also led to heavy emigration from the West Bank during this period.

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9 Arthur R. Day, *East Bank/West Bank: Jordan and the Prospects for Peace,* Council on Foreign Relations, New York, 1986, p.111.

10 John P. Richardson, *The West Bank: A Portrait,* The Middle East Institute, Washington, D.C., 1984, p.56-57.

The Jordanian government apparently saw no real benefit in contributing to the formation of a Palestinian economic entity. As Meron Benvenisti writes, "...the West Bank economy had its assigned role as a subservient sector within the framework of the Jordanian economy."[11] Only tourism in Jerusalem, Bethlehem, and the surrounding areas showed signs of life during the Jordanian era.

Thus, by the mid-1960s, the West Bank was importing twice the number of its exports, and the economy as a whole was largely depressed. West Bank Palestinians did, however, take advantage of improved educational standards under the Jordanians, and a new found sense of Arab nationalism began to emerge. The Communist Party, Ba'athists, Arab nationalists, Muslim Brothers, and other similar parties gained in strength, each possessing a strong, Palestinian nationalist dimension.

The Jordanians saw a need to curb Palestinian nationalist sentiment because they saw this fervor as serving to undermine and destabilize social unity and calm. The rise of Palestinian self-awareness and identity in the 1950s had virtually no form of expression. The 1956 reign of the Palestinian Prime Minister Sulaiman Nabulsi, an anti-Western Arab nationalist, was short-lived. The Jordanian King removed Nabulsi and his cabinet soon thereafter, as part of an ongoing effort to stymie populist ideologies.[12]

Gaza, too, was largely ignored by Egypt during this period. In 1966, the per capita gross national product in Gaza was a mere $80. Egypt won this small piece of Palestine during the 1948 war, but invested little in the region's future development thereafter. For its part, Jordan took an interest in Gaza, albeit remote, only after 1967 when both Gaza and the West Bank were united under the umbrella of Israeli occupation. Even at this juncture, however, the West Bank clearly held primary importance as the home of Muslim holy sites and as territory lost in battle.

Although supporting the creation of the PLO in 1964, Jordan nonetheless feared that pro-PLO sentiment would further fuel the flames of political dissent on the West Bank, and thus "erode efforts to make Jordan's Palestinians into Jordanians."[13] Tensions between the Palestinian and Jordanian communities were escalating when the 1967 war redrew the lines of the political canvas.

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[11] Meron Benvenisti, *West Bank Data Base Project 1984*, American Enterprise Institute for Public Policy Research, Washington, D.C., 1984, p.9.

[12] Richardson, p.60.

[13] Richardson, p.62.

Economic Conditions After June 1967

With the loss of the West Bank to Israel during the 1967 war, the Jordan-West Bank relationship eventually took on broader dimensions, first in 1978 through the creation of the Joint PLO-Jordanian Committee, and later, with the proposed "Five-Year Development Plan for the Occupied Territories," revealed by King Hussein in November 1986.

The socio-economic relationship between Jordan and the West Bank after the 1967 war evolved from a mutual desire on the part of the Jordanians and the Palestinians to maintain administrative, economic, and commercial links in spite of, or, perhaps, because of the Israeli occupation. A certain degree of linkage was natural, since some 373,000 refugees from the 1948 war, and 150,000 refugees from the 1967 war, now lived in Jordan.

From Jordan's perspective, closer economic ties between the two banks were a means of ensuring stability at home, by satisfying the economic needs of the Palestinian population on both sides of the river. From the Israeli perspective, Jordan's economic support ironically made it easier for Israel to exert control over the territories. To stop such assistance would have also meant lost revenue that Israel would have been forced to provide.

Israel instituted a so-called "open bridges" policy for the Allenby and Damia bridges after the war, encouraging regular movement of people and goods between the West and East Banks. The Jordanian Chamber of Commerce issued import and export permits for movement over the bridges, but, with some exceptions, export to the territories was almost non-existent because of Israeli security concerns. Jordanian passports were issued to West Bank residents so they might travel between the two banks. This flow of population continued until April 1983, when Jordan sought to curb Palestinian immigration to the East Bank through a series of restrictions at border crossings.

West Bank residents were represented in the Jordanian senate, parliament, and cabinet. The Agricultural Association of Municipalities and Village Councils cooperated with the Jordanian ministries on budgetary and supervisory matters. The salaries of some 18,500 civil employees in the territories were also supplemented by Jordan. Religious affairs, health, and welfare issues were managed on Jordan's behalf by the Waqf in East Jerusalem. The Jordanian dinar, as well as the Israeli lira and later, sheqel, were legal tender in the West Bank.

Jordanian laws on education were also upheld after Israeli occupation. The Jordanian curriculum was used in West Bank schools, with a mandatory nine years of free education provided for every Palestinian child. At the high school and university levels, students were awarded Jordanian, rather than Israeli degrees upon graduation. Egyptian curricula and certification were used in the Gaza Strip.

West Bank economic prospects were nonetheless substantially altered. While the Jordanian annexation of the West Bank pulled the region eastward, away from its economic base in the western part of Palestine, Israeli occupation produced the opposite effect of economic integration with Israel.

The Jordanian Contribution to Economic Development

With the Israeli election of a Likud government in 1977 and the subsequent settlement of increasing numbers of Israeli citizens on the West Bank and Gaza, the potential for Israeli annexation of the territories took on greater immediacy. At the Arab Summit Conference in Baghdad in 1978, Jordan and the PLO – despite their mutual hostility – established a Joint Committee to counter this possibility and to oppose Sadat's peace efforts with the Israelis.

Funds that were contributed by Arab sources to the Joint Committee through the Sumud Fund were distributed to local authorities, trade unions, private citizens, universities, newspapers, and cooperatives in the West Bank and Gaza. Some funds were also designated for new housing and the replacement of old and dilapidated buildings. Interest-free loans of 7,000 Jordanian dinars (approximately $19,600) were provided for investment aid.[14]

The stated goal of the Sumud was to provide the territories with an economic infrastructure that would lead to economic independence and thus ward off Israeli attempts at annexation.[15]

The "Regional Development Fund," an arm of the Israeli military administration, initially permitted these "Enemy Funds" from the Joint Committee, but later banned them in 1982 in response to the PLO's growing political influence in the territories.[16] Municipal development budgets fell by 42 percent and project investment by 58 percent. During 1983-84, outside funding for economic development was at 20 percent of its previous level, although Israeli funds were increased to compensate for some of the loss.[17]

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14 Benvenisti, p.201.

15 *Ibid,* p.200.

16 *Ibid,* p. 201.

17 *Ibid,* p.181.

Toward the end of 1984, the Israeli government reversed its earlier decision and again permitted joint funds to be sent to the territories; unilateral aid transfers soared. Despite the temporary ban, Jordan contributed $435 million overall for development in the West Bank and Gaza between 1980 and 1985.

The year 1986 saw a breakdown in PLO-Jordanian relations and a halt in Sumud aid, which had been renegotiated in the Jordan-PLO Agreement of February 1985. The PLO's refusal "to accept U.N. Resolution 242...as a basis for peace negotiations within the framework of an international peace conference" proved the final blow to Jordanian-PLO political rapprochement.[18] From King Hussein's point of view, however, the failed dialogue with the PLO in fact renewed options for a Jordanian role in the territories, particularly through economic development.

The Jordanian Five-Year Development Plan for the West Bank and Gaza

In the summer of 1986, King Hussein unveiled a Five-Year Development Plan for the West Bank and Gaza Strip intended to replace joint efforts with the PLO. The idea received strong support from the U.S. Administration, which then obtained funding from Congress for the proposed Jordanian initiative. The Department of State and A.I.D. convinced Congress to support the idea at funding levels of $5.5 million for fiscal year 1986, and $14 million for the following fiscal year.

The Jordanian plan called for a proposed $1.2-1.3 billion to be allotted for aid to the West Bank and Gaza, $532 million of which was to be allocated for the building of 8,500 new homes; $179.2 million for construction projects; $220.4 million for education; $172.8 million for agriculture; $96.3 million for health; $63 million for industry; and $28.6 million for social development. Furthermore, the plan was designed to create an additional 20,000 new jobs for Palestinians within the West Bank and Gaza.[19]

The program sought:

> to limit the emigration of the Palestinian population in the territories, to blunt the pressures and incentives that prompt Arab labor to seek employment in

18 *Jordan Times*, Tuesday, November 11, 1986 p.2.

19 Foreign Broadcast Information Service (FBIS) Near East & South Asia (NES), August 5, 1986, p.F1.

Israel, and to upgrade the quality of Arab manpower and strengthen national affiliation.[20]

The objective was to encourage a more economically competitive and resilient population, independent of the pulls and pressures of Israeli occupation.

Emphasis was to be placed on projects encouraging economic growth, in such areas as water and land resources, management, and agro-business. Day care, programs for the elderly, and improvement of libraries were also included.

The plan was launched with a $150 million budget presented by Jordan, based on the assumption that Arab and Western states would readily provide funding. King Hussein hosted a major development conference in December 1986, soliciting aid from all over the world. The United States was the only country to pledge significant support, with one or two European nations offering pledges of negligible support.

The development plan appeared ill-conceived from the start. Many observers saw the plan as overly ambitious for a small country with its own domestic problems. Dwindling revenues from expatriate workers in the Gulf, receipt of less than half of the $2.5 billion in aid promised to Jordan at the 1987 Baghdad Summit, and a reduction in trade with Iraq, Jordan's chief trading partner, all contributed to an atmosphere in Amman that was not conducive to substantial funding of projects in the West Bank and Gaza.

Further, most Palestinians in the territories viewed the plan with skepticism and suspicion. The PLO criticized the plan as a cynical attempt by Jordan to curry favor with the territories' residents by supplanting the PLO's authority. A large segment of the Palestinian population, having grown up only under Israeli rule, spurned the idea that Hussein could further their political cause through economic initiatives. Moreover, according to one U.S. observer, "There was a lot of suspicion that money would be [secretly sent] back to Jordan, [and] that no investments would really be made or projects really improved."

American officials contend that Jordanian experts worked slowly and methodically, in order to assess the need for and impact of aid before distributing funds. Even so, the reality was that the funds were slow in coming, fulfilling the Palestinians' worst suspicions. The program had no chance of living up to its own overzealous design and budget. Projects were funded nonetheless, and a real, working administrative infrastructure was in place by mid-1988.

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20 FBIS, NES, August 5, 1986, p.F2.

King Hussein's Withdrawal from the Territories

King Hussein formally suspended the Five-Year Development Plan on July 28, 1988, and cancelled all Palestinian salary supplements in the territories. Before the new order, these payments amounted to approximately $45 million annually, or one-third to one-half of the salaries of those affected. Information now available suggests that $35 million in the form of pensions and severance pay will be paid in fiscal year 1989, and $20 million annually in fiscal years thereafter, to those receiving Jordanian supplements as of the announced cancellation date.

Two days after suspending the plan, the King dissolved the lower chamber of Jordan's Parliament that formally represented the West Bank, thereupon withdrawing all claims to sovereignty over the region. Jordanian institutions that were not replaced by Israel in 1967 were to continue to fall under Jordanian jurisdiction, however. These included the Muslim Waqf, several medical centers and schools in the Jerusalem-Ramallah area, and Arab courts on the West Bank.

The sudden economic and political withdrawal was met with uncertainty and alarm. "The total development budget for the West Bank is already so little," Meron Benvenisti was reported to have said, that without it, "there will be no development, no money at all for anything, from the construction of schools and hospitals to road paving."[21]

The reaction of the American government was similar in tone. "The U.S. is not prepared to step in and provide basic services. It would require a staff ten times greater than we presently have," a top official explained. Jordanian efforts between 1986 and 1988 were described by many State Department and A.I.D. officials as a "surprisingly successful effort by a small country from point zero, within one year, to get into the conception and implementation of a complicated development program they didn't control." At the time of cancellation, an initial round of approximately 49 municipal development projects was underway, while 24 projects were already completed, reflecting a Jordanian investment of some $7.8 million, and an American investment of an additional $5.5 million.

In the Palestinian camp, reactions to the withdrawal of Jordanian support were far more caustic and seemingly less concerned. Feisal Husseini, a highly vocal West Bank activist, termed the move "irrelevant," declaring that,

> Hardly any development funds money ever reached the West Bank. Now it will be up to the PLO to fund the socio-economic programs the development program was supposed to sponsor.[22]

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21 *The Washington Post,* August 14, 1988, p.A26.

22 *The Washington Post,* July 28, 1988, p.A14.

According to official Jordanian statements, King Hussein withdrew support for the territories to permanently dispel any hint of a Jordanian desire to represent the Palestinian people, or supplant the PLO and thus, "to end any misinterpretation of any effort Jordan makes to sustain the steadfastness of the Palestinians under occupation." The action would "highlight the Palestinian identity and allow the PLO to shoulder its full responsibility."[23] In his speech on July 31, the King said:

> Lately, it has transpired that there is a general Palestinian and Arab orientation towards highlighting the Palestinian identity in a complete manner, in every effort or activity related to the Palestinian question and its developments...maintaining the legal and administrative links with the West Bank, and the ensuing Jordanian interaction with our Palestinian brothers under occupation, through Jordanian institutions in the occupied territories contradicts this orientation.[24]

However, according to close observers, the King's strategy of withdrawal went far beyond concerns for the Palestinian cause, or support for Palestinian statehood under PLO leadership. Since the *intifadah* began in December 1987, it had become obvious to Hussein that unrest on the West Bank could easily spill over into Jordan over time. Moreover, the likelihood that Jordan would regain control over the West Bank was growing dimmer with each passing month of strife and new assertion of Palestinian rights.

King Hussein's dialogue with Shimon Peres also had reached a dead end. The King, it appears, concluded that the so-called "Jordanian option" of the Labor Party was no option at all. Hussein was equally concerned that no Likud government, present or future, would ever prove malleable to the point of compromise over the territories. With the Israeli election rapidly approaching in November, and an apparent shift by the Israeli electorate to the right, Hussein argued that a Likud victory would prove disastrous to the peace process. Severing ties enabled Jordan to distance itself from efforts by the Likud, particularly Ariel Sharon, to define "Jordan as Palestine."

Internationally as well, it appeared the Palestinian issue had eluded Jordanian reach. Attitudes within the American government seemed to be shifting *vis-a-vis* relations with the PLO. Under such conditions, Jordanian moves to stymie this rapprochement could undermine U.S.-Jordanian relations.

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23 *The Washington Post,* July 29, 1988, p.A1.

24 Speech by King Hussein, Sunday, July 31, 1988, p.7, translation provided by Jordanian government.

Through withdrawal, the King sought to demonstrate to the Arab world, as well as to the West, that the Palestinians sorely need Jordan's economic and political support. Denied Jordanian assistance, the PLO might prove unable to provide the necessary funds or economic infrastructure for the territories and would appear inept in its ability to fill the vacuum created by the Jordanian withdrawal.

V. THE ISRAELI PROGRAM

Israel's military occupation of the West Bank and Gaza Strip in the 1967 war created new realities in the political, economic, and social dynamics among the three regions. Almost overnight, the West Bank and Gaza economies were torn from their Jordanian and Egyptian linkages, respectively, and thrust into the purview of a foreign Israeli government and economy. Barriers to trade and commerce between Israel and the territories were soon removed, as they proved ineffective within the newly-formed political context.[25]

Before the 1967 war, the Israeli economy was beset by a short-lived but sharp recession. The proportion of Israelis working in agriculture had declined to only ten percent of the total population by the close of the 1960s. Rapid industrialization and modernization was reflected in significant fluctuations in the labor market, with unemployment at approximately twelve percent.[26] A worrisome harbinger for the economy of any country, this figure was particularly demoralizing to a government that espoused the socialist philosophy of labor Zionism. Moreover, the Israeli Labor government was obliged to ensure employment for its citizens by maintaining a high level of capital investment.[27]

Under these strained economic conditions, Israel began to lay the foundation for a bureaucracy to administer its new territorial acquisitions. A military government coordinating body and a cabinet-level policy-making committee were established to oversee the West Bank and Gaza. The military administration fell under the Central Command of the Israel Defense Forces (I.D.F.), with the ultimate status of the territories in political limbo, while responsibility for such essential needs as food and shelter was accorded to local Arab administrators. The Israeli authorities assumed control over service infrastructure, including electric power, telephones, water resources, roads, and welfare payments.[28]

A committee for the coordination of economic activities in the occupied territories was established within the I.D.F. as a means of coordinating economic

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25 "The Integration of the Labor Markets of the West Bank, the Gaza Strip, and of Israel," prepared by Ephraim Kleiman and Michael Michaely for the Armand Hammer conference on Economic Cooperation in the Middle East, Tel Aviv University, 1986, p.2.

26 *Ibid,* p.4.

27 *Ibid,* p.5.

28 "Israel's Occupation of the West Bank: The First Two Years," prepared by Ann Mosely Lesch for the Advanced Research Projects Agency, August, 1970. p.2.

and security matters. Nevertheless, the military continued to exert primary influence over the operational decisions in the economic and civilian spheres because of the structure of the chain of command.

The formation of this bureaucratic and military administration set the tone for future relationships with West Bank and Gaza Palestinians. The Israeli government's policy initiatives during this period were tactical and managerial in nature, reflecting a primary concern with security – specifically, the need to contain nationalist or anti-Israeli sentiment. Economic issues in the territories were indistinct from more pressing security requirements.

It was only in November 1981 that a Civil Administration, previously subordinated to the military administration, was established as an independent entity. In separating the two authorities, Defense Minister Ariel Sharon placed the Civil Administration under his own direct control. As head of the Civil Administration, Sharon was empowered to appoint local officials and to delegate powers to those Palestinians who were "cooperative."[29] The tendency was to use the Administration as a vehicle through which Israeli control of the territories would be advanced.

Israeli Budgetary Contributions

In 1967, Israel established a fund of 3.5 million Israeli lira, the equivalent of $1,165,000, to revive the West Bank economy. Since 1967, Israeli government expenditures in the West Bank and Gaza have derived mainly from tax revenues paid by Palestinian residents.

The collection, management, and distribution of funds has largely been the responsibility of the Civil Administration, although some of these functions have been carried out by local municipalities and villages. Residents of the West Bank and Gaza are required to pay a wide range of taxes that Israel is obligated by law to return to the territories through projects and investments.

Taxation in the West Bank is based on Jordanian law and in Gaza on Egyptian law, but Israel has changed the distribution of tax categories. Approximately 60 percent of the budget derives from taxes on income, property, and fuel. Funds from the Israeli central budget account for the remainder. U.S. government experts estimate that approximately 49 percent of the 1986-1987 budget provided wages

29 Benvenisti, p.43-44.

and salaries; 30 percent was channeled to operating expenses; and 21 percent of the funds was allocated for infrastructure development.[30]

Critics of Israeli policy insist that Israel is collecting larger sums from the territories than are actually being returned. Analyses undertaken by American officials tend to be inconclusive. Nevertheless, "perception" is viewed as "fact" in the territories.

Israel also granted loans to municipalities for improvement of services.[31] Although cited by Israeli authorities as evidence of humanitarian concern, Israel's critics tend to characterize these loans as a means of maintaining tighter military control in the region. The charge has also been levelled that Israel limits its economic assistance to areas that served Israeli strategic purposes, focusing, for example, on the West Bank at the expense of the Gaza region. Israel provided government loans to Gaza until 1980 for the development and expansion of local industries, but senior Israeli officials claim a "limited local market, a lack of knowledge which prevents quick assimilation of advanced knowledge and techniques, low technological standards, and inadequately trained workers as reasons why Gaza development remains in an 'embryonic state' after more than twenty years of occupation."[32]

In recognition of limitations on its budget, Israel has also relied upon outside financial and developmental support from foreign governments, international agencies, and private voluntary organizations (P.V.O.s) for housing, health care, education, and refugee assistance in the territories. No foreign government or development agency provides funds for activities on the West Bank and Gaza through the Israeli government, although the Israelis often refer to foreign donors' development assistance programs as if they were line items in their own national budget.

Yet, as discussed above, while support from these groups augments badly needed development funds and projects, Israel holds much of this economic support suspect, on the grounds that it is largely political in nature. Moreover, even the most desirous projects are subjected to approval delays, a function of the often lethargic Israeli bureaucratic system that affects Israelis no less than Palestinians.

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30 Unpublished and unclassified U.S. State Department document, March, 1987, p.6.

31 Lesch, p.27-28.

32 *Judea, Samaria and the Gaza District 1981-1982: Twenty Years of Civil Administration*, Carta Publishers, 1987, p.26.

According to official Israeli policy, the doors are open to foreign investors, institutions, and experts. Shmuel Goren, head of the Civil Administration, maintains that "Israel has not rejected a single businessman who has tried to visit [the territories],...and all P.V.O.s are receiving our assistance." Indeed, Israeli officials argue that Israel has done its best to facilitate foreign aid, barring support only for those groups deemed as "negative elements" in the region.

Palestinians and P.V.O.s, by contrast, contest Israeli claims, citing numerous examples of Israeli efforts to resist provision of adequate development in the region. "Israeli policy makers veto any projects that would build an independent economic structure," one leading Palestinian businessman told me. "As long as Israel pursues this policy, there can be no movement or development in the territories."

Economic Integration: The Palestinian Labor Force

Israel's economic situation demonstrated a rapid turnaround after the 1967 war. Public expenditures rose significantly, unemployment decreased, and the country experienced a rapid economic expansion. Increased productivity and investment reinvigorated the building industry, generating a need for a larger pool of construction workers. The ready availability of workers from the territories created a complementary economic exchange at a time when movement between Israel and the territories was in its beginning stages.

Initially, the Israeli government prohibited the influx of Palestinian workers, but steps were later taken to permit the greater movement of migrants. In late 1968, the Israeli government formalized the employment of West Bank and Gaza workers. A limited number of official work permits were issued and the number of Palestinian workers possessing the right to work increased substantially through 1972. The number of unauthorized laborers working in Israel increased as well.

The imbalance between the Israeli and West Bank and Gaza labor markets, wage differentials, post-war economic growth, and limitations on financial institutions in the territories led to further de facto integration of the two economies. For the Israeli employer, economic demand provided the incentive for using this cheap and accessible labor force. Easing of the requirements for employment, proximity to the thriving Israeli state, and financial obligations of Israeli employers provided incentives for hiring Palestinian laborers.

Israeli employers were at first required to pay national insurance only for Israeli nationals, which meant that production costs could be lowered by hiring uninsured

Palestinians. Eventually, however, they were required to pay the equivalent of social insurance to a special Labor Ministry agency in order to minimize any adverse effects upon the Israeli labor market.[33] West Bank and Gaza workers comprised approximately seven percent of the Israeli work force before the *intifadah* began, and over 80 percent are still regularly employed.

Israelis often protest "Palestinian encroachment" into their markets. In 1987 the government was severely criticized for permitting a Nablus shoe factory to sell its goods in Israel. The same reaction was engendered when goods from a chocolate factory in Ramallah were permitted access to the Israeli market. Israeli experts also argue that the home economy has suffered from the occupation through "inflated expenditures, misuse of foreign exchange, increased dependence on cheap, technically backward labor, and retardation in productivity, technical advance, and competitiveness."[34]

There appears to be a consensus among leading economists that the attraction of Palestinian workers to Israel has weakened the economic infrastructure of the territories, despite individual gains. Approximately one-third of West Bank workers and one-half of the Gaza labor force expend their energies in Israel at low wages, with no potential for advancement, while contributing a sizeable proportion of their earnings to the Israeli economy by purchasing goods there. Employment opportunities in the territories are scarce, particularly for the college educated, leading to a rise in the position of blue versus white collar workers and intellectuals.

Trade and Banking

Although the Israeli economy rebounded after the 1967 war, the situation was quite a different one in the newly acquired territories. The shock of defeat and uncertainty brought private investment to a standstill.[35] Furthermore, shifts in traditional markets, currency restrictions, population displacement, and general economic and political upheaval compounded the problems. Economic realities of the West Bank and Gaza, particularly in terms of their agricultural bounty, provided incentives for actions – if not policy decisions – on the part of the Israeli government.

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[33] Kleiman and Michaely, p.11.

[34] "The Economics Of Occupation in Palestine Since 1948 and the Costs of Non-cooperation," unpublished paper by Elias H. Tuma, University of California, Davis, June 1986, p.35.

[35] Kleiman and Michaely, p.6-7.

The war had interrupted the summer harvest and there was pressure from the indigenous farmers to market their goods before they rotted in the fields. Fear of competition with its own agricultural produce prompted Israel to allow the resumption of agricultural exports to and through Jordan, rather than risk their flooding of the Israeli market.[36] In addition, the "open bridges" policy permitted the residents of the West Bank, East Jerusalem, and Gaza to cross over to Jordan to market their goods, visit family, or find other employment in the labor-starved and high-paying Gulf states. Gaza residents, who were not accorded Jordanian citizenship after the war, were not permitted to emigrate to find work during this period.[37]

The pragmatic Israeli government handling of fruit and vegetable exports from the territories was prompted by the power of the farm lobby in Israel. Israeli fruits and vegetables were managed by a system of marketing boards and production quotas, designed to support the income level of the domestic agricultural producer. The decision to resume exports over the Jordan River bridges both assuaged the fears of this lobby and assured the Palestinians of a market, albeit one that would bring lower prices than were potentially attainable in Israel.[38]

The unstable condition of financial institutions in the territories after the war weakened the position of the Palestinian merchant and businessman. Israeli authorities prohibited Jordanian, British, and Egyptian banks from reopening. Several conditions prompted this decision. A run on the Jordanian dinar resulted in an increasing rate of inflation and caused a serious currency shortage for West Bank institutions.[39] In addition, the question of which country – Israel, Jordan, or Egypt – would authorize and regulate the banks' activities presented Israel with an immediate quandary.[40] Israeli pounds were also creeping into the territories via army and tourist purchases, thus prompting the legalization of the pound as tender in addition to the dinar.[41]

The banking stalemate was broken when the Israeli government permitted Israel's Bank Leumi to open nine branches on the West Bank and in East Jerusalem. However, with cash reserves frozen in unopened pre-war institutions,

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36 *Judea, Samaria, and the Gaza District 1981-1982...*, p.88.

37 Kleiman and Michaely, p.9.

38 *Ibid,* p.8.

39 Lesch, p.23.

40 Unpublished U.S. State Department document, p.7.

41 Lesch, p.23.

Arab commerce was severely hampered.[42] The activity of the Israeli banks was supplemented by approximately seventy Arab money changers who assumed some of the functions of banks in market areas such as the Damascus Gate region in Jerusalem.[43]

Economic Development Initiatives

During the past twenty years, an extensive body of literature has developed on the economies of the West Bank and Gaza and the consequences of Israeli occupation.* While it would be impossible to summarize this research within a few pages, there are certain themes that should be mentioned and issues that should be raised.

Israeli arguments that infrastructure has been built, roads constructed, and improved health care provided, are certainly based in fact. Israel's economic behavior may also have enhanced industry and manufacturing in the territories, to the extent that new work has been farmed out to the territories, and by technology transfer and vocational training in both the West Bank and Gaza.[44]

The Israeli contention that the territories have thrived far more than they did under Jordanian or Egyptian rule is also based in fact. Yet it is difficult to identify a single respected academic source or, perhaps even more to the point, one senior Israeli official who will argue that Israel has approached its "mandate" in the West Bank and Gaza from an economic development perspective. Indeed, interviews with the top stratum of Israeli leadership responsible for the well-being of Palestinians in the administered territories repeatedly produced the frank assessment that Israel never had a plan for meeting the economic potential of either the West Bank or Gaza.

It is fundamental to understand that, for at least the first ten years of Israeli rule, the status of the West Bank and Gaza were viewed as "temporary" by most Israelis and certainly by the Labor Party leadership, which held power during that period. Moreover, even with the ascendancy of the Likud in 1977 and the increasing resources devoted to a settlement policy, at no time was an economic policy set

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42 *Ibid,* p.24.

43 Unpublished U.S. State Department document, p.6.

* The reader is referred, in particular, to current analytic works by Meron Benvenisti, Edgar Harrell, Ephriam Kleiman and Michael Michaely, and Elias Tuma.

44 Tuma, p.25.

forth, either to develop or to productively integrate the economies of the West Bank and Gaza.

Israel's economic "policy" for the West Bank and Gaza has, from the start, been characterized as a piecemeal and patchwork approach – simultaneously humanitarian, exploitative, responsive, and discriminatory. Ironically, the *intifadah* occurred at the moment when the Israeli government had taken the most significant strides in twenty years to reduce bureaucratic obstructions, to broaden the channels for outside aid, and to relax banking and trade constraints, relatively speaking. The establishment of the Cairo-Amman Bank and negotiation of a trade agreement with the E.E.C. enabling direct West Bank and Gaza agricultural exports to Europe through the port of Ashdod provide cases in point.

Israel has also called upon neighboring countries to open their facilities to encourage exports from the territories. Senior Israeli officials have reportedly attempted to convince their Egyptian counterparts to open the terminal at Rafah, the border city between the Sinai and the Gaza Strip, and to permit exports from Gaza through Port Said.

But even these steps, while helpful, are minor in the context of the wider economic infrastructure required to conceive and implement economic development goals. In this respect, Tuma's conclusions are pertinent:

> The Israeli economic policies regarding the occupied territory and population may be summarized in the following way. Little investment or facilitation of investment in industry and manufacturing in the territories is evident. On the contrary, obstacles in the way of investment are created by the authorities in the form of red tape or in the name of security, and by rules and regulations which protect Israeli industry....[45]

Estimating the cost of lost output, even relative to the feasible level predicted by Israeli economists, Tuma determines that the quantitative loss would amount to a gross national product growth rate of about three percent annually. The structural qualitative loss, however, "is certainly more serious and strategic because it means that the economy of the territories has continued to be underdeveloped when it could have been developed enough to serve as a basis for more harmonious relations with Israel..."[46]

In his 1987 study, *The West Bank Data Base Project,* Meron Benvenisti wrote that it is impossible to plan an effective course of economic development in the

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[45] *Ibid,* p.34.

[46] *Ibid.* p.34.

territories until an accurate census has been conducted. The last census was undertaken in 1967. The report goes on to say that the Palestinians have "fewer hospital beds and fewer miles of roads per 1,000 Palestinian residents [as of 1987] than there were twenty-one years ago."[47] The report also cites dual systems of bus transportation, electricity, water, and telephones that favor the territories' 70,000 Jewish settlers over the 1.7 million Arab inhabitants.[48]

U.S. officials interviewed for this study expressed concern that Israel's regulatory policy has hindered and restricted viable industries in the territories. The citrus industry in the territories is a good example. Although the Palestinians have lobbied to build a citrus processing plant to support their own industry, for many years Israel refused permission to build it on the grounds that Israeli firms have the capacity to process the fruit from the territories. And, while one U.S. official, expressing his personal sentiments, noted "that Palestinian refusal to use the Israeli resources is an impractical idea," he also emphasized "that it is not up to Israel to make that decision." Israel explains strict economic control over the territories by reminding the United States that the Israeli economy is tightly regulated to protect basic industries. State Department officials counter "that Palestinians have a right to lose their own money."

Edgar Harrell, a former director of the Jordanian mission of U.S.A.I.D., has said that fresh produce from the West Bank and Gaza is banned in Israel. Moreover, he added, "large Israeli wholesalers and cooperatives do not buy products from West Bank and Gaza businesses, either as a matter of policy or out of fear their customers will refuse to buy West Bank and Gaza goods."[49] These firms also cannot bid on government contracts.

To start a new business on the West Bank or in Gaza requires the approval of the occupation authorities. Harrell asserted, "If the business or product line is competitive with an Israeli firm, approval is seldom forthcoming. If imported equipment is required, an Israeli customs agent must be used, adding between 7 percent and 10 percent to the price."[50] Harrell emphasizes that West Bank and Gaza businesses pay higher taxes than their Israeli counterparts because of differences in regulations and their application, while Palestinian businesses are

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47 *The Christian Science Monitor,* October 18, 1988 p.A1.

48 *The Washington Post,* October 18, 1988, p.A1.

49 Edgar Harrell in *The Wall Street Journal,* January 29, 1988, p.A10.

50 *Ibid.* p.A10.

also subjected to more frequent plant inspections and tax audits than are their Israeli counterparts.[51]

While the American government has consistently tried to cajole and convince Israel to change those constraints, the U.S. has rarely exercised its political muscle *vis-a-vis* Israeli economic control in the West Bank and Gaza.* "We never moved into the quid pro quo game. Rather, we've continuously told the Israelis, you shouldn't do this, because..." explains one American diplomat. Yet for Israel, responding to its domestic interests for economic security takes precedence over responding to external pressures such as those exerted by the U.S.

Thus, while the economic conditions of life in the West Bank and Gaza "tend to document the reality of improved conditions, at least as much as has been the improvement in comparable neighboring countries,"[52] there are valid arguments, arising from other sources, against the status quo of Israeli economic control and administration. In Tuma's words, "The complaints against occupation are genuine expressions of the love of freedom and independence by the residents of the occupied territories, and the love of peace, stability, or humanism by Israeli opponents of the occupation."[53]

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51 *Ibid.* p.A10.

* The one exception is a review by the Office of the U.S. Trade Representative concerning claims that Israel denies West Bank and Gaza Palestinians internationally accepted workers' and labor rights. The Palestinians cite union representation as their only protection against unfair Israeli labor practices, while the Israelis see the unions as fronts for PLO terrorist activity.

52 Tuma, p.36

53 *Ibid.* p.36.

VI. THE ECONOMIC TOLL OF THE *INTIFADAH*, THE ISRAELI RESPONSE, AND JORDANIAN WITHDRAWAL FROM THE WEST BANK AND GAZA

The *intifadah,* the Israeli response, and the Jordanian withdrawal from the territories have wreaked havoc on the West Bank and Gaza economies. American authorities estimate that their combined G.D.P. of approximately $1 billion has now been reduced by as much as 25 percent. Some of the dislocations have already become permanent features of daily life in the territories.

Before the *intifadah,* per capita income in the West Bank and Gaza was about $1,100 compared with $6,000 in Israel, while the annual trade deficit was approximately $400 million or $300 per capita.[54] Palestinian strikes and boycotts have significantly depressed earnings and revenues in both areas. Restrictive military curfews on camps and villages have severed links with the outside world and brought the influx of cash to a standstill.

Israel is turning increasingly to economic sanctions as a military tactic. The Israeli government, for example, recently interrupted the communal olive crop harvest in the West Bank, worth an estimated $100 million – the West Bank's single most significant export – in retaliation for the continuing unrest. Israel also established a new "olive press tax," which is reportedly at least several times greater than the amount an average press can, in fact, produce. In Zayta, Tulkarm, and Tammun, the I.D.F. is said to have cut the water supply as punishment for failure to pay taxes.[55]

The Jordanian government has also discontinued purchases of olive products from the West Bank. This presents an almost complete loss of the only real market available to the Palestinians of the territories. The Jordanians purportedly softened the blow by declaring that private Jordanian firms could continue to import olive goods from the West Bank and that these goods could also be exported through Jordan to Iraq and Syria. But it is well understood that Jordanian firms do not have the purchase capacity of the government, nor will they step in to fill the breach without explicit government directives. As for Syria or Iraq, neither is expected to leap at the opportunity.

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54 Harrell.

55 *Hadashot* in FBIS, NES, November 8, 1988, p.40.

Before the *intifadah* began, West Bank and Gaza residents depended on Israel's Agrexco and the Citrus Marketing Board to market their products. The battle to allow direct exports to Europe was won, but this did not by any means resolve a gross lack of sophisticated marketing mechanisms essential for moving goods in great quantities. The Palestinians, in effect, dispensed with the services of Agrexco and the Citrus Marketing Board, with no ready means in sight to replace them. The PLO has subsidized the first few agricultural shipments to Europe, but cannot provide the necessary long-term economic capital, marketing connections, or infrastructure.

Before the *intifadah,* employment in Israel provided the major source of revenues for the territories, with one-third of West Bank and one-half of Gaza laborers commuting on a regular basis. To compensate for lost work force, Israeli employers are turning to the use of migrant workers from Portugal, Turkey, Thailand, and Lebanon, and to mechanization and automation. Should these Palestinian workers wish to return to their previous low-skilled jobs, they may find the slots no longer available.

Cuts in services to the territories are also among the most sizeable losses brought on by the uprising. Since December 1987, telephone lines have been cut and/or left in ill repair, electricity withheld, and gasoline supplies greatly reduced. Health service welfare provisions have been curbed, as has the upkeep on transportation services, drinking water, and sewage. The Civil Administration has also laid off Arab employees, citing budget deficit constraints stemming from Palestinian refusals to pay back taxes, while replacing others with Israeli workers.

The Palestinian boycott of Israeli-produced imports, worth more than $780 million in 1986 alone, is creating major food shortages,[56] while occasional Israeli moves to limit traffic over the Jordan bridges compounds the levels of scarcity. But perhaps even more serious under present circumstances are the longstanding Jordanian restrictions requiring all West Bank exports to carry proof that the raw materials do not originate in Israel. Since the West Bank has few raw materials to speak of, this is tantamount to a blockade of manufactured products.* As of August 1988, Jordan also revoked the citizenship rights of West Bank Palestinians and reduced the validation period for passports and Jordanian visas.

56 *Israel Economist,* April 1988, p.28.

* Harrell explains that if a West Bank or Gaza firm wants to export to the Arab world, it must register in Jordan. But Jordan has refused to register a new company from the territories since 1979. A firm already registered in Jordan must import raw materials through Jordan, paying 15 to 30 percent more than it would cost to do so through Israel. See Harrell, *The Wall Street Journal* January 29, 1988, p.A10.

The Jordanian pullout led to severe repercussions on the East Bank, which could explosively rebound to the West Bank in the months ahead. The value of the Jordanian dinar has plunged by 12 to 14 percent since June, in part because of uncertainty caused by the withdrawal. For Palestinians in the territories, dependent on the Jordanian dinar as their primary currency, this has meant that what little money they have is rapidly losing value. And while West Bank residents have also long been heavy investors in the East Bank, their investments are now jeopardized by an expanding web of doubt and fear – particularly as East Bank Palestinians view themselves as increasingly relegated to second class status.

Jordanian austerity measures impose additional limitations on the movement of laborers from the territories. At the same time, the professional status of West Bank and Gaza attorneys, physicians, and other professionals has been undermined by the question of which authority or country will confer future academic degrees.

The Palestinians have called on the PLO to compensate them for fines paid and funds lost because of their continuing strikes, boycotts, and non-cooperation with the Israelis. In his speech in June 1988 to the Algiers Summit, Yasser Arafat said that the *intifadah* was costing the Palestinians in the territories nearly "$1 million per day."[57]

Still, little support has materialized. Some $2.5 million was collected by the oil states by late May, earmarked to assist Palestinian steadfastness against the occupation. When these funds failed to reach the territories, however, it was rumored that PLO leaders had pocketed the funds for their own purposes – although Israel has also launched a campaign to obstruct the channeling of PLO funds.[58]

The Israeli government has also tightened restrictions to prevent foreign funds from entering the territories, putting a limit of 400 Jordanian dinars ($1,120) on the amount that an individual may carry. Attempts to sidestep these restrictions by channeling funds through the Jordanian Waqf in East Jerusalem, the International Red Cross, U.N.R.W.A., and even Arab tourists traveling on foreign passports, have met with some, albeit still limited, success.[59]

Israel has imposed, as well, other restrictions that interrupt daily life. Palestinians who wish to see relatives in detention can no longer arrange visits through the International Red Cross, but must receive the permission of the

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57 *The Wall Street Journal,* June 10, 1988, p.A9.

58 *Hatzofe,* in FBIS, NES, May 24, 1988, p.26.

59 *Ibid,* p.26.

military government. Anyone applying for a birth certificate or a marriage license must verify that all previous fines, taxes, and other duties have been paid to the government before these documents will be issued. Also, all Gaza residents over the age of 16 must now exchange their green identity folders for new ones, which the Palestinians believe serve to mark them as activists.

But it may be the social effects upon Palestinian society that ultimately prove the most corrosive, if they remain unchecked. Palestinian moderates are being intimidated as "collaborators," and lynchings such as the incident at Kabatiya in the spring of 1988 seek to fanaticize the Palestinian population against the Israelis at all costs. Many fathers now fear their own sons or the friends of their children, perhaps more than they do the Israelis. As one American observer remarked, "the old familial ties of loyalty and hierarchy have broken down, perhaps irreparably, to be replaced by ad hoc committees which cut across traditional lines."[60]

The growing strength of the Muslim fundamentalist movement could reshape the balance of power in a relatively short period of time. The fundamentalists have already seized virtual control of Gaza and are making significant inroads into the West Bank as well. It has even been suggested that Jordan has recently begun supporting Hamas, the key fundamentalist underground movement in the territories, in order to further supplant the PLO.[61]

Lost months of schooling further radicalize the population. Between February and December 1988, West Bank schools and universities were closed for more than eight of the ten months, with classes meeting only 30 to 35 days during that period.[62] Children who would ordinarily be in the classroom are instead being schooled in the vocabulary of resistance and hatred. Moreover, the loss of education could also ultimately retard general academic advancement, thus creating the potential for a new generation of poorly educated and radically fundamentalist youth.

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60 *The Financial Times,* June 10, 1988, p.6.

61 Jerusalem Television Service in FBIS, NES, October 13, 1988, p.35.

62 *The Washington Post,* November 22, 1988, p.A1.

VII. SUMMARY AND RECOMMENDATIONS

The U.S. policy for the West Bank and Gaza has generally been tactical, rather than daring. To its credit, the U.S. government has attempted to contribute to the well-being of Palestinian residents and to simulate an economic reality that would prevail under normal conditions. But, since U.S. assistance began in the late 1940s, the Americans have nonetheless skirted the primary and more demanding question of Palestinian control over the economic elements of decision-making.

Should the United States now commit itself to the principle of economic integrity or economic sovereignty for the Palestinians of the West Bank and Gaza? Until now, the U.S. has held itself captive to a highly charged political vocabulary that allows for little creative thought or movement. The concept of "Palestinian economic autonomy," for example, is generally interpreted to mean implicit support for continuing Israeli control. The term "Palestinian economic independence," by contrast, is understood as a political endorsement for Palestinian statehood. Unable or unmotivated to search for different terms that might actually define a different future, we remain fixerd in a language that defines

Yet the incoming Bush Administration and the 101st Congress are confronting a vastly altered reality. The American government decision to open a "substantive dialogue" with the PLO is clearly a milestone, yet no single "breakthrough" will soon resolve the decades of war and hatred.

It is to be expected that the PLO-United States dialogue will ride a political rollercoaster in the coming months, with triumphant peaks and tension-filled valleys. The future status of the West Bank and Gaza, however, will be determined as much by economics as by politics. For the social and economic needs of the Palestinian people will remain constant, irrespective of the political umbrella under which the territories are ultimately placed. The Bush Administration should therefore immediately begin to lay the groundwork for a solid economic development policy that will address the major needs of the Palestinians in the

Economics may be politics in the West Bank and Gaza, but the American government can and should attempt to separate the two for policy purposes. For even while hopes of political resolution appear uncertain, the U.S. can still make major strides in the economic realm. Ironically, this is the one area in which many factions, including proponents of the *intifadah,* the PLO, and even the Muslim fundamentalists, as well as the Israeli government appear to welcome our "intrusion" and our contributions.*

Therefore the following recommendations are proposed:

1) *The American government should acknowledge, as a basic guiding principle, the rights of West Bank and Gaza Palestinians to exert control over the economic and administrative aspects of their own destiny.* We might refer to this goal as economic integrity, recognizing that we have entered a new age of economic integration and that no people or political unit today can claim absolute economic independence. Ultimately, the East Bank, the West Bank, and Israel are "doomed to cooperate." For as one U.S. official put it, the parties "should go beyond 19th century rhetoric. Security and demilitarization means the elimination of borders, not their creation."

2) *The highest priority needs in the West Bank and Gaza are an institutionalized, competitive financial system and a comprehensive marketing system. The American government should direct its efforts and financial support toward these specific objectives.* The American business community should be encouraged, within the framework of the American development program, to become increasingly involved in the West Bank and Gaza. The U.S. government and private sectors should provide more extensive management assistance. Palestinian entrepreneurs willing to engage in high risk financial ventures should also be encouraged.

The creation of an American guarantee facility would have tremendous consequence, and would not require massive American funding. The existing Overseas Private Investment Corporation (O.P.I.C.), like other U.S. programs, requires "country of origin certification." The West Bank and Gaza, therefore, are not covered under this program.

U.S. customs certification also requires that non-independent territories must be under sovereign power control. Thus, the obscure Pacific islands, Wallis and Fatuna, are fully credited and receive customs benefits, while the West Bank and Gaza, at the center of world interest, do not.

3) *The Bush Administration and the new 101st Congress should view American economic assistance to the West Bank and Gaza as a key challenge, irrespective of their present political status or the political turmoil within the territories. The U.S. government should recognize that it has a rare opportunity to provide leadership and vision in devising a valid economic development strategy, which could extend*

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* Expected Israeli attempts to launch a parallel political initiative in the territories to that of the PLO-U.S. dialogue would also mean greater receptivity to U.S. development efforts.

into the next century. The U.S. Congress should support increasing levels of economic assistance for the West Bank and Gaza, consistent with carefully defined objectives. Large infrastructure projects involving housing or health services could be worthwhile, but will clearly require international cooperation that is currently almost nonexistent. The Bush Administration and Congress should also seek to provide predictable budget levels over future years, because predictability is as important as quantity.

However, U.S. support should not be given to groups such as the Muslim fundamentalists who call for the destruction of Israel and "no peace at any price."

4) *The U.S. government should be more aggressive in engaging the Europeans and the Japanese in cooperative dialogues concerning the future of the territories. Our stance until now has been to link economic goals to the peace process, rather than to view them as a precursor or concomitant to that process.* In the words of a senior American diplomat, "We've always told the Germans and the Japanese – under the table – that we can't do anything until the peace process begins." But as long as the United States continues to be guided by the goal of "real progress" in the peace process, it will not be able "to convince others to rise to potential standards. They will only fulfill those low standards that we ourselves put forward."

American-European working groups should be established, with Palestinian, Israeli, and Jordanian participation. The working groups should address economic prospects under varying political alternatives and potential future cooperation between donor nations. These working groups should not, however, be limited by present political assumptions, since future events could quickly overtake them. As noted by one top U.S. official, "Even a peace process will not solve competition over scarce resources and markets. We must plan for those priorities today."

European players have achieved a favorable reputation in the territories, one which the Americans might do well to emulate. It has also been suggested by some observers that, on a political basis, countries can have greater leverage separately than if they were to combine forces. But, in the long run, improved economic coordination, creative planning, and sharing of project information could only prove beneficial.

From Israel's perspective, expanded Western donor involvement could be welcomed by Likud members as well as Labor. Interviews with Israeli leaders from both parties suggest an increasing recognition that development challenges in the territories must be met – as the converse will only lead to greater political chaos and strife – and that Israel must seek outside assistance to accomplish the task. Both Defense Minister Yitzhak Rabin and Prime Minister Yitzhak Shamir have conveyed such views. "I don't see any possibility that Israel, relying on its own resources...can do the job," Rabin said in August 1988.[63] "Regardless of how you argue it, the people are not receiving ample social services."[64] Even Prime Minister Yitzhak Shamir, head of the right-of-center Likud faction, declared in an August 1988 interview that if he were to head the next government, "One of my first acts in office would be to call for an international conference to respond to the housing crisis of Palestinians in the refugee camps."[65]

5) *The United States should acquire data from the Jordanian program concerning economic impact and feasibility studies in the territories, and incorporate them into plans for a broadened American program.*

6) *It is critical that President Bush, Secretary of State Baker, and their advisors aggressively address the constraints that have stymied the economic development process in the territories.* For example, they should examine the practice of discouraging the development of industrial and agricultural production and exports for fear of competition with the Israeli business sectors. The U.S. can help place Palestinian businesses on a more equal footing by expanding American preferential tariff system and free trade zone agreements with Israel to include the West Bank and Gaza, and at the same time, Jordan – no less than Israel – should be pressed to ease restrictions that prohibit fluid movement of goods between the two banks.

The U.S. should help to set the stage for control over local land and resource use, licensing for wells, building permits, and issuances of export licenses by duly constituted local Palestinian authorities. The U.S. should also do all in its power to ensure the viability of the Cairo-Amman Bank, which could be jeopardized by Jordan's worsening financial situation.

7) *The United States must assure Israel that American support for economic improvement in the territories will not be at the expense or sacrifice of Israel's own economic strength.* The American initiative must also accord Jordanian economic strength its due. The U.S. should invest more funds in East Bank projects (assuming Jordan cooperates by lifting restrictions), since economic strides on the East Bank will have a direct and positive effect on the West Bank.

8) *On a practical level, the U.S. should steer away from small, less consequential aid activities, employing development funds instead for larger projects that will appreciably stimulate economic growth and job creation.*

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63 Private interview, August 1988.

64 *Ibid.*

65 Private interview, August 1988.

A small A.I.D. administrative presence in either the territories or in Israel of at least two or three persons could improve U.S. administrative capability and standing. The Palestinians would welcome this show of support while Israel would be unlikely to take umbrage as long as the group's charter was limited to the West Bank and Gaza.

Despite the fact that their economic and political fates are inextricably linked, it should be noted that the West Bank and Gaza are remarkably different. In the West Bank, the main areas of affliction are refugee camps and village life. In Gaza, even people who live outside of the camps are often close to the margin of existence. But what they share is a singular lack of either planning mechanisms or authorities. The P.V.O.s do hold monthly coordination meetings, while the United Nations Development Program (U.N.D.P.) has also formed an *ad hoc* group of advisors with access to different resources. However, the Palestinians themselves have no coordinated planning bodies. There is every indication that they would welcome American training and assistance to this end.

9) *The U.S. government should increase its support for U.N.-sponsored programs, in particular the U.N.D.P.* U.N.D.P. programs in such crucial areas as water desalinization and sewage reclamation, for example, have proven highly successful. As of October 18, 1988, more than $18 million had been collected from the Arab states and Europe in renewed U.N. efforts to replace lost Jordanian revenues to the territories. The U.S. had not yet pledged additional aid to U.N.R.W.A. and, in fact, reduced its 1988 pledge from an initial $67 million to $61 million.[66] Additional U.S. funds for U.N.D.P., however, may be forthcoming. In the future, promised funds must be delivered and increased sums allocated by Congress for U.N. programming.

10) *Refugee resettlement and future water sharing concerns should be among the highest priorities on the U.S. development agenda. Even the most far-sighted development plan is doomed if the squalor of the refugee camps and the need for massive housing are ignored.* A minimum of $2 billion is required to meet the needs of the present population, completely apart from the issue of the repatriation of refugees. A housing initiative of this magnitude is a prime candidate for international cooperative planning and would also stimulate the expansion of the local building industry in the territories.

By the turn of the century, Israel's water needs alone may exceed supply by 30 percent. Some authorities believe that by 1995, Israel will have fully developed all renewable water resources and will reach a critical point in the exploitation of non-renewable water supplies. Nearly 40 percent of Israel's water comes from an aquifer under the West Bank. West Bank Palestinians complain bitterly that they

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66 *The New York Times*, October 18, 1988, p.A12.

receive insufficient water for industrial and agricultural expansion. Gaza residents are even more desperate. The Gaza Strip is 50 percent desert, has only one aquifer, and the level of water salinity is continually rising. Experts predict that by the year 2000 Gaza's water will be unusable. *Thus, the U.S. should begin negotiations for the creation of a common water sharing authority among Israel, the West Bank, and Gaza.*

Above all, the U.S. should recognize that the West Bank and Gaza systems are not lacking in the potential to thrive as fresh and viable young economies, but have stagnated in an environment of politically-spawned underdevelopment for the last forty years – whether under Israeli, Jordanian, or Egyptian administration. Given appropriate conditions and opportunities – specifically a lifting of restrictions – benefits could accrue not only to Palestinian residents of the territories but also could ripple to Israel, Jordan, and beyond.

APPENDIX

American Near East Refugee Aid (A.N.E.R.A.)

A.N.E.R.A.'s main efforts have sought to improve income levels of Palestinians, to build and strengthen institutions, and to "allow people to run their own lives." The creation of a revolving loan fund is one such project. Thirty cooperatives have received assistance in land reclamation, mechanization, and numerous other agricultural concerns. In 1987, for example, A.N.E.R.A. began producing phylloxera-resistant American root stock grape vine seedlings to replace vines killed by the acute phylloxera disease epidemic. A.N.E.R.A. also has a medical division (A.M.E.R.) that assists medical programs in the acquisition of pharmaceuticals and other medical supplies. Concerns over conflicts and a mutual distrust of the Israeli government remains a stumbling block to A.N.E.R.A. programming, despite its project successes.

Agricultural Cooperative Development International (A.C.D.I.)

In February 1986, U.S.A.I.D. approved a proposal by a group of U.S. cooperative development organizations represented by A.C.D.I. A.C.D.I. was granted $2.4 million for a three year program to provide technical assistance and training for cooperatives in the territories. This project is known as the Cooperative Development Project (C.D.P.) Members are required to contribute a one-time fee of $2,000, and are encouraged to donate more funds periodically. Members of the cooperative movement augment A.N.E.R.A.'s support of cooperatives with training in the areas of organizational development and financial planning. C.D.P. seeks to encourage self-sufficiency, so that Palestinians will not have to depend on the Israeli government for future economic aid.

American-Mideast Educational and Training Services (A.M.I.D.E.A.S.T.)

A.M.I.D.E.A.S.T. has been involved in the territories since 1951. Its main concern is in the area of education, particularly in the support of the three major universities in the territories. Faculty development, short-term training, and scholarship assistance are but a few of the ways in which A.M.I.D.E.A.S.T. concentrates its development efforts. Most of its successes have been in the area of secondary education. As of 1986, 172 faculty members had received advanced degrees in the U.S., and another 119 were enrolled in academic programs.

A.M.I.D.E.A.S.T. has also provided schools with laboratory equipment and other supplies.

A.M.I.D.E.A.S.T. has encountered its share of problems, however, largely because of Israeli hesitancy in cooperating with A.M.I.D.E.A.S.T. in its education-related efforts, and because of A.M.I.D.E.A.S.T.'s mistrust of Israeli motives in the Palestinian community. It has been suggested that another issue yet to be dealt with by A.M.I.D.E.A.S.T. is the overabundance of college graduates now in the territories who lack appropriate occupations for their academic qualifications.

Catholic Relief Services (C.R.S.)

C.R.S. is the only P.V.O. now using both P.L. 480 food commodities and funds for economic support. Its emphases have been in the areas of special education and rural development. Approximately 75 percent of C.R.S.'s recipients are on the West Bank and 25 percent in the Gaza Strip. More than 157 villages in the West Bank and Gaza are now successfully operating health education classes on the C.R.S. model. A home-based program for the physically handicapped has placed 15 field workers in 22 villages. C.R.S. has also contributed to a number of village self-help projects. In general, few difficulties (except for occasional delays) have been encountered with the Israeli authorities.

Community Development Foundation/Save the Children Fund (C.D.F./S.C.F.)

C.D.F./S.C.F. is the only P.V.O. operating both in the territories and Israel. Its representatives suggest that this demonstrates a political impartiality on their part, although C.D.F./S.C.F. has a reputation for being confrontational with the Israeli authorities. Its work has been limited largely to rural development in the areas of water and sanitation, agriculture, and social development. In 1986, S.C.F. began a revolving loan program to provide support and credit to Palestinian farmers. Meron Benvenisti suggests that the Israelis have manipulated project approvals toward such consumption-oriented public works. It has been argued, however, that without C.D.F./S.C.F. support, the small rural infrastructure projects that C.D.F./S.C.F. funds would not now exist.

International Executive Service Corps (I.E.S.C)

I.E.S.C. worked in support of private enterprise development in the Palestinian community. In 1986, arrangements were made to provide technical assistance and training to local businessmen. Since the *intifadah,* however, I.E.S.C. has been cancelled due to the unstable business climate which now exists in the territories.

Society for the Care of Handicapped Children (S.C.H.C.)

S.C.H.C. provides basic education and training to physically and mentally handicapped children in the Gaza Strip. U.S. support has included construction of a school, training for faculty and staff, and various operating expenses. Recently, S.C.H.C. has announced plans to expand its present activities to non-handicapped Gaza youth. An emphasis would be placed on mothers home care and early intervention projects in the areas of health, hygiene, and nutrition.

United Nations Development Project (U.N.D.P.)

Although not a P.V.O., U.N.D.P is also active in carrying out development work in the territories, but differs from them in many aspects. Unlike the P.V.O.s, U.N.D.P. works at the institutional, rather than the personal level in its development projects. When the program began in 1978, its interests were limited to the education and health sectors. In recent years, a change has been made toward infrastructure-related projects, which may provide more substantial overall impact. Health, sewage, sanitation, education and training, and specialized management training are now the most important of U.N.D.P.'s projects. Because it is not affiliated with any one group or government, U.N.D.P. is able to sponsor projects beyond the P.V.O. mandate. Twenty-five percent of U.N.D.P.'s budget comes from the U.S., although its contributions are not specifically earmarked for West Bank and Gaza projects. Occasionally, U.N.D.P. contributes its efforts to refugee camps, although generally this work is covered under U.N.R.W.A.'s activities. Also, in contrast to the P.V.O.s, both the Israelis and Arabs trust U.N.D.P., and contribute funds with the belief that it is a non-partisan body.

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