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The Peres Center For Peace



Economic Peace?

Political Peace with Economic Prosperity

- Position Document -

Peres Center for Peace
Business and Economics Department

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From Israeli Prime Minister Binyamin Netanyahu's speech at Bar Ilan, June 14, 2009:

"I call all Arab States to cooperate with both the Palestinians and us in order to promote economic peace.

Economic peace is not an alternative to political peace, but is an imperative component in achieving it.

Together, we can develop projects that overcome the drawbacks of our region, such as water desalination, and use our advantages, such as using solar energy, deploying gas and oil pumps and transportation lines that connect Asia, Europe and Africa"

Promoting the Israeli-Palestinian peace process has recently been associated with the concept of "economic peace" introduced by Israeli Prime Minister Binyamin Netanyahu.

We believe that promoting the economy is only an accompanying aspect to a political process that will constitute the main path, one that without it no actual change will occur in the relations between Israel and the Palestinians.

Improving the Palestinian economy cannot act as an alternative to a political arrangement and cannot exist in a political vacuum, despite being a key and vital layer in the process, one which allows the nations to taste the "fruits of peace" whilst still in the negotiations stage and also creates a positive outlook.

Since sings point to the conclusion that we are entering a new round of negotiations between Israel and the Palestinians, we believe that this document should focus on analyzing the economic environment that forms the basis for embarking on a program to advance Palestinian economics and turn it into a more modern economy. Our basic assumption is that Israel is interested in creating a strong Palestinian economy, capable of offering employment possibilities, developing infrastructures and promotes trade and tourism, all in collaboration with the Israeli economy and support from the Israeli system, perceiving this as a win-win situation.

We have reviewed the main topics and projects that we believe are capable of significantly impacting the Palestinian economic development, focusing unilaterally on Israel's role in the process in the operative matters, in order to reach and execute decisions.

Focusing on Israel's role in the Palestinian economic development does not derogate from the Palestinian Authority's value and decisive role in the matter, since any progress in the Palestinian economy is primarily conditioned by the Palestinians desire to receive Israeli and international assistance in order to implement this process.



In reviewing the relative operative matters, we have chosen to focus on projects that are already in various execution stages and matters under discussion in the numerous frameworks and forums that have been around for years. However, until now these matters have been discussed in a limited manner and not as a multidimensional program.

In our opinion, a multidimensional program, that will affect key parameters of the Palestinian economy, will be effective in a manner that can essentially impact the political atmosphere and the populations itself in everyday life, something which has not been done in years.

Our main recommendations as specified in this document are:

- Implementing programs, in a lateral and comprehensive manner, in order to create maximal effectiveness, without any preliminary conditions.
- Limiting the economic development program to a schedule that will be transparent to Israelis, Palestinians and the international community
- Choosing subjects or projects to promote, which will immediately turn into success stories in order to improve the atmosphere and create trust
- Focusing on the issue of employment as the main issue.

This document is the result of the Peres Center for Peace's Business and Economics Department, which concentrated the information based on recent research papers in various subjects as well as consulting and gathering details from dozens of experts and discussing these issues with businessmen and both Israeli and Palestinian officials.

Now we are working together with our Palestinian partners to proceed with writing a parallel document presenting the Palestinians' perception in the matter.

The Peres Center for Peace would like express its special gratitude to the Embassy of Denmark in Tel Aviv for their support in preparing this document.

Sincerely,

Dr. Ron Pundak
Director General
Peres Center for Peace



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1. Perception of Economic Peace

The concept economic peace, in its Israeli-Palestinian context, has become extremely significant in recent years, since Mr. Binyamin Netanyahu, prior to his election as prime minister, presented it as a solution to the Israeli-Palestinian conflict, whereby economic peace as he understands it, will form a corridor to the future possibility of political peace, based on creating conditions for maturing the climate for peace and as an alternative to the radical Islam's growing power being the horizon of hope for the Palestinian people.¹

After electing Netanyahu as Israel's Prime Minister, the relatively vague concept is of added validity and has generated a great interest regarding the contents behind it, as well as what are the operative steps to be taken, if any, in order to turn the concept into a realizable operative plan.

Before we begin a discussion about the content of economic peace, we would like to discuss the questions of the principle perception of the axiom behind the solution of economic peace, which claims that economic welfare among the Palestinians will create hope, calm hostilities, weaken the tendency towards violence and create the "price of loss" – meaning decreasing the profitability of a confrontation, based on the fear of possibly loosing economic assets already achieved, including an increase in revenues, increasing export, drawing investors and generally expanding investments in the area.

The "economic peace" gets credit from Prime Minister Netanyahu, who describes it as one that decreases the power of radical Islam by decreasing the number of new members, in the absence of a political end and lack of hope to improve their lives.

This assumption was common among Israeli decision makers and security forces for many years and to a certain extent, it is still the approach that motivates thinking in Israel, hoping to

¹ Netanyahu's speech at the 8th Herzliya Convention



improve economy and upgrade the economic relations between the Palestinian Authority and Israel and its economy.

In order to review to the force of the assumptions behind this perception, we suggest reading Professor (Emeritus) Efraim Klieman's words, published in December 2008, in which he refers to the matter²: "as far as the Palestinians' are concerned, their past experience completely refutes this assumption. The First Intifada, a national uprising by all accounts, broke out after more or less two decades of economic prosperity, which the Palestinian economy never experienced before" – **an annual product average growth of 9.3% over 18 years**. The product also grew at a similar rate in the three-four years that preceded the Second Intifada. Perhaps deterioration in the economic state, increases violence, but an improvement in the economic state, doesn't necessarily reduce it.

In addition, we recommend reading the document formulated at the Peres Center for Peace by the undersigned, which also discusses the same assumption based on a model built at the center and even further explores the question of the limits of the effect of "economic power" as a single impacting factor for restraining violence.³

The main conclusion in this document is that economic power has many limitations when faced with a nation's national aspirations. Under certain conditions of a political reality, economic growth has tremendous power in its ability to calm the tendency towards violence and under different conditions; the economy's power continuously decreases. There are extreme conditions, which unfortunately are not dominant these days, where the economy has no impact at all and the more we invest in promoting it, the less impact it will have on the Palestinian people, as well as restarting any violent tendencies.

² Haaretz Newspaper – December 9, 2008, Efraim Klieman/Is there any truth to "economic peace"?

³ Peres Center for Peace Business and Economics Department-June 2008: "Violence and the Impact of Perceived Economic Wealth and Political Atmosphere"



Another key conclusion is that the initial economic state, prior to violence, has no impact on the force of violence and therefore, it would be wrong to assume that once violence breaks out, a relatively good economic state will ease the "intensity" or impact it has and as a result, one cannot predict the extent or duration of violence in such circumstances.

Clearly "economic peace" as a leading or single tool cannot work and political tools are needed in order to lead the process, with the economic improvement accompanying and supporting the promotion of the political process.

A noteworthy response that Mr. Netanyahu gained, came from former Prime Minister Ehud Olmert (while still in office) during the convention held by the Institute for National Security Studies in December 2008. Olmert attacked the concept and mentioned that "pairing the words economic peace can be an elections slogan, but not a realistic option that Israel can offer as an alternative to a political process."⁴

It is important to stress that recently in every reference to the matter, Netanyahu tends to also mention the political issue and adds that economic development is not an alternative to negotiations, as he said in the Jewish Agency's assembly in November 2008: "Economic Peace combined with political negotiations will lead us towards peace, distance terrorism, which will cause regional stability".⁵ Despite the above and other statements, it seems that according to Netanyahu, the medium for gaining peace with our neighbors always begins with economy and not necessarily correspondingly to the political issue – "economic peace will promote political peace" and never the other way around.

This document will present what we know about the Prime Minister's perception of "Economic Peace" from various publications, will specify the main points of the current economic situation in the West Bank as well as specify the key projects in the core

⁴ Haaretz newspaper – December 19, 2008, quote from the Institute for National Security Studies Convention – Tel Aviv
⁵ Haaretz newspaper – November 16 – "Economic Peace will promote political peace"



economic fields under advisement, which we believe should be included in any economic plan with the Palestinians as part of the plan for economic peace.

We will not discuss the Palestinian Authority's responsibility to promote the execution of projects in this document and rather fill focus on issues under the responsibility of Israel, without eliminating the Palestinian Authority's responsibility to cooperate and promote these projects.

What is economic peace?

As said, the issue is more vague than clear and most of the Prime Minister's statements on the matter were not accompanied by detailed information.

Nonetheless, we will organize what little information was published on the matter in various occasions and different contexts, in an attempt to create an optimal picture that can teach us about the intentions of the economic peace plan.

In terms of administrative structure – the Prime Minister plans to establish an administration to manage joint economic projects with the Palestinians, which will be responsible for organizing the activity before the international community with an emphasis on the Quartet special envoy, Mr. Tony Blair as well as the Palestinian Authority.

Establishing the administration is one recommendation from the 100 Days Committee, headed by Knesset Member, Dr. Yuval Steinitz, proposing that a special minister be appointed to head the committee supported by a team with extensive experience in the economic field and the Palestinian issue.



The matter was generally presented during Mr. Netanyahu's meeting with Mr. Tony Blair as well as his meeting with American envoy, Mr. George Mitchell, who mentioned that in his opinion this plan is insufficient and should be included as part of negotiations.

It seems that the idea to incorporate foreign agents into the economic matter is not a new one, and the government secretary during Olmert's cadency, stated in December 2006⁶ that "an advisory committee composed from various leaders from around the world will be established to focus and ensure the success of initiatives for an economic corridor. The parties involved in the project, will establish work teams and pool all their political, economic and professional resources in order to promote the projects and follow their progress."

Note that the same statement made it clear that the economic corridor initiative is composed from a number of economic enterprises and large projects such as the "Valley of Peace", joint Accaba-Eilat airport, developing joint copper mines, tourism projects, track connections and a Palestinian industrial zone.

In reviewing the things presented by Netanyahu in his speeches and election campaign regarding the economic peace components, the following picture appears:

- Establishing and executing 25 economic projects in the territories, with foreign financing and support from Israel, including agricultural, industrial and tourism projects.
- Promoting collaboration projects
- Establishing "employment centers" near large cities in the territories, which will release Palestinians from the need to work in Israel⁷
- Establishing a unique corridor for Christian pilgrims visiting tourism sites on the Jordan River and along the Dead Sea, to be constructed by Palestinians in

⁶ Statement by the Government Secretary, Advocate Yisrael Maymon upon the conclusion of the government meeting on December 17, 2006

⁷ Haaretz newspaper, Danny Rubenstein – 16.2009



coordination with Israel – "Israel will bring tourists from the Galilee and the Palestinian Authority will bring tourists from Bethlehem and Jericho. We will create a security sleeve, build hotels and the wages will go up ..."⁸

- Easements at crossings and attempts to find investments from abroad⁹

As we can understand, the economic peace issue requires a presentation of concrete ideas as will be presented in this document.

The present economic situation – main indicators

(The data is based on details from the Palestinian Central Bureau of Statistics and details from official Israeli agents)

Before we present projects in various fields, it is important to look at the economic situation on the eve of Netanyahu's ascend to government.

In general, we can see that in 2008 the West Bank's economy continued on a path of growth that began in 2007, since the establishment of Fayyad's government and receiving legitimization from international countries, as opposed to the condition in Gaza Strip at the time.

The macro details of the economic product indicate that the product grew from USD 4.01 billion in 2007 to USD 4.04 billion in 2008.

This fact stands out against the global conditions of a universal economic crisis and severe damage to all the world's economies.

⁸ Herzliya Convention – TheMarker

⁹ As said by Mr. Zaif, introduced as an advisor to Mr. Netanyahu and a member in the 100 Days Committee, during a convention organized by the IPCRI under the heading "What is Economic Peace" – Haaretz newspaper March 30, 2009



A budgetary balance was achieved in 2008, salaries of public service workers were paid in full and the development budget was doubled to half a billion USD.

The budgetary balance was mainly a result of international assistance that amounted to USD 1.7 billion, but also from the increase in incomes from tax that totaled USD 0.75 billion.

Crossings and trade

According to the Tax Authority's estimate, the scope of trade between Israel and the Palestinian Authority increased from NIS 12.4 billion in 2007 to NIS 15 billion in 2008, which forms a significant growth of 21 percent.

Such increase is based on limiting trade with Gaza, which according to competent authorities in Israel, means that **the realistic growth in trade with the West Bank is estimated at approx. 30-34 percent. Note that in 2007 the trade with Gaza was already extremely low.**

In terms of the overall Palestinian import and export, there seems to be a constant increase of these two components between the years 2001 to 2007, in which there was a leap of dozens of percent compared to 2006.

In total the export in 2007 amounted to approx. USD 513 million and the import approx. USD 3.14 billion, including trade with Israel¹⁰ (details of 2008 have yet to be published).

In terms of trade movement at crossings, apparently there has been an increase in the number of trucks, estimated at approx. 40 percent in land checkpoints and approx. 45 percent through the Allenby Bridge, mainly due to the institutionalization of the checkpoints and blocking the illegal movements, which were not included in previous surveys.

¹⁰ <http://www.paltade.org/en/about-palestine/foreign-trade.php>



Employment

The Palestinian employment of West Bank residents in Israel and in the Israeli economy continues and the number of employees has even grown. In 2007, approx. 46,000 Palestinians received work permits.

About half of these workers are employed in Israeli settlements beyond the green line and the assumption is that there are others who are employed in Israel without work permits.

According to estimates, the total intakes for the Palestinian economy from employment totaled approx. NIS 2 billion in the year 2008.

The unemployment in the West Bank increased by an average of approx. 1% compared to 2007 (to approx. 19%) and in Gaza the rate of unemployment is more than 40%. In terms of the payroll cost, there has been an increase in the daily salary both in the West Bank and in Israel, probably due to blocking illegal employment in Israel and the demand surplus for foreign workers in Israel.

Tourism

A branch that significantly recovered in 2008, with the number of visitors in Bethlehem almost doubling itself and reaching approx. 990 thousand tourists, compared to only approx. 510 thousand tourists in 2007.

In conclusion, in the following chapters of this document, we will present a number of core issues for developing the Palestinian economy. Israeli assistance and openness is required in order to promote many of the issues presented, as well as a sense of good will which is currently lacking. Clearly most of the steps required from Israel, involve a certain extent of risk that Israel needs to take, but this is probably inevitable in the short term (due to expected activity by radicals) and in the long term we expect the risk to decrease together with an improvement in the general atmosphere and a constant economic improvement.



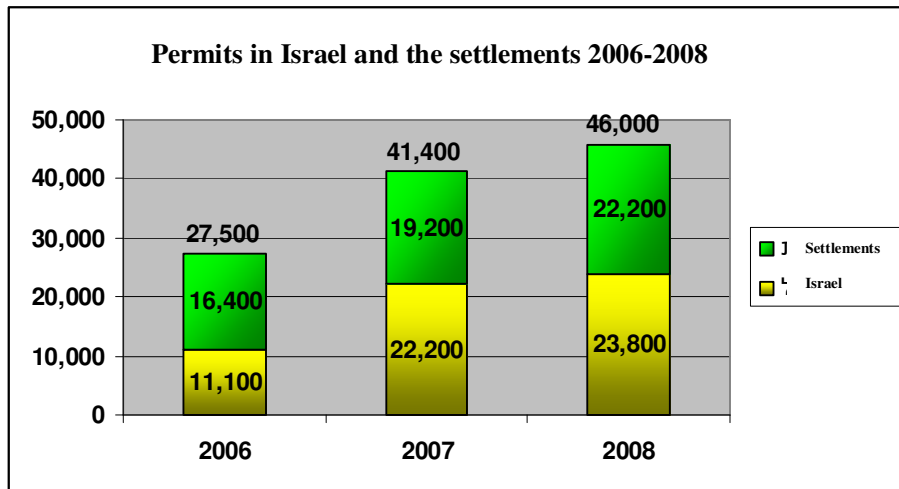
2. Employing Palestinian Workers in Israel

Since the year 2000, during which the Second Intifada broke out, the results of the Palestinian economy went down by dozens of percents in terms of the overall GNP and GNP per person, and only recently there have been numbers and indicators signaling some sort of economic recovery in the West Bank, whilst in the Gaza Strip the situation continuously deteriorates. The issue of Palestinian employment was the first and most important issue that expressed the severe economic blow that the Palestinian economy sustained, since the rate of unemployment instantly went up after denying entrance to approx. 120,000 Palestinian workers who were employed in Israel. Details from one quarter revealed an increase in the West Bank's unemployment rate from 7.5% in the third quarter of 2000 to 33.5% in the fourth quarter of the same year.

As said, currently more or less 50,000 Palestinian workers are employed in the Israeli market, approx. 25,000 are employed in in settlements beyond the green line and a few thousand more are employed in the without permits in the Jordan Valley.

The implication of employment in the Israeli economic is critical for the Palestinian economy, for various reasons including the immense gaps in salaries, since every worker that works in Israel or within the Israeli economy earns NIS 142 per work day, compared to local employment in the Bank, where the average wages are approx. NIS 84 or NIS 62 in Gaza.

Employment in Israel continues despite the decision made by the government in 2005, stating that by the year 2008, no more Palestinian workers will be employed in Israel. We emphasize that the government's decision in recent years to limit the number of foreign workers in Israel, is expected to create enormous demands for Palestinian workers in the fields of agriculture, construction and services, where most of them are already employed today.



- Details of the Ministry of Defence

For a number of years now, there has been no clear policy in Israel as to the number of Palestinian workers that the Israeli market absorbs and/or is capable of absorbing. If the government intends to help improve the employment issue in the Palestinian Authority, it needs to determine a declared policy regarding the employment of Palestinian workers in Israel, which includes limits for the short, medium and long terms, including growth expectancy, based on macro-economic tendencies in the Israeli economy.

A policy that specifies the work quota in Israel, will serve as a weighty exogenous variable for Palestinian planning and economy authorities, as well as development programs and initiatives for decreasing poverty, which are prepared and implemented by the governments, UN agencies and international organizations such as USAID, the World Bank (WB), International Monetary Fund (IMF), UNRWA, UNESCO, UNIDO and UNDP as well as other bodies.

As said, from an Israeli point of view, employing Palestinians in Israel is not an independent policy issue, but part of an overall policy for employing foreign workers in Israel in construction, agriculture and services. Therefore, such policy is expected to have a direct impact on the policy of employing foreign workers from Asia, Eastern Europe and other countries, which basically form an alternative for Palestinian workers in the said industries.



According to publications by the Ministry of Industry, Trade and Labor, the number of foreign workers in Israel at the end of 2008 was 225 thousand compared to 200 thousand in 2007, of whom only 52% had a work permit.

In our opinion, it would be in Israel's profound best interest, to prefer employing Palestinians over foreign workers, mainly due to the following reasons:

- Israel is obligated and interested in helping solve the unemployment problem in the Palestinian economy, both considering that within a short period it closed its gates to Palestinian workers who worked in Israel for dozens of years and by that evaded the need to develop work places within the West Bank and Gaza and also since unemployment leads to a severe social-economic price which eventually has an adverse affect on the stability of the Palestinian government and the tendency towards radicalism. Therefore, Israel's contribution to deducting the demand in the Palestinian labor market is essential. All the above is said despite the fact that in more than a few cases, the Palestinians themselves hindered the development of employment projects and together with the Israeli system, they created a safe atmosphere that has driven away investors.
- The most significant advantage that Palestinian workers have is embedded in the fact that they enter Israel only for work purposes and usually return to the Palestinian Authority every evening, thus their employment does not entail any complex social-economic aspects and there is no danger of them immigrating to Israel. This creates a fundamental difference between employing Palestinians and employing workers from other countries.
- Palestinian workers are better skilled, with an emphasis on the construction industry, where Palestinians essentially have no replacement as wet concrete works, compared to most foreign workers.



- Palestinian workers have been employed in Israel for many decades. Except for a few cases - which also seem to be based on criminal or personal reasons and not nationalistic motives - there have been no terrorism acts by Palestinian workers with work permits, intending to harm their Israeli employers (according to the General Security Services' details from the beginning of the Second Intifada, no terrorism acts were performed by individuals with a work permit in Israel). On the contrary, in most cases strong and long lasting friendships have formed, with most workers working for the same employer for dozens of years.
- Finally, employing Palestinian workers is an essential step to building good neighborly relations and laying down the foundations for promoting peace between the two nations.

In conclusion, declaring Israel's long-term policy to employ Palestinians is extremely essential and imperative for planning the Palestinian economy, both by the Palestinian Authority and other international agents and at the same time, is also an Israeli interest.

We estimate, taking into consideration the number of foreign workers in the Israeli market, that Israel can and must commit to a number of 100,000 to 150,000 Palestinian workers in the short term of 5 to 10 years. By doing so, it will at least provide a 3-4 year solution for the increase in the number of demands for new job positions created every year in the Palestinian economy, which will allow a minimal breathing space for creating employment in the Palestinian economy.

Such policy alone is insufficient to offer a long term improvement in the Palestinian economy, but can be a fast and extremely significant incentive and therefore it should be combined with **promoting internal employment and be used as a condition for promoting projects offering an abundance of employment opportunities** within the Palestinian Authority, such as industrial zones, in order to prevent preservation of the convenience of working in Israel without having to motivate any Palestinian development towards economic independence. We will elaborate this discussion in the industrial zones chapter.



3. Developing Industrial Zones in the West Bank

As we emphasized earlier, the "Al-Aqsa" Intifada that broke out in September 2000, critically impaired the Palestinian economy and all parameters of the economic relations with Israel, including severe and extensive damage to the employment field. As said, the work of approx. 120,000 Palestinians who worked in Israel was terminated within a short period and the percent of unemployed individuals in the Authority sharply ascended by more or less 25% within one quarter (the fourth quarter of 2000).

The importance of employment and the Israeli- Palestinian desire to create internal work places in the West Bank in order to decrease the employment dependency on Israel, has gained tremendous recognition from the Palestinian Authority, even before the Second Intifada broke out. In 2000, an authority for developing industrial zones (the PIEFAZA) was established and two key laws on the issue were legislated:

- The Law for Industrial Estate and Industrial Free Zones¹¹
- The Law for Encouragement of Investments in Palestine¹²

In addition, by the year 2000, the Palestinian program for deploying new, modern industrial zones in the West Bank and Gaza was completed and an industrial zone was established near the Karni Crossing, in which Israeli investors also invested.

When reviewing Israel's reference to this issue it seems that on the one hand, it neither expressed any objection nor placed intentional obstacles, but on the other hand there was no active and initiated collaboration across the entire sector, that we believe should have been apparent, based on a profound long term Israeli interest.

¹¹ Law No. 10/1998 – Regarding Industrial Estate and Industrial Free Zones

¹² Law No. 1/1998- Encouragement Of Investment in Palestine



There are those who claimed that an exception was the initiative to change the status of the area of the industrial zone in Jalame (Jenin) from area C to area B, but this was initiated after years of international efforts and Israel's repeated refusal, without a concrete, visible, reason. On the other hand, in the Karni area it seemed that Israel made an overall effort in the security field, in order to create a proper form of cooperation. However, the security reality on the one hand and the "excess" Israeli securitism on the other hand, destroyed the positive reality that began to form. In such context, we need to emphasize that if the extended Israeli system will allow the security institute to be the sole deciding authority in all issues in this area, then the chances for any development in this area are close to none. The security limits that are constantly raised, without necessarily being based on any real threats, completely contradict the dynamics and flexibility required for business development and initiating projects. This also applies to industrial parks, but is also accurate in other economic areas such as crossings and trade.

The concept behind the plan is a regional deployment of industrial zones across the West Bank and Gaza, whilst attempting to cover areas with high rates of unemployment and includes grasping industrial areas adjacent to the security fence but not only.

After freezing such plan for 8 years, in the past year there has been a reawakening in the matter and there seem to be initial flourishing buds with the first indications of a genuine progress: in industrial zone in Jenin; initiating an industrial zone in Bethlehem (which was not part of the program prepared in 2000); the Turkish initiative to establish an industrial zone in Tarqumia (Hebron area); as well as the Japanese initiative to build and industrial zone in Jericho and even economic activity near Shechem.

One reason for the awakening results from the formation of a new "formula" which offers a certain solution to Israel's security apprehensions, establishing industrial zone with participation of foreign countries conveys a sense of added security and that country will also act as a catalyst for promoting the issue with Israel.



Beyond funding infrastructures, these countries are also highly motivated to invest in employment enriched projects in the Palestinian Authority, through private investors from such countries; a desire that is compatible with Israel's national interests. Israel also needs to perceive these areas as the future key growth engine for developing the Palestinian economy and promoting a solution for the problem of unemployment in the Authority.

Following is a summary of the current situation in the main industrial zones that are in the midst of the planning and establishment:

- **Tarqumia (Hebron)** – a result of the Ankara Initiative in 2007 and Hamas's rise to power in Gaza, which led to canceling the Turkish initiative to reestablish the Erez industrial zone. The Turks promised financial investment, recruiting industrialists from Turkey and the rest of the world and Israel promised to facilitate bringing in raw materials and taking out finished merchandise from the nearest checkpoint, without difficulty. Israel even outdid itself when it positively reviewed the devolution of civilian authorities (area C – completely controlled by Israel that will turn into area B – complete Palestinian control) for a geographically convenient area (part of the entire area demanded by the Palestinians for assigning authorities) designated for the construction of an industrial zone, something which has not been done since the last devolution in 1999. The area of the industrial zone in Tarqumia is expected to be spread across 1,000-3,000 dunam, and estimated to provide employment to approx. 20,000 workers.

At the moment the matter is suspended until resolving the land issue with Israel.

- **Bethlehem** – a French-Palestinian initiative for establishing an industrial park in the Bethlehem area at a cost of approx. Euro 15 million, in which the French government undertook to fund the transfer of off-site infrastructures into the area and the Palestinian Authority, will ensure the required land with long term leasing.



Developing the area will be supervised by a private French-Palestinian company that was recently established and will fund the rest of the investment. This industrial part is expected to be build over an area of 510 duman and estimated to provide employment to 10,000-15,000 workers.

Works on the site are planned to begin by the end of 2009.

- **Jenin** – the initiative to build an industrial park in the Jenin area – which began many years ago - is in advanced planning stages and nearing establishment. The investor is the "El Simal" Palestinian-Jordanian company and the German government will fund the off-site infrastructures at an amount of Euro 10.5 million. The expected size of the area is 890 dunam and it is estimated to provide employment to 15,000-20,000 workers.

The main investor is waiting for final conclusion of the sewerage issue as well as arranging visas for investors from Jordan, in order to avoid any possibility of detainment.

In May 2009, Prime Minister Netanyahu met with the Quartet's envoy, Mr. Tony Blair and they agreed that they will both visit the industrial zone together with Minister Shalom – the Minister of Regional Development, in order to promote the venture.

- **Jericho** – the Japanese government's initiative to establish an agricultural industrial park in the Jericho area as part of the Japanese "Peace Corridor" project in the Jordan Valley. The area is designated to serve for planned agricultural development in the Jordan Valley and as a solution to the marketing and export needs of Palestinian products, through the Allenby Bridge, into the Gulf emirates and other markets.

The planned size of the area is approx. 500 dunam and it is expected to provide employment to approx. 15,000 workers.

The Japanese entrepreneurs have recently completed their feasibility study, with the current discussion focusing on arranging an access road that passes through area C..



In addition to the above, there are Palestinian plans for establishing other industrial zones in area of the Kaduri School in Tul Karm and the Shechem area, but investors have not been located for these infrastructures and in fact they are available as open options for investment. Another raw concept formulated in the Palestinian Authority, is establishing a high-tech industrial park in Jericho. In the past, there was a master plan to establish this park in the Kaduri School in Tul Karm.

Despite the multitude of initiatives to erect industrial zones in the West Bank, the question of employment remains open as well as how this weighty issue is expected to be resolved in the future as part of the existing plan. We will present a theoretic calculation for this purpose.

When calculating all the jobs expected to be formed as a result of fully realizing the industrial zones plan, we receive an estimated 80,000 jobs according to an optimal scenario, assuming that the plan will be fully realized within more or less 5 years, which with an objective outlook seems highly unlikely or even impossible. Even if we assume that considering the direct and partially direct jobs, 50-60 thousand more jobs will be available in the second and third circles (mainly in services), the optimal number of jobs will amount to approx. 130-140 thousand jobs.

Considering this availability of work positions, based on details of the Palestinian Central Bureau of Statistics, it seems that the current demand in the West Bank is approx. 180-200 thousand unemployed job seekers and in 5 years this number is expected to double, which easily leads us to the conclusion of an anticipated crisis in the employment field.

In light of the profound importance of the employment issue, and particularly expectations for a massive admission of 10-14 year olds to the employment market in the next 5 years, we **recommend effectively pushing and helping Palestinians and other contributing countries to consider the establishment of industrial zones in the West Bank as a matter of top priority, in order to create new, essential growth engines in the Palestinian market and**



create new job places in the Palestinian industry. Encouraging the establishment of industrial zones must, as we mentioned earlier, occur together with a clear and fast announcement as well as action by the Israeli government of a long term policy to employ Palestinians in Israel.

Plan for establishing industrial parks in the West Bank





4. Checkpoints and Trade

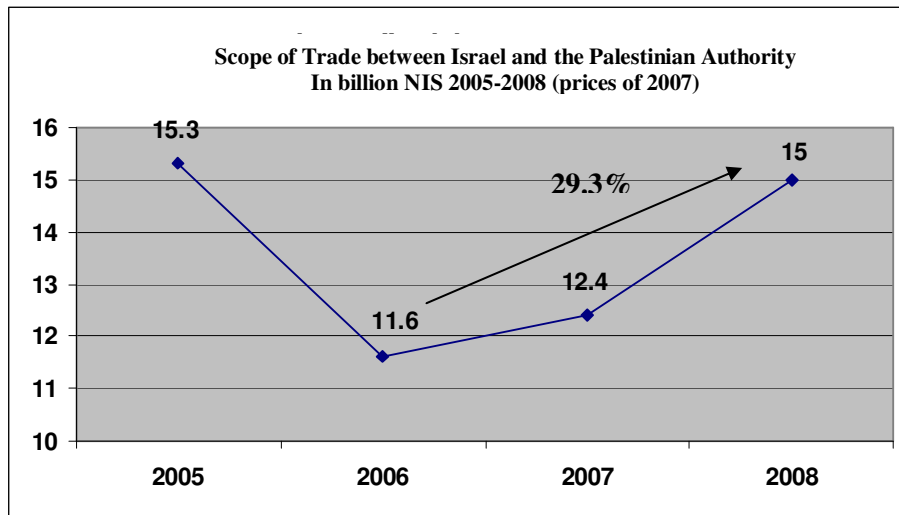
Trade between the State of Israel and the Palestinian Authority, contrary to what it appears, is an economically extensive activity that is also highly significant to the Israeli market. The Palestinian Authority is actually Israel's 2nd export destination after the USA.¹³ Last year, trade with the Palestinian Authority totaled approx. NIS 15 billion, according to the Israeli Tax Authorities. Such trade includes all areas of consumption, including raw materials for industry, products such as fuels and construction materials, agricultural input, various agricultural products, textile products and basic products such as dairy, pharmaceuticals and more.

The division of trade into import and export has been almost stable over the years, with the rate of Palestinian export out of all trade with Israel, estimated at an average of 15%-16% between the years 2000-2007.

The following sketch represents the development of trade between Israel and the Palestinian Authority between the years 2005-2008. Particularly noticeable is the increase in the volume of trade of approx. 30%, which occurred in the past two years. Bear in mind that such increase occurred despite the apparent political tension in the past two years and the drastic decline in bringing in goods into the Gaza Strip as a result of the Hamas victory in the elections and its ascend to government in the Strip. The scope of trade between Israel and the West Bank has substantially increased from NIS 9.5 billion in 2007 to NIS 13 billion in 2008, whilst compensating (and more) for the decrease in the scope of trade with the Gaza Strip that went down from NIS 3 billion in 2007 to only approx. NIS 2 billion in 2008.¹⁴

¹³ According to details of the Israeli Ministry of Trade, if looking at Europe according to countries and not as one block

¹⁴ Details from the Coordinator of Government Activities in the Territories HQ



Recommendations for improving trade

As part of previous work conducted by the Peres Center for Peace, two comprehensive papers for reviewing ways to improve trade were published. The first dealt with the impact of internal checkpoints in the West Bank and the second, dealt with new checkpoints built along the Bank and their impact on the Palestinian economy and trade between Israel and the Palestinian Authority.¹⁵ The first paper examined internal checkpoints in the Bank that are a significant obstacle hindering economic growth and developing trade between Israel and the West Bank, whilst reviewing all aspects associated with the internal checkpoints, including the security aspect. The second paper reviewed the 4 main checkpoints on the green borderline, where most of the trade movement between Israel and the Palestinian Authority is concentrated, including various elements that need to improve is such checkpoints as a weighty measure for improving the bilateral trade.

The main internal checkpoints located and reviewed were – Dir Sharaf (Shavei Shomron), Beit Ibba, Anabetta, Kalkilya, Huwwara and Uratta, El-Hamra, Jalazone, Wadi Nar, Hebron (road 35), Hebron (Hakvasim junction). The main recommendation was and remains to remove these

¹⁵ The Peres Center for Peace, "Peace through Prosperity: Examining the Impact of Movement Restrictions on the Palestinian Economy", April 2008



checkpoints, since the economic damage they create is ten times greater than their security advantages (which are substantially lower since the West Bank Barrier was constructed). The recommendations mentioned in this paper have already been implemented on site and internal checkpoints have been removed or movement through them has become much easier. However, the main message is that continuous work is needed in order to reexamine the internal checkpoints in the Bank due to changing conditions, both in terms of the security aspects and the political aspects, and mainly due to progress in the construction of the West Bank Barrier.

Other recommendations on the matter of the checkpoints and trade focus on issues of "external" trade crossings, meaning those located on the Barrier that are actually the main economic lifeline of Palestinian economy, which was severely impaired since the beginning of the Second Intifada in September 2000. The trade movement that passes through these checkpoints has significantly grown in recent years; just for demonstration purposes, in 2008 the movement increased by 42% compared to 2007 and exceeded 230,000 trucks, which was also a result of blocking illegal checkpoints.

The recommendations refer to main trade checkpoints (but applied to the overall picture) which are:

- The Jalame – Gilboa checkpoint (opened in June 2006)
- The Bardale-yellow block checkpoint (opened in August 2007)
- Taiyiba –Shaar Efraim checkpoint (opened in January 2006)
- Tarqumia checkpoint (opened in October 2007)

The main recommendations for improving the transportation of goods are:
Establishing logistic centers near the checkpoints – the logistic center has many advantages, such as: bridging the gap between the existing opening hours and the hours required by users; improving the efficiency of the registration procedures, possibility of consolidating goods (small shipments); packing goods according to transport needs and security requirements.



Offering a services package to users of checkpoints - a business center, banking and money changing services, road services and car maintenance, public transportation and medical emergency services and more. We recommend that this infrastructure project be executed through private initiatives on both sides of the checkpoints.

Separating goods that need special handling from the main crossing line, such as: products with a short shelf life; products that require special permits (health, industry, trade and employment); high risk products such as chemical products; bulk packed products (various nuts, light aggregates); products with an irregular volume, length or weight.

This project also requires separate infrastructures at the checkpoint, which we recommend be established by private entrepreneurs as an alternative to governmental allocation.

Checkpoint to be used by containers, with an emphasis on export as a policy (increasing the use of "open containers" – a security preference); as well as using digital radiography devices for containers in all checkpoints (solves the need for open spaces by loading up, solves the problem of depreciation when transporting back to back, which saves a third of the transportation time compared to transporting pallets). A checkpoint for containers will allow future transportation by train, whilst saving time and tremendous costs and result in high operational efficiency.

Expanding the infrastructures at checkpoints between Israel and the West Bank – requires that two small checkpoints for goods be added around Bethlehem (in the direction of Beit Shemesh/Jerusalem), a small crossing for goods from Hebron in the direction of Beer Sheva (around Yatir) and a small crossing near the Shu'fat refugee camp (as long as the Bituna checkpoint has not been resolved with the Palestinians). In addition, the future required capacity at the checkpoints should be reviewed (whilst internalizing the expected growth in the Palestinian economy and expanding trade relations with Israel) and expanding them



accordingly. Such expansion should be done on the Israeli side with an Israeli budget and on the Palestinian side with Palestinian funding, with international assistance.

Improvements in the security aspect – allowing Palestinian dealers to pass in a fast lane, whilst their merchandise is examined upon entrance to Israel, expanding the implementation of an innovative perception based on the work recommendations prepared by the USAID for remote inspection of merchandise, manufactured by a Known Trader (inspection at the manufacturing factory's gates), secured transportation to the checkpoint and limiting the inspection at the checkpoint accordingly, expanding the security and customers inspection at checkpoints to Israelis only, in order to stop the security breaches that allow passing Palestinian goods without any supervision at these checkpoints.

Expanding the Palestinian involvement at the checkpoints – expanding the cooperation between the Israeli government and the Palestinian Authority, establishing joint situation rooms for immediate response to any problem at checkpoints, creating meeting points (business rooms) for Israeli and Palestinian dealers and businessmen, increasing the Palestinian involvement in authorizing and issuing crossing and trade permits, presence of Palestinian customs agents at checkpoints for goods and creating a joint supervision mechanisms for shipping and transporting goods.

There is no doubt that as part of the plan to promote the economy as part of promoting peace, the trade issue, which is sensitive to shipping restrictions when transporting goods through checkpoints, is extremely important and demands that the bottlenecks at the checkpoints be handled quickly and professionally. Note, that a substantial part of recommendations on this issue can be implemented at a significantly low cost and in a short term, whilst generating extreme economic benefits, as well as considerably improving the general atmosphere on both sides.



5. Infrastructures

This is an extremely extensive topic, with a multitude of resources, but in this document we will focus on only a few main issues concerning transportation, water and electricity.

Transportation – connecting the railway infrastructure

At the moment, there are no railway connections between Israel and the areas of the Palestinian Authority; even more so – there is no railway infrastructure at all in the territories of the Palestinian Authority.

The idea of connecting railway tracks between Israel at checkpoints for goods along the West Bank, which is not a new idea at all, may generate enormous economic and social benefits, by improving the trade, substantially lowering and improving the efficiency of transporting goods, supporting future industrial zones to be erected in the Bank and more.

There are three possible connection points for transporting goods to the West Bank, which are at a relatively short distance from Israel Railways' existing infrastructure:

Hebron (Tarqumia) – a connection can be established between Tarqumia and the Halets track, which currently reaches as far as Kiryat Gat from the west. Such step requires extending the track by approx. 25 km to the east. This track can practically connect Tarqumia to the Israel Railways company and the Ashdod port, resulting in quick, efficient and cheap transportation of goods that arrived at the port, whilst lowering the traffic strain on movement axes from east to west.

Tul Karm (through Shaar Efraim) – this is another location for a easily connecting the Shaar Efraim checkpoint to the Israel Railways by laying a track of a few kilometers, that will connect to an existing track in the Netanya area. This connection is also expected to lead to a substantial improvement in trade in the short term, as well as support the planned future industrial park in Kaduri (near Tul Karm).



Jenin (Jalame) – only a few kilometers are required to connect this location to the future path of the "valley train" between Afula and Beit She'an, which is planned for construction in the next couple of years as part of the Israel Railways' "Netivey Israel" [Routes of Israel] program.¹⁶ This connection is also expected to be extremely beneficial in transporting goods to and from the West Bank to ports and other places in the country and at a low cost.

In the future, subject to the required political changes, using a relatively small investment and an extensive economic benefit, the Gaza Strip can also be connected to the railway track. The Israel Railways' tracks currently reach as far as Moshav Mavki'im and the Yad Mordekhay junction, only a short distance from the Gaza Strip. Such connection will ease, cheapen and improve the efficiency of transporting goods and containers from the Ashdod port to the Gaza Strip and back, and will provide many economic benefits, similarly to the connection with the West Bank.

In addition, the Karni Crossing can be connected to the planned route between Sderot and Beer Sheva, whilst exhausting tremendous economic advantages to Gaza's economy, but clearly this matter is subject to developments in the relations between Israel and the Gaza government.

It is important to note that railway transportation (approx. 40 containers per train) is significantly cheaper compared to truck transportation (including saving time in traffic jams, damaging the quality of the environment, long lines at checkpoints and fines for containers). It also allows releasing goods at the port, without leaking in goods against the Israeli law, and also provides a high level of security which will help establish another export and import platform in the future, in the form of a land port within the West Bank (see later in the chapter). The economic potential is tremendous and includes transporting goods, agricultural products and finished industrial products, construction

¹⁶ <http://www.globes.co.il/news/article.aspx?did=1000446681&fid=2>, "Israel Katz presented a plan for establishing a network of railway tracks from Eilat in the South to Kiryat Shmona in the north", Lior Baron and Dubi Ben Gdalyahu, May 4, 2009



materials as well as raw materials to industrial zones that will be established in the West Bank.

Connecting the Israel Railways to merchandise checkpoints may even form a basis for laying a railway infrastructure within the areas of the Palestinian Authority and a future connection between the railway tracks on both ends. In the future, this plan can be combined with other regional fast transportation infrastructure projects, as discussed in multilateral deliberations that have been going on between Israel and the Arab world since 1991.

Land Connection

The land connection between the Gaza Strip and the West Bank is strategic and extremely essential to the Palestinian state to be established in these areas. In the Declaration of Principles ("Oslo") in 1993, Israel accepted the principle whereby the Gaza Strip and the West Bank form one territorial unit, which later led to an agreed arrangement for transportation between the areas, meaning the Safe Passage Protocol, in the interim agreement of 1995.

Furthermore, the land connection has significant implications which are of extreme importance – they turn the Strip and the Bank into one unit, in economic, social, political, governmental and demographic terms and basically in all of life's aspects. The impact of the land connection on the Palestinian economy is expected to be far reaching – it will create a united market, will allow movement of employees and merchandise between the areas, open the West Bank to export through the sea (through the future port to be established at the Strip) and will allow agricultural and other export from the Gaza Strip to the Gulf and Europe, through Jordan.

This is a large and complicated infrastructure project that entails economic, planning, environmental, security and other aspects. Therefore, planning and execution is expected to continue for more or less 8-10 years and perhaps even more, if there will be any unpredictable delays.



A comprehensive study regarding the land connection is currently being formulated by the Aix team¹⁷, in which the Peres Center for Peace is also a partner, and includes the following recommendations:

- * Since this is a long term project and since **only completing the project will allow using the land connection** (partial implementation of the project has no significance), **planning the connection and execution thereof should start from today.**
- * **Concurrently, in the short and even immediate term, we need to renew the activity of the Safe Passage, in order to offer a solution for the next decade, until the land connection is completed.**
- * **Israel needs to choose the outline for the axis** (passing through its territory) **today** in order to start planning and construction

Land port – transferring Palestinian goods by transit from Israeli ports to the Authority territories

Most of the Palestinian export and import activity – to destinations other than Israel – is done through Israeli ports (mainly the Ashdod port), with a minority passing through the Ben Gurion Airport, the Allenby Bridge and the Rafiah Crossing. This fact creates a strategic dependency of the Palestinian economy on Israeli ports, which according to international standards, is not considered extremely efficient.

This idea of the land port has been discussed for a number of years by the Israel Port Authority, Israeli and Palestinian businessmen and Palestinian officials, as an option for Palestinian independence in collecting import taxes and disconnecting the Palestinian economy from the inner-work problems that exist in Israel and cause many strikes at ports, thereby damaging Palestinian importers.

There is a plan to establish a land port near the Shaar Efraim crossing (C area), but the location and the concept are not completely coordinated with the Palestinian Authority, since it does not

¹⁷ A group of Israeli-Palestinian-international economists, who are studying the issue of a permanent arrangement between Israel and the Palestinians, whilst focusing on the economic measures of this issue.



offer the Palestinians the desired independence and the intention is that only Israel will maintain control of the port.

Most of the Palestinian import and export activity – to destinations other than Israel – is done through the Israeli ports (mainly the Ashdod Port), and a small portion passes through the Ben Gurion Airport, Allenby Bridge and Rafah Crossing. This fact creates a strategic dependence of the Palestinian economy on the Israeli ports, which according to international indexes, is not considered efficient.

The main reason for this lack of efficiency (as presented in the annual convention of the Shippers Council, December 2007), are disruptions in the ports' work which causes delays, long waits, shortage in proper pier infrastructures, binding wage agreements, unpleasant work relations, old container terminals that are only suitable for small vessels and **severe shortage of logistic warehouse management, which halters the efficient flow of the port's logistic chain.**

The concept of the land port was mentioned in 2005 by Mrs. Iris Stark, Ashdod Port Chairperson, as a weighty project that will allow significantly extending the trade relations between Israel and the Palestinian Authority. In 2007, the matter was thoroughly reviewed by a joint inter-office team assembled by the Israel Port Authority and the Israel Railways, based on Israel's need to solve the problem of storage space at ports (mainly the Haifa Port) in order to allow storage of containers near importers and exporters' sites in the central region, ease the traffic load at the port gates and divert truck movement from the coastal highways.¹⁸

We recommend implementing this concept on Palestinian goods, which will lead to a demand for a defined site, to be agreed with the Palestinian Authority, where a facility

¹⁸ <http://www.haaretz.co.il/hasite/pages/ShArt.jhtml?more=1&itemNo=865336&contrassID=2&subContrassID=6&sbSubContrassID=0> "Israel Port Authority and Israel Railways are examining the possibility of establishing a land port in the central region" Avi Bar-Eli



will be erected for concentrating Palestinian goods, thereby offering a solution to both the Israeli needs and the Palestinian needs.

This is a long term investment that will form another measure for economic development, both the Palestinian Authority and Israel, by improving the efficiency and lowering the cost of transporting, recording and releasing export/import goods, creating opportunities for regional cooperation in the shipping industry and more. Therefore, our recommendation is to proceed with this project with top priority.

Water

The water topic is extremely important and sensitive and that is why it is mentioned and specified in all the understandings signed with the Palestinians as part of the Oslo Agreement. During the declaration of principles ("Oslo Agreement", 1993) there was a general and individual reference to the water issue, and suggestions were raised for studies and plans. As part of the Cairo Agreements ("Agreement of Gaza Strip and Jericho Area", 1994), control of the water supply system in the Gaza Strip was conveyed to the Palestinians, including management, development and maintenance of the water and sewage systems.¹⁹ A more detailed reference to the matter can be found in the Temporary Agreement ("Oslo II", 1995), which includes an extensive chapter on water and sewage. In this agreement, Israel acknowledged the Palestinians' water rights in the West Bank and committed to the devolve water and sewage related authorities and responsibilities in the West Bank to the Palestinians, as well as supply a defined quantity of water (28.6 cubic meters per second) during the interim period, from an addition of 70-80 cubic meter per second for "future needs"²⁰.

Both parties acknowledged the shortage of water and the need to develop and generate additional water sources (mainly from the eastern aquifer, sewage purification and desalination).

¹⁹ Except Gush Katif and other Israeli settlements

²⁰ State of Israel – Water Authority, The Water Issue between Israel and the Palestinians, March 2009



The urgent need to coordinate and cooperate in water matters, became much more critical over the past years, due to the low amounts of rain water in recent winters and a drastic decline in the water level of the Kinneret, which reached an all time low that Israel has not seen for many years and in our opinion, such cooperation is a successful example – throughout the years – that professional systems with a joint interest, work well together.

The potential for cooperation in this area is tremendous, but it requires support and budgeting from the international community. In addition to the desalination facilities that are currently erected in Israel (and are expected to increase the water supply to both sides), there is another idea for a main joint water project, which is to **establish a desalination facility on the Israeli coast, using international funding, that will transport the desalinated water directly to the West Bank.** This project can be an example for possible cooperation platforms in the matter and requires willingness on Israel's behalf as well as the assistance of international government and organizations that would be willing to offer the necessary budgets for establishing and operating desalination facilities.

Electricity

At the moment, Israel is almost the exclusive source of electricity to Palestinian residents in the West Bank, except for supplying electricity to Jericho from Jordan at a relatively low scope. The Israel Electric Company currently sells approx. 6% of the electricity it produces to the Palestinian Authority. Approx. 40% of such quantity is transferred to the East-Jerusalem Electric Company²¹, 30% goes to the remaining areas of the West Bank and the remaining 30% goes to the Gaza Strip (in addition to electricity manufactured by the power station in the Gaza Strip and the electricity transferred from Egypt).

Before the Second Intifada (September 2000) the demand for electricity in the Palestinian Authority went up by an average of approx. 15% per year, when in the first few years after the

²¹ This company, which is responsible for supplying electricity to the residents of East Jerusalem and the central West Bank, suffered a tremendous blow since March 2002 as a result of difficulty collecting payments from its Palestinian clients



Intifada, the demand slowed down to an average of 3% per year only. Nevertheless, **the Palestinian Authority currently lacks the suitable infrastructures to support the increasing demand for electricity.**

Cooperating in the matter of electricity is imperative to both parties, both Israel that has a commercial, political and security interest in such collaboration (including preventing an economic and humanitarian crisis in the Palestinian Authority) as well as the Palestinians, who have a clear interest in developing their energy production abilities and offering a solution to the growing demands. Therefore, **the parties have an understanding, which sustained even the toughest days of mutual violence, that the matter of electricity needs to remain out of the dispute and that it is important to promote mutual cooperation in this issue.**

A process that began in Athens in May 2003, between the Israeli Ministry of National Infrastructures and the Palestinian Ministry of Energy, led to signing an understanding²² on the matter in October 2003, between the Israel Electric Company and the Palestinian Ministry of Energy, which includes the following principles:

- Establishing five distribution companies in East Jerusalem and the central West Bank (JDECo), Northern West Bank (NELCo), Southern West Bank (SELCo), Hebron (HEBCo) and the Gaza Strip (GDECo). **The process of establishing these companies has yet to be completed.**
- The need for a long term commercial agreements between the Israel Electric Company and the Palestinian distribution companies. Amongst other things, the agreements will give priority to developing infrastructures, including upper voltage lines (161 Kilowatt) from Netivot to the Gaza Strip. The support of the European Union for establishing the necessary conditions for implementing urgent and other projects specified in the agreement (JUPE). This section has also yet to gain any true progress.

²² "The Joint Understanding on the Principles of Electricity Agreement (JUPE)", October 2003



With the current infrastructures' situations in Israel and the Palestinian Authority, we expect substantial difficulties in responding to the future demands for electricity in the Palestinian Authority, with an emphasis on certain areas such as Khan Yunis and the northern West Bank.

The power station that exists in the Gaza Strip manufactures much less than its potential (out of a potential 140 megawatt) and lacks distribution infrastructures, sub-stations and high voltage lines.

The Europeans (European Investment Bank), Israel and the Palestinian Ministry of Energy recently agreed to establish four sub-stations in the West Bank near the cities of Jenin, Shechem, Ramalla and Hebron (Taqumia) in order to allow increasing the electricity supply to the West Bank and thereby offering a solution to the planned industrial zones, with funding from the European Investment Bank, with both Israeli and Palestinian involvement. **These have yet to be established.**

Therefore, we recommend **giving top priority to promoting the establishment of a network for leading and distribution electricity in the Palestinian Authority, including construction of sub-stations in the Palestinian Authority's territories, connecting and erecting high voltage lines between Israel and the Palestinian Authority's territories by ending a long term agreement for electricity supply with the Israel Electric Company that will complete the systemic solution for all issues.**

There are still pending issues that need to be addressed and decided, which we recommend be promoted and these include the **development of natural gas near the Gaza coast, which requires a supply agreement with Israel, as well as the solar energy farm that can possibly be a joint project, after the location issue is resolved.**



6. Tourism

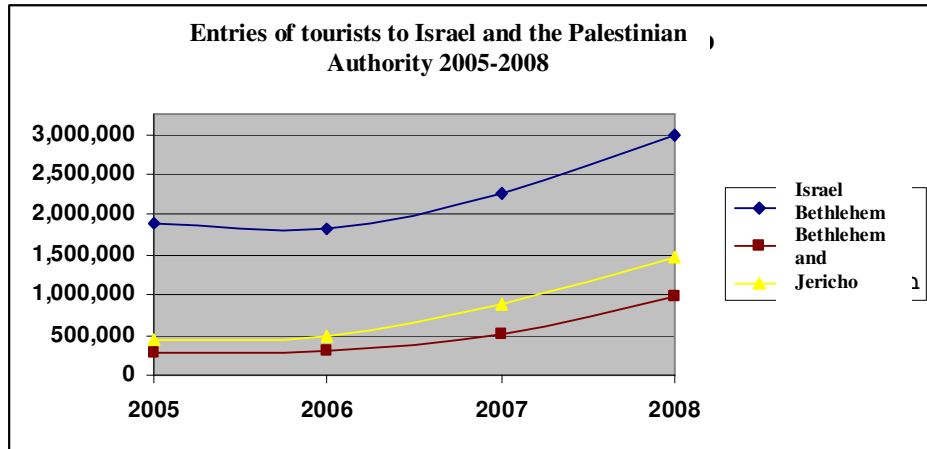
Tourism is a vital growth engine for the Palestinian economy and has immense potential for future expansion, which also contributes to production and employment. This field has improved in recent years in the Palestinian Authority, in light of the relative security calm.

The tourism details for the Palestinian Authority in 2008 were quite encouraging. The outgoing tourism to Bethlehem increased by approx. 93% compared to 2007 and totaled a number of almost a million tourists. The outgoing tourism to Jericho also grew by approx. 31% compared to 2007 and in 2008, amounted to about half a million tourists.

As said, the potential is much greater. Israel and the Palestinian Authority is actually one tourism product, which cannot truly be separated. The most profound example for uniting this tourism product is Jerusalem and Bethlehem, which together form an attractive tourism destination for tourists, especially Christian tourists from Europe, USA and other countries.

Details of incoming tourism to Israel and the Palestinian Authority between 2005-2008²³ (as we can clearly see in the next sketch), explicitly indicate an increase in the number of tourists visiting Israel and the Authority, as well as a high correlation in the details of the incoming tourism:

²³ According to details of the Israeli Chamber of Commerce and the Palestinian Chamber of Commerce



These details show us that there is an extremely high correlation of almost 100 percent between the changes in entries of tourists to Israel and the changes in the entries of tourists to Bethlehem and Jericho. Nonetheless, today we can see (after a substantial improvement in the rate of visitors to Bethlehem out of the total visitors to Israel – see next sketch), that only a third of the incoming tourists to Israel, also visit Bethlehem.²⁴



²⁴ Processing for details from the Israeli and Palestinian Chambers of Commerce



Recommendations for Israeli involvement in order to improve tourism in the Palestinian Authority:

- **Launching a joint marketing campaign for Jerusalem and Bethlehem** – as said, Jerusalem and Bethlehem together, form one unique tourism product and a magnet for the Christian population, mainly from Europe and the USA, visiting Israel, Jordan and even Egypt. For demonstration purposes, we can look at tourism in the year 2008, with more than 400,000 day visitors, most from Eastern Europe – who came into Israel²⁵ from Egypt for a daily visit (without sleeping in Israel), visited Jerusalem and Bethlehem, despite the long drive from Sharm-a-Sheikh to Jerusalem and back.

Our recommendation is to launch a joint project for both the Israeli and the Palestinian Ministries of Tourism, in order to market Jerusalem and Bethlehem together, which will include producing joint promotional materials, mentioning prominent sites in both cities in the materials produced independently by each side, coordinated marketing in international fairs etc.

Establishing a unit for coordinating and cooperating in the field of tourism – at the moment the Israeli Ministry of Tourism, or alternatively the Civil Administration, has no body (except for a single employee), specifically designated for tourism related cooperation with the Palestinian Authority.

In light of the importance of tourism, both for Israel and the Palestinian Authority, **we recommend establishing a special unit to be in charge for all coordination and cooperation in this matter, both with the Palestinian Ministry of Tourism and the business sector, in order to handle current problems and promote joint tourism projects.**

In January 2009, the Peres Center for Peace published a study as part of the Tourism for Peace project, about the movement of tourists between Israel and its neighbors²⁶, which also focused on Rachel Crossing at Bethlehem and other recommendations for the field of tourism.

²⁵ Before canceling the requirement for visa for tourists from Russia, cancelled in the beginning of 2009

²⁶ "A Review of Border crossings with Arab States", January 2009, Peres Center for Peace (through the Mertens-Hoffman company)



7. Summary and Recommendations

This document was prepared after consulting with dozens of experts in the area and is also based on thorough discussions with Palestinian and Israeli official representatives as well as non-officials, businessmen and various organizations engaged in promoting the economic relations between Israel and the Palestinian Authority. It also concentrates specific, comprehensive studies published on the matter.

As mentioned, part of the field work for this document was performed by the Peres Center for Peace as part of specific projects quoted in this document. The main objective of this document is to offer a variety of concepts in essential issues, in order to promote the political peace program between Israel and the Palestinians and developing the Palestinian economy and the economy of the entire region.

We believe that handling such issue will generate a genuine change and will create a parallel platform for true reconciliation, combined with a political solution.

Nonetheless, in this document, we did not discuss projects associated with the Gaza Strip, due to the problematic nature of the government in Gaza and the lack of ability to implement dozens of already planned projects, which are extremely needed.

Throughout the document, we made no reference to the Palestinians commitment to promote the activity and projects, and rather concentrated on things that we believe Israel can and should do, in order to change the atmosphere and promote Palestinian economy.

Note that there are additional issues that are not purely economic, which were not discussed in detail in this document, such as telecommunication (careful review of cellular frequencies) and mail, existing ventures concerning the quality of the environment for treatment the water issue,



sewerage projects, waste issue, cellular electricity, incorporating Palestinians in the electric car program and more.

In addition to the aforementioned, there are projects in the field of health (building hospitals and upgrading existing ones), agricultural cooperation with an emphasis on knowledge, coordinating and exchanging information regarding standardization and the Standards Institute, encouraging foreign investments by the Israeli government in the territories, whilst ensuring investors and investments in terms of freedom of movement for people and goods (an Israeli plan still needs to be formed for this matter), qualifying manpower, cooperation and projects in the IT and high-tech fields and more. Nonetheless, these are all exceptions which have no indication on the general situation. Everything needs and should be elaborated. ,

As said, our recommendations in this document were specified according to essential economic issues, which are supposedly separate issues, **but the lateral implementation thereof is the foundation for maximizing the benefits** and creating the needed effect, for Palestinians, Israel and the rest of the world.

Most recommendations require a lateral and synergetic approach, as for example; clearly helping to establish an industrial zone will surely require reference to the matter of human movement and transportation of goods within the West Bank as well as infrastructure solutions, safety solutions and yet are also expected to encourage local and international investments. Such project will also handle employment issues and demand attention and improving the matter of trade activity in checkpoints, in order to maintain competitiveness and long term sustainability of businesses to be established in the industrial zones.

In light of the aforesaid, we recommend presenting an Israeli plan referring to Israeli activity in order to promote economic cooperation combined with political progress that will include activity along the entire economic front concurrently and not in a sporadic or columnar manner, without any precondition.



Furthermore, we recommend that the program be limited by a transparent schedule for the Palestinian side and the Israeli side, so that long term projects be exposed to supervision and to ensure that short term matters that were resolved, will be immediately visible.

As part of our above specified recommendations, on the one hand, there are matters of various implementation levels and an assortment of massive infrastructure issues that require extensive resources. There are also issues than need a long implementation period, whilst on the other hand, there are projects with a cheap, quick execution process or ones that only require a final decision.

Due to the atmosphere of lack of trust and doubts regarding any chances of moving ahead, which are also felt on the Palestinian side but mostly among the Israeli public, we recommend ranking the projects for execution so that in the short term, the activity will have high visibility and the quick success stories will "fuel" the patience we need until long term projects are implemented.

As we can see by analyzing the main paratmers of the Palestinian economy's condition, it is clear that the employment issue is the most difficult and painful topic and therefore, we repeat our **recommendation to give the issue of employment the utmost priority, considering that this issue has many other effects as well as economic benefits.**