

## PALESTINIAN ECONOMIC BULLETIN

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### In Focus

*In accordance with the Trump Plan, Israeli Prime Minister Netanyahu has repeatedly reiterated his intention to annex Jewish settlements and the Jordan Valley*

*The incorporation into Israel of large portions of Area C would remove access to territory and resources necessary for growth across key sectors including agriculture, tourism, industry, energy, construction and commerce*

*Annexing Jewish settlements in Area C would significantly restrict Palestinian movement, creating isolated Palestinian areas surrounded by Israeli territory and hindering connectivity*

*The Palestinian National Authority refuses to accept the transfer of May clearance revenues from Israel*

*The Palestinian National Authority calls for international recognition of the State of Palestine along pre-1967 borders, amidst concerns for its collapse in the event of annexation*

### Proposed Israeli Annexation of the West Bank

On 1 June, Benny Gantz, Israel's new Defense Minister and Alternate Prime Minister, instructed the Israeli military to be prepared for the planned annexation of parts of the West Bank.<sup>1</sup> Israel's stated plans for annexation would extend sovereignty over most of the Jordan Valley and all of the more than 235 Israeli settlements in the West Bank.<sup>2</sup> The annexation of this territory was a central component of US President Donald Trump's Peace to Prosperity Plan, released in late January 2020.

On 20 April, Israeli Prime Minister Benjamin Netanyahu and his then electoral rival Gantz, had agreed on the formation of a unity government, with a clause that allows Israel to initiate legislation to annex large parts of the occupied West Bank on 1 July.<sup>3</sup> Under the terms of the coalition agreement, Netanyahu will be able to table the proposed application of Israeli sovereignty for debate in the Israeli security cabinet and the full cabinet, and for the approval of the cabinet and/or the Knesset.<sup>4</sup> However the shape, pace and scope of possible Israeli moves in this direction remain unclear.

Since 1967, Israel's incremental actions in the West Bank have been widely considered "de facto annexation". This includes the expansion of Israeli settlements and outposts in the West Bank, developing infrastructure to connect the settlements to Israel, restrictions on Palestinian construction and demolitions in Area C under Israeli military control.<sup>5</sup> The move under discussion would deepen the existing reality on the ground and provide a legal framework for it, making it "de jure annexation".<sup>6</sup>

The planned Israeli annexation would significantly undermine the prospects of an economically viable Palestinian State. Annexation would deprive Palestinians of key agricultural land, water and other resources, especially in the Jordan Valley region, harming key sectors including agriculture, tourism, industry, energy, construction and commerce.<sup>7</sup> It would also significantly curtail Palestinian movement, creating isolated Palestinian enclaves and restricting economic connectivity.

### Annexation in the US Peace Plan

On 28 January 2020, President Trump unveiled his vision for Palestinian-Israeli peace, largely accommodating Israel's territorial and security demands with immediate effect whilst promising Palestinians the potential of a "state", albeit with severe restrictions and following an extended period of negotiation.<sup>8</sup> According to the plan, around 32% of the West Bank area would be annexed to the State of Israel. This includes the entire Jordan valley (except for an enclave around Jericho) and the Dead Sea in the eastern part of the West Bank, land located between the Israeli Separation Wall and the Green Line (armistice line of 1949), and the Jewish enclaves in the corridors area between east and west of the West Bank.

Under the terms of the plan Israel could annex around 1,812 km<sup>2</sup> (32%) of the West Bank land area (5,661 km<sup>2</sup>), while sixteen Israeli settlements with 15,675 settlers

1 <https://wapo.st/3fx1rRT>

2 <https://bit.ly/2Buqm9W>

3 <https://bit.ly/2ULL3oj>

4 <https://bit.ly/3hv4ls1>

5 <https://indd.adobe.com/view/acfbc290-e96b-44f9-8617-58052a785c68>

6 <https://bit.ly/2N2401P>

7 <https://bit.ly/2UHpdCw>

8 [www.whitehouse.gov/peacetoprosperty/](https://www.whitehouse.gov/peacetoprosperty/)

would remain on 19km<sup>2</sup> of Israeli enclaves within what remains of the West Bank after annexation.<sup>9</sup> In the Jordan Valley, approximately 895 km<sup>2</sup> will be annexed to Israel. All lands designated as Area B in the Jordan Valley, comprising six Palestinian localities built over 23 km<sup>2</sup> and home to over 5,600 Palestinians will be enclaved.<sup>10</sup> In lands designated as Area C in the Jordan Valley, eleven Palestinian localities and twelve Bedouin communities will also be enclaved, with a total of 12,000 Palestinians living in these areas.

The plan also unveiled some areas to be ceded by Israel to the West Bank and Gaza Strip in potential “land swaps”, consisting of 520 km<sup>2</sup> of desert south of the Gaza Strip and 180 km<sup>2</sup> of uninhabitable desert south of Hebron.

The U.S. administration has repeatedly stressed that it expects Israel to accept the entire Plan in order to proceed with annexation, including an agreement to conduct direct negotiations with the Palestinians for at least four years, to freeze all construction and demolitions in the territory earmarked for the Palestinian state, to release Palestinian prisoners, and eventually establish a nominal but territorially incoherent Palestinian state with a capital in neighbourhoods to the east of Jerusalem outside the municipal boundaries of the city. Nonetheless, Israel and the US established a working committee responsible for drawing up the map and proposed borders in preparation for an apparent unilateral Israeli annexation.<sup>11</sup>

## Israeli Plans for Annexation

In accordance with the US Plan, Israeli Prime Minister Netanyahu has repeatedly reiterated his intention to annex Jewish settlements and the Jordan Valley.<sup>12</sup> However, on 7 June, Netanyahu confirmed that the White House has not yet given him the green light to proceed with annexation and that the territory to be annexed may be less than originally planned as the maps are yet to be agreed.<sup>13</sup> At the time of writing, it therefore remains unclear what aspects of the US Plan will be implemented on the ground. Some recent reports suggest that annexation could be implemented in phases, beginning with areas already occupied by Israeli settlements or with parts of Area C in the Jordan Valley which is currently under Israeli control.

While some reports have suggested that up to 30% of the West Bank is targeted for annexation (or around half of Area C), others estimate that it is more likely to be closer to 20%, based on the maps presented by Netanyahu in 2019.

**Table 1: Proposed Area to be annexed under the US Peace Plan and the Israeli annexation plan**

Indicator	US Peace Plan	Israeli annexation plan <sup>14</sup>
Area annexed	1,812 km <sup>2</sup>	1,200-1,236 km <sup>2</sup>
Percentage of West Bank Area	32%	20.5-22.3%
Privately-owned by Palestinians (%)	Not Available	20-23%

9 [www.arij.org/eye-on-palestine-arij/presentations.html](http://www.arij.org/eye-on-palestine-arij/presentations.html)

10 <https://bit.ly/2YGT2V4>

11 <https://bit.ly/2B6GkH9>

12 <https://nyti.ms/2N23Abl>; <https://bit.ly/37uOTHl>

13 [www.arabnews.jp/en/opinion/article\\_19260/](http://www.arabnews.jp/en/opinion/article_19260/)

14 <https://bit.ly/2Y5MMqW>; <https://bit.ly/3ebMZ1b>

The decision to annex territory would be practically irreversible. Under Israeli law, any territory annexed would thereafter fall under the jurisdiction of the 2014 Referendum Law and if Israel later wanted to withdraw from said territory as a result of peace negotiations, it would need to meet the very high threshold of a super-majority in parliament (80 out of 120 members) or 50% of Israeli voters in a referendum.<sup>15</sup>

## Potential Economic Implications

### Loss of Land and Resources

The incorporation into Israel of large portions of Area C, which makes up 60% of the West Bank, would remove access to territory and resources necessary for growth across key sectors including agriculture, tourism, industry, energy, construction and commerce. Area C contains the most significant reserves of fertile agricultural land, sources of water and natural minerals.

For Palestine, Area C including the Jordan Valley is the difference between a viable state and a failed state. According to the World Bank, alleviating Israeli restrictions on Palestinian access to and use of Area C alone would allow \$3.4 billion per annum in value-added economic productivity.<sup>16</sup> Without access to vital resources in strategically significant areas of the West Bank, the Palestinian economy would be permanently reliant on imports and donor aid, leading to increased unemployment and deprivation and the very real threat of social collapse and upheaval.

The Jordan Valley, of which almost 90% is in Area C, is home to over 65,000 Palestinians and holds vast potential for agricultural, industrial and tourism development, in addition to providing land for the natural expansion of Palestinian towns and cities.<sup>17</sup> The area is critical for Palestinian food security and contains vital water resources, estimated at around one third of underground water reserves in the West Bank. The potential economic development of the Jordan Valley is considered essential for Palestinian growth and recovery and is therefore crucial for the sustainability and viability of any future Palestinian State.

Around 20-23% of the area expected to be annexed (250-280 km<sup>2</sup>), is land privately owned by Palestinians who will not be granted Israeli citizenship.<sup>18</sup> If the Government of Israel does not amend its laws regarding the property of “absentee” landowners, all of these Palestinians will be deemed “absentee” and forfeit their lands, which provides an enabling legal framework for their gradual transfer to Israeli settlements as in the case of East Jerusalem. According to Israeli expert Shaul Arieli, since the annexation of occupied East Jerusalem in 1980, Israel has expropriated around 28.3 km<sup>2</sup> (44% of area annexed in 1967) of mostly Palestinian-owned land for “public

15 <https://bit.ly/2Y4PGvX>

16 <https://bit.ly/2US1cZz>

17 <https://bit.ly/3hGvk3T>

18 <https://bit.ly/2Y5MMqW>; <https://bit.ly/3d2Z0F0>

use".<sup>19</sup> In these areas, 60,000 housing units were built for Jews and only 1,000 units for Palestinians. The land loss, followed by restrictions on movement and access and the construction of the separation wall, has isolated Jerusalem and fragmented Palestinian geography. East Jerusalem's total contribution to Palestinian GDP declined from 15.5% in the late 1990s, to below 8% after 2010. Palestinians in East Jerusalem have also experienced a steadily increasing poverty rate, reaching more than 75%.<sup>20</sup>

### **Agricultural development**

In the mid-1990s, Palestinian agriculture comprised 13% of national GDP, but declined to 7.4% in 2018.<sup>21</sup> This downward trend can be largely explained by the steady increase of restrictions on Palestinian access to land and water, specifically in Area C.

Currently, only a small portion of Area C is accessible for Palestinian economic activities. Less than 1% of the land is designated for Palestinian use, with the remainder restricted for Israeli settlements, closed military zones and nature reserves.<sup>22</sup> An estimated 500 km<sup>2</sup> of land suited to agriculture is not accessible for cultivation by Palestinians, with approximately 187 km<sup>2</sup> occupied by Israeli settlements. Area C also contains aquifers and spring water from which Palestinians have a limited annual allocation, and for which approval by the Israeli Civil Administration is required for Palestinians to dig wells or build wastewater treatment facilities.<sup>23</sup>

Approximately 17% of Palestinian agricultural land in the West Bank (340 km<sup>2</sup>) is earmarked to be annexed to Israel, of which 26% (89 km<sup>2</sup>) is in the Jordan Valley area. Furthermore, 61 Palestinian springs and 131 Palestinian water wells in the occupied West Bank will be annexed.

### **Tourism**

Tourism is one of the most important economic sectors in Palestine, with potential for significant growth. In 2018, 3.4m tourists visited Palestine, spending over \$300m in the 'hotel, accommodation and restaurants' sector alone.<sup>24</sup> According to the Palestinian Central Bureau of Statistics, the number of workers in activities related to the tourism sector reached over 38 thousand in 2018 (4% of the Palestinian workforce).<sup>25</sup>

The potential of the Palestinian tourism sector remains largely unexploited due to a large degree to current restrictions imposed by the Government of Israel on movement, access, and construction, in particular around the Dead Sea. According to the World Bank, income generated by access to the Dead Sea (including the development of tourism and extraction of minerals) has the potential to reach approximately \$1.2 billion if Israeli restrictions on access to and use of Area C are removed.

<sup>26</sup> Area C is also home to around 3,110 archeological sites registered by the Palestinian Ministry of Tourism and Antiquities—of which 443 are in the Seam Zone, and 247 in the municipal areas of Israeli settlements.<sup>27</sup>

Areas expected to be confiscated or enclaved as part of the annexation plan have major global tourism potential. Jericho and the Jordan Valley Governorate alone hosted 35% of inbound tourist visits to Palestine in 2018.<sup>28</sup>

### **Enclaves and Restrictions on Movement and Access**

Annexing Jewish settlements in Area C would significantly restrict Palestinian movement, creating isolated Palestinian areas surrounded by Israeli territory and hindering connectivity with economic activity of other areas in Palestine.

According to the conceptual map released as part of the Trump plan, 43 Palestinian villages, home to some 110,000 residents, will be turned into enclaves detached from the future Palestinian state.<sup>29</sup> Around 65,000 Palestinians and 11,000 Israeli settlers live in the Jordan Valley and northern Dead Sea area.<sup>30</sup> The main Palestinian city in the Jordan Valley is Jericho, with around 28 villages and smaller Bedouin communities. The area of Jericho (currently in Area A) will become a Palestinian enclave surrounded by territory under Israeli sovereignty. This enclave will cover 70 km<sup>2</sup>, incorporating over 40,000 Palestinians living in six different communities. Every exit from and entry to the enclave will require passing through Israeli checkpoints and crossing through Israeli-annexed territory. Jericho, a tourist center and the West Bank's main area for cultivation of dates, will in practice be cut off from the rest of the West Bank and will likely experience rapid economic decline.

As currently envisaged in the plan, 12 Palestinian villages with 13,500 inhabitants in Area B comprising 4.2 km<sup>2</sup> will be annexed to Israel without receiving Israeli citizenship.<sup>31</sup> The PNA will instantly lose its responsibility for these villages, and full authority will be assumed by Israel.

A study published by the Applied Research Institute – Jerusalem (ARIJ) in early 2019, found that Israeli restrictions on movement and access currently cost Palestinians around 60m working hours with a cost of \$274m, and 81m litres of fuel with a cost of \$135m annually.<sup>32</sup> The proposed annexation plans will further exacerbate such restrictions on movement, leading to increased costs and reduced productivity.

## **Palestinian Government Response**

In response to the Israeli annexation declarations, Palestinian President Mahmoud Abbas announced on 19 May the cessation of all security cooperation with Israel.<sup>33</sup>

19 <https://bit.ly/3ebMZ1b>

20 [www.mas.ps/files/server/20191703143807-1.pdf](http://www.mas.ps/files/server/20191703143807-1.pdf)

21 [www.pcbs.gov.ps/Downloads/book2421.pdf](http://www.pcbs.gov.ps/Downloads/book2421.pdf)

22 <https://bit.ly/2YAeSJH>

23 <https://bit.ly/2ULQ40c>

24 [www.aliqtisadi.ps/article/74517/](http://www.aliqtisadi.ps/article/74517/)

25 [www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3555](http://www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3555)

26 <https://bit.ly/2B1XDJv>

27 <https://bit.ly/2B1XDJv>

28 [www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3555](http://www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3555)

29 <https://bit.ly/2Y5w41a>

30 <https://reut.rs/2Y4Zxlk>

31 <https://bit.ly/2CfrbUq>; <https://bit.ly/2BcXbba>

32 [www.arij.org/files/arijadmin/2019/mobility\\_2019.pdf](http://www.arij.org/files/arijadmin/2019/mobility_2019.pdf)

33 <https://nbcnews.to/2YGbKvQ>

Following the announcement, Hussein al-Sheikh, head of the Palestinian Civil Affairs Authority, stated that the PNA refused to accept the transfer of May clearance revenues from Israel, as it is absolved of all agreements and understandings with the Government of Israel.<sup>34</sup>

The clearance revenues account for approximately \$208m per month and over 60% of tax revenues.<sup>35</sup> As a result, the PNA has been unable to pay salaries from May 2020.<sup>36</sup> The PNA has begun implementing budget cuts that include cutting salaries of tens of thousands of clerks and police officers, and \$105m for Gaza that contributes towards salaries, medical expenses, and utility fees.<sup>37</sup> By the end of June, there was still no word as to whether the Government would be able to cover public sector salaries for May, which usually are paid in the first week of the month.

On 9 June, Palestinian Prime Minister Mohammad Shtayyeh announced that the PNA had submitted a proposal for Palestinian statehood to the Office of the Quartet<sup>38</sup>, that provides for the creation of a sovereign, independent, and demilitarised Palestinian state, along the 1967 borders with East Jerusalem as the capital. He also reaffirmed that the PNA will not give in to Israeli suggestions to resume contact in order to transfer clearance revenues, noting that Israel could transfer the funds without direct contact.<sup>39</sup>

The PNA also expressed its stance to international donor partners through a statement to the Ad-Hoc Liaison Committee (AHLIC). The statement stated that annexation would violate Palestinians' basic rights, deprive them of sovereignty over their natural resources, undermine the territorial unity of the Palestinian territories, and cause detriment to the two-state solution. The PNA called upon all States to recognise the State of Palestine with pre-1967 borders, adopt measures of accountability (such as sanctions), and work towards ending the Israeli occupation of areas occupied since 1967.<sup>40</sup>

On 21 June, Hussein al-Sheikh told Israel's public radio Kan that the PNA and Palestinian security forces will collapse if Israel proceeds with its annexation plan.<sup>41</sup>

34 <http://english.wafa.ps/page.aspx?id=37R4Uca117299750238a37R4Uc>

35 <https://wapo.st/2YALva4>

36 <https://bit.ly/30VFIPv>

37 <https://nyti.ms/311GWsz>

38 consists of the United Nations, the European Union, the United States and Russia, with a mandate to assist in mediating Middle East peace negotiations while supporting Palestinian economic development and institution building

39 <https://bit.ly/2CaNLxt>

40 [www.lacs.ps/documentsShow.aspx?ATT\\_ID=45264](http://www.lacs.ps/documentsShow.aspx?ATT_ID=45264)

41 [www.al-ayyam.ps/ar\\_page.php?id=13f99938y335124792Y13f99938](http://www.al-ayyam.ps/ar_page.php?id=13f99938y335124792Y13f99938)

## International Response

International responses to potential annexation have been largely critical, with most nations and organisations denouncing the decision and urging that it be reconsidered.

The European Union (EU) and most EU states have condemned annexation, and several European countries are said to be calling for a hard line on the issue, with some discussing the potential of economic sanctions being placed on Israel if it goes through with the decision.<sup>42</sup>

King Abdullah II of Jordan stated in an interview that the annexation of the West Bank by Israel would cause "a massive conflict with the Hashemite Kingdom of Jordan".<sup>43</sup> Many other Arab leaders have also condemned the move, including in the United Arab Emirates and the Kingdom of Saudi Arabia.<sup>44</sup> The Arab League and Organisation of Islamic Cooperation have also condemned the proposal.<sup>45</sup>

## May Trading

Palestine Stock Exchange (PEX) resumed trading on 3 May following a shutdown on 20 March due to the COVID-19 outbreak. On the first day of trading Al-Quds Index decreased by 3.7% compared to the pre-shutdown level, and throughout May the index dropped by a further 1.1%.<sup>46</sup> A total of 3.2m shares worth \$7.3m were traded during the month, marking a 65.8% decrease in the number and 50.3% decrease in the value of traded shares compared to May 2019.<sup>47</sup> The services sector witnessed the highest decrease (-5.87% to 36.69 points), followed by the banking and financial services sector (-5.53% to 135.78 points).

PEX also released the consolidated performance of listed companies for Q1 2020, showing a staggering drop of 50% in net profits to \$48.5m compared to Q1 2019.<sup>48</sup> Only 33 out of 48 listed companies reported profits (\$51.9m, 48% decline), while 10 companies reported losses totaling \$3.4m. Five companies (two suspended) failed to disclose their results within the legal timeframe. Taking into consideration the impact of COVID-19 and related preventive measures during April and May, in addition to uncertainty driven by recent political developments, the outlook for Q2 2020 performance is a cause of significant concern.

42 <https://reut.rs/3dZwXaF>; <https://www.bbc.com/news/world-middle-east-52680096>

43 <https://bit.ly/3hDTmwj>; <https://nn.ps/news/shwwn-rby/2020/06/03/310770/>

44 [www.arabnews.com/node/1677961/saudi-arabia](http://www.arabnews.com/node/1677961/saudi-arabia); <https://bit.ly/3fBgauL>

45 <https://bit.ly/2C9ykFM>; <https://bit.ly/300W2Bw>

46 <https://bit.ly/2Y4Kect>

47 Month-on-month change is not available

48 <https://bit.ly/30K9aHO>

## The Portland Trust



The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to [feedback@portlandtrust.org](mailto:feedback@portlandtrust.org)

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