



Strengthening the Palestinian Economy to Keep a Two-State Solution Viable

By Hardin Lang and Rudy deLeon April 13, 2016



Strengthening the Palestinian Economy to Keep a Two-State Solution Viable

By Hardin Lang and Rudy deLeon April 13, 2016

Contents

1 Introduction and summary

4 Overview of the Palestinian economy

6 Challenges facing the Palestinian economy

- 6 Lack of control over revenue from imported goods
- 7 Barriers to exports and imports
- 7 Situation at the Allenby Bridge
- 8 Restrictions on freedom of movement
- 9 Restrictions on employment in Israel
- 10 Access to finance
- 10 Access to and management of the land
- 13 Most economic sectors are vulnerable to restrictions
- 14 Legitimacy and transparency of the Palestinian Authority

15 Recommendations

- 15 Priorities for U.S.-Israel-Palestinian diplomacy
- 19 Priorities for direct bilateral and multilateral economic engagement with the Palestinians

21 Conclusion

22 About the authors and acknowledgments

23 Endnotes

Introduction and summary

It has been more than two decades since the signing of the first Oslo Accord, which set into motion a process that was designed to achieve a lasting peace based on a two-state solution. Subsequent rounds of diplomacy have failed to realize that vision. Growing numbers of Israelis and Palestinians have begun to question the “land for peace” bargain.¹ Yet the strategic logic of a two-state solution, with an independent state of Palestine alongside the state of Israel, remains strong. Without two states—both viable, thriving, secure, and free—Israel faces a difficult dilemma in reconciling its identity as a Jewish state with its tradition of democracy.

The stalled peace negotiations have left Palestinians looking for other options to achieve greater control over their own affairs. Former Palestinian Authority Prime Minister Salam Fayyad has called for a long-term nation-building project independent of negotiations with Israel to set the foundations for an eventual Palestinian state.² But various crises continue to chip away at the legitimacy of the Palestinian Authority, or PA.³ Plans for a Palestinian political transition also remain opaque.⁴ As one observer in the West Bank town of Ramallah put it, “There is no longer a story that Palestinians can tell themselves about how our lives get better.”⁵

In recent years, some Palestinians have shifted their rhetoric toward the pursuit of full economic and political rights as part of a so-called one-state solution.⁶ For his part, Palestinian President Mahmoud Abbas has sought to increase international pressure on Israel to force recognition of Palestinian statehood. This strategy hinges on a campaign to leverage international boycotts, divestment, and sanctions—or BDS—against Israel. But some BDS leaders have conflated opposition to Israeli policy in the West Bank with a challenge to the “legitimacy of the concept of Israel as a democratic and Jewish State”⁷—a stance at direct odds with the objective of a two-state solution.

The next U.S. president will enter office facing an unresolved Israeli-Palestinian conflict. The new administration will need to take steps to sustain a two-state solution until a resumption of talks becomes politically feasible. As the Center

for American Progress has previously argued, the window on a two-state solution is rapidly closing.⁸ Key security, institutional, and economic challenges must be addressed to keep that window open.⁹ This report looks at the set of economic challenges that must be tackled in order to maintain a viable Palestinian polity capable of anchoring a future Palestinian state.

Specifically, this report will identify practical measures to improve the lives of ordinary Palestinians and to create an increasingly self-reliant Palestinian partner—both essential ingredients of a two-state solution.¹⁰ That Palestinian partner’s economy will need to create jobs and offer some measure of relief and growth to its people in order to keep a two-state solution from slipping out of reach. An agenda to strengthen the Palestinian economy, however, is not a substitute for political progress. The goal must be to give Palestinians the tangible opportunity to take charge of their own livelihoods and thereby sustain their aspirations to statehood.

Few elements of this agenda for growth are new. Since Oslo, there have been repeated and serious attempts by multiple U.S. administrations, European donors, and multilateral bodies to strengthen the Palestinian economy. Some plans have been implemented. Others have been stymied for extended periods. The Office of the Quartet—a body supported by the United States, the European Union, Russia, and the United Nations—is currently engaged in its own efforts to bolster the Palestinian economy. Going forward, any renewed American attempt to engage on a focused set of economic priorities should take into account the lessons learned over the course of past and present efforts.

To better understand the challenges facing the Palestinian economy, a team from CAP recently traveled to the Middle East and interviewed dozens of Palestinian entrepreneurs, bankers, and investors in the West Bank and the wider region. The field research made clear that any plan to economically empower Palestinians will require progress on two fronts. First, the United States will need to reengage diplomatically with Israel and the Palestinian Authority and push for the removal of specific barriers to Palestinian economic growth. Second, the United States and other donors will need to take practical steps directly with the Palestinians to foster that growth. Specifically, the United States should pursue an agenda designed to achieve the following:

Priorities for U.S.-Israel-Palestinian Authority diplomacy that include:

- Insulating the payment of clearance revenues from the politics of Palestinian-Israeli relations
- Easing restrictions on Palestinian employment in Israel, as recommended by Israeli security institutions
- Improving the Allenby Bridge border crossing—a key trade and transportation route
- Rationalizing the system for processing dual-use goods
- Reducing movement restrictions inside the West Bank
- Improving access to land in all areas of the West Bank

Priorities for direct bilateral and multilateral Palestinian economic engagement that include:

- Improving domestic access to finance for Palestinians
- Promoting sectors that show promise under current conditions
- Improving transparency and reducing corruption inside the Palestinian Authority
- Supporting a Palestinian Authority local public works program

It should be noted at the outset that this report will concentrate on the West Bank. The CAP team did not travel to Gaza. A comprehensive examination of Gaza's economy is beyond the scope of this research. But the pressing humanitarian and reconstruction needs of Gaza's population would appear to take priority over efforts to facilitate private sector growth. (see text box) Any plan for Gaza must also take account of the political challenges and security threats posed by the continued misrule of Hamas.

Progress on any agenda for growth will likely be incremental and will require patience and determination. In the absence of a final status agreement, the next administration will need to steer a pragmatic course with a greater focus on what is achievable economically. Relations between the parties do not lend themselves to quick successes or major breakthroughs. But an agenda of smaller, concrete steps could achieve meaningful improvements in conditions for Palestinians and sustain hope for a two-state solution—as well as peace, security, and prosperity for Israelis and Palestinians alike.

Overview of the Palestinian economy

Over the past decade, the Palestinian economy has seen episodic growth punctuated by short-term contractions due in part to political tension and armed conflict. Annual Palestinian gross domestic product, or GDP, growth declined from a high of 12.2 percent in 2011 to minus 0.4 percent in 2014.¹¹ Overall, the Palestinian economy remains small and dependent on foreign markets. Long-term constraints on growth include restrictions imposed by Israel on both the West Bank and Gaza, as well as poor governance by the Palestinian authorities.¹²

There are roughly 2.8 million Palestinians living in the West Bank,¹³ including more than 370,000 who live in East Jerusalem.¹⁴ Almost 1.9 million Palestinians live in the Gaza Strip in a geographical area less than one-tenth the size of the West Bank.¹⁵ The Palestinian workforce is generally skilled and educated. The overall unemployment rate for Palestinians is 26 percent, but that figure rises to more than 45 percent for younger Palestinians ages 20 to 24.¹⁶ The Palestinian population is young, with some 47 percent under the age of 18. In other words, the Palestinian labor force is set to expand dramatically at a time when there are already more workers than available jobs.

The public sector is the single largest employer of Palestinians. In 2014, the public sector employed 23 percent of the Palestinian workforce, which amounted to 16.5 percent of workers in the West Bank and almost 40 percent in the Gaza Strip.¹⁷ Both jobs and economic growth in Palestine are heavily dependent on foreign assistance, including direct budget support to the Palestinian Authority.

The Palestinian private sector is characterized by moderate productivity and limited competition. Investment is relatively low but has risen in the past when prospects for peace have been more favorable. All in all, private-sector activity remains low, concentrated mainly in low productivity subsectors with weak employment growth and hindered by continued restrictions on movement, access, and trade, as well as inadequate laws and regulations.¹⁸

Real economic opportunity for Palestinians will involve a shift away from the public sector as the main engine of employment and toward an invigorated private sector. Repeated rounds of conflict wars and ongoing Hamas rule have decimated the private sector in Gaza. As one prominent investor from Gaza put it, “There is not much people like me can do to help the situation in Gaza right now.”¹⁹ In the interim, the West Bank represents the best opportunity to create a robust Palestinian private sector.

The state of the Gaza economy

The 2014 fighting had a severe impact on Gaza’s economy and its residents’ lives and livelihoods. The conflict created a humanitarian crisis on top of preexisting development and governance challenges, including misrule by Hamas. According to the World Bank, damage to Gaza’s economy from the 2014 conflict ran as high as \$460 million. This includes about 12,000 destroyed or damaged houses. Infrastructure also suffered significant damage, including to Gaza’s only power plant as well as its electricity network and water and sanitation facilities. The access to and quality of basic services is rapidly deteriorating.²⁰ Gaza has a higher youth unemployment rate than any other economy in the Middle East.²¹

A recent United Nations report indicates that Gaza could be “uninhabitable” in less than five years if current economic trends continue.²² The Israel Defense Forces, or IDF, Military Intelligence Directorate reportedly concurs with this assessment and notes that the pace of reconstruction in Gaza has been too slow.²³ There are two main priorities that require both urgent and long-term attention: power and water.

Gaza has suffered from a shortage of power for years. Less than half of the demand for electricity in the Gaza Strip is currently being met. In 2015, power blackouts in areas of high popula-

tion density were lasting 12 hours to 16 hours per day. Gaza’s power plant has been running at 50 percent of its capacity or less due to fuel shortages. The economic and humanitarian impact is significant.²⁴ The construction of a natural gas pipeline from Israel to the Gaza power plant is a critical element of a long-term solution to Gaza’s power shortage. The Quartet and the Dutch government are supporting a feasibility study for the pipeline, but the project still faces significant hurdles. Urgent short-term measures are needed to bridge the gap, including financial assistance to help cover the costs of diesel fuel for the power plant.²⁵

The lack of power accentuates the acute water crisis in Gaza. Gaza residents face major shortages in drinking water and water for bathing. Gaza relies almost completely on a coastal aquifer for freshwater. But more than 90 percent of the water from that aquifer is no longer safe for drinking.²⁶ Donors including the U.S. Agency for International Development, or USAID, and the European Investment Bank point to building a desalination plant in Gaza as the best long-term solution.²⁷ Multilateral lenders from the World Bank, the Islamic Development Bank, and the European Commission are supporting technical preparations for the project, and at least one donor conference is being held to raise funds for a Gaza desalination plant.²⁸

Challenges facing the Palestinian economy

The main obstacles to private sector growth for the Palestinians are well known. Most are linked to a series of Israeli restrictions on the movement of goods, people, and money. These measures and their effects have been the subject of a number of reports by the Quartet, the World Bank, and other multilateral and bilateral donors. These policies have also been the target of international diplomacy. Both secondary sources and field research make clear that real progress will need to be made on some of these restrictions in order to promote economic growth.

Lack of control over revenue from imported goods

The Palestinian Authority relies heavily on taxes and tariffs charged on imported goods—often referred to as clearance revenue. Under the Paris Protocol of 1994, Israel collects taxes on imports into the West Bank and Gaza on behalf of the PA. Israel then transfers these taxes to the PA after levying a 3 percent collection and processing fee.²⁹ Clearance revenue accounted for 70 percent of the PA's total revenue in 2014.³⁰ However, when clearance revenues are withheld or delayed, the PA must turn to foreign aid and bank loans to cover expenditures. Interest on the latter increases the PA's financial burden.

Israel has chosen to delay or withhold clearance revenue from the Palestinian Authority in times of conflict or deteriorating relations. In 2015, for example, Israel withheld clearance revenue to protest the Palestinian application for membership in the International Criminal Court.³¹ The move plunged the PA into a budget crisis. In the first quarter of 2015 alone, the PA was only able to pay 60 percent of Palestinian public-sector wages.³² In March 2016, Israel's Ministry of Finance released approximately half a billion Israeli shekels—roughly \$130 million—in clearance revenue to ward off the PA's financial collapse.³³ But this sum will provide only limited relief, and it is unclear whether additional tranches are forthcoming and how long this revenue stream will continue.³⁴

Future withholdings of clearance revenue could force the PA to reduce wage payments and public services. This would further undermine the PA's legitimacy. For many in the Palestinian private sector, the continued withholding of PA clearance revenue represents one of the biggest threats to stability in the West Bank. According to a senior representative of a large Palestinian investment company, "The Palestinian Authority is owed \$30 to \$40 million at any one time."³⁵ PA employees have borrowed from Palestinian banks against their salaries in order to finance a variety of major purchases.³⁶ If the PA is unable to pay salaries, it could lead to significant negative ripple effects across the economy.

Barriers to exports and imports

A variety of Israeli policies restrict Palestinian export growth, ranging from nontariff trade barriers to licensing restrictions on Palestinian producers. These policies make it more expensive for Palestinian firms to export their goods than for their regional counterparts. For instance, it takes 23 days and costs \$1,750, on average, for a Palestinian firm to export a container. By contrast, it takes only 10 days and costs only \$620 for an Israeli firm to export a similar container.³⁷

A similar situation exists for imports. Constraints such as border controls and dual-use restrictions on goods that could have both commercial and military applications cost the Palestinian economy up to 5 percent, or \$500 million, in forgone growth.³⁸ The impact of these restrictions on the West Bank is spread across both industry and agriculture. One of the most challenging aspects of the restrictions on dual-use goods for Palestinian businesses and foreign investors is what often appears to be the arbitrary nature of their enforcement.³⁹ Matters are likely significantly worse in Gaza, where the U.N. Office for the Coordination of Humanitarian Affairs, or OCHA, reports that Gaza-specific import restrictions have reduced the use of manufacturing capacity more than 50 percent. These restrictions have also resulted in a significant shortage in housing supply.⁴⁰

Situation at the Allenby Bridge

Overland passage through Jordan represents a potential outlet for Palestinian exports and a pathway to link the West Bank to the regional and international trade. At present, the Allenby Bridge over the Jordan River is the only international crossing point between the West Bank and Jordan that serves both pas-

sengers and trade. Some 1.8 million passengers and almost 30,000 truckloads of goods crossed the Allenby Bridge in 2014.⁴¹ Demand for the transit of people and goods grew between 6 percent and 15 percent on an annual basis for the past 6 years.⁴² But the physical infrastructure and the administrative and security processes at the crossing point cannot accommodate the volume of goods and people attempting to cross in a timely fashion.⁴³

The Quartet and donors consider the upgrading of the crossing to be an essential element in building a Palestinian export economy.⁴⁴ Business leaders in both Jordan and the West Bank underscore the negative impact of the bottleneck at Allenby on cross border commerce.⁴⁵ A major obstacle continues to be the lack of adequate high-speed scanners to expedite the passage of goods. In addition, the introduction of the regular use of shipping containers—or “containerization”—at the Allenby Bridge could increase the volume of trade 30 percent.⁴⁶ Extended and reliable working hours could also significantly reduce costs for Palestinian traders.⁴⁷

Restrictions on freedom of movement

A number of Israeli-imposed restrictions continue to limit the movement of Palestinians. According to data collected by the United Nations and the Rand Corporation, there are up to 500 physical impediments or “closure obstacles” to the ability of Palestinians to move freely, “including checkpoints, road gates, road-blocks, earth mounds, trenches, road barriers, and earth walls.”⁴⁸ These include some 85 fixed and hundreds of “flying,” or temporary, surprise checkpoints.⁴⁹ In addition to these physical barriers, Israel imposes a permit system to control Palestinian movement between the West Bank’s three territories—Areas A, B, and C—as well as East Jerusalem, the Jordan Valley, and Israeli settlements.

Almost all recent reports have found that the movement and access restrictions are a key constraint to Palestinian economic development. According to the World Bank, “Internal closures stifle economic activity by raising the cost of doing business ... and [have] fragmented the West Bank territory into small and disconnected ‘cantons.’”⁵⁰ Looking at data for 2007, a World Bank study found that the overall cost of the checkpoints on the West Bank labor market amounted to “around \$229 million,” or 6 percent of the West Bank’s GDP.⁵¹ Following the late 2015 rise in Palestinian violence against Israelis, Israel established some 38 new obstacles to movement in East Jerusalem, including 16 check points and 20 roadblocks.⁵²

In addition, a variety of barriers make it difficult for foreign nationals to travel in the West Bank and Gaza. These restrictions have clear implications for tourism, an industry that is an important source of jobs and revenue for Palestinians. In and around the city of Bethlehem and other centers of historical and religious significance, tourism is a pillar of the local economy—one that has been hit hard by recent security incidents, operations, and restrictions.⁵³ Some estimates indicate that due to difficult entry and exit processes for tourists, tourism in the Palestinian areas has been reduced by 20 percent to 60 percent.⁵⁴ Additionally, based on general econometric models of the impact of visa restrictions, it is estimated that these types of impediments on travel reduce trade and foreign direct investment by up to 25 percent.⁵⁵

The negative consequences of these restrictions can be seen in the experience of a Jordan-based pharmaceutical chain run by a member of the Palestinian diaspora. His business has experienced extraordinary growth in Jordan and has expanded to Saudi Arabia and even Iraq. But when he tried to bring what he termed “my version of CVS” to the West Bank, he could not bring staff to Jordan for training or send trainers to the West Bank. Movement restrictions, he said, created a much more challenging business environment even than in Iraq.⁵⁶ A banker from one of the largest banks in Palestine echoed this complaint. He observed that the growth of the financial sector had been hindered by an inability to hire members of the Palestinian diaspora with experience in finance, as their travel to Ramallah was extremely difficult to arrange.⁵⁷

Restrictions on employment in Israel

Despite the limited supply of work permits available to Palestinians, employment opportunities in Israel remain critical to the Palestinian economy. Before the start of the first intifada in 1987, some 40 percent of the Palestinian labor force worked in Israel. According to Leila Farsakh of the University of Massachusetts Boston, the number of Palestinians legally working in Israel “dropped from ... 115,600 in 1992 to less than 36,000 in May 1996.”⁵⁸ During that period, per capita gross national product, or GNP, in the West Bank and Gaza fell 15 percent, and unemployment rose to more than 28 percent.⁵⁹

The number of Palestinians employed in Israel rose to more than 140,000 during the last half of the 1990s, falling dramatically again with the start of the second intifada in 2000.⁶⁰ Had the second intifada not happened and had the relative share of Palestinians in the Israeli workforce remained constant, the Palestinian economy could have grown more than \$500 million on an annual basis.⁶¹

In recent years, the number of work permits for Palestinians has been capped at around 50,000.⁶² The precise number can fluctuate in response to the dynamic security situation. A potential Palestinian worker must meet a number of conditions to receive a work permit. For example, that worker must be older, married, and pass an IDF security screening.⁶³

Access to finance

Many Palestinians who were interviewed for this study identified the lack of access to finance as a major impediment to economic growth. As a member of one of the largest independent Palestinian investment companies observed, “financing is the key to growth in Palestine.”⁶⁴ Over the past 15 years, the Palestinian economy has suffered from a steady decline in investment. Investment in infrastructure and equipment has more than halved, as a share of GDP.⁶⁵ Palestinian banks have the capacity to lend, but 32 percent of their assets are invested abroad—three times the level of other economies.⁶⁶ As one significant Palestinian diaspora investor remarked, “I have tens of millions of dollars invested in Palestine, but I made the decision five years ago to stop.”⁶⁷ More worryingly, one of the largest limited holding companies with strategic investments in the Palestinian economy has decided to stop new investments in Palestine for the next few years.⁶⁸

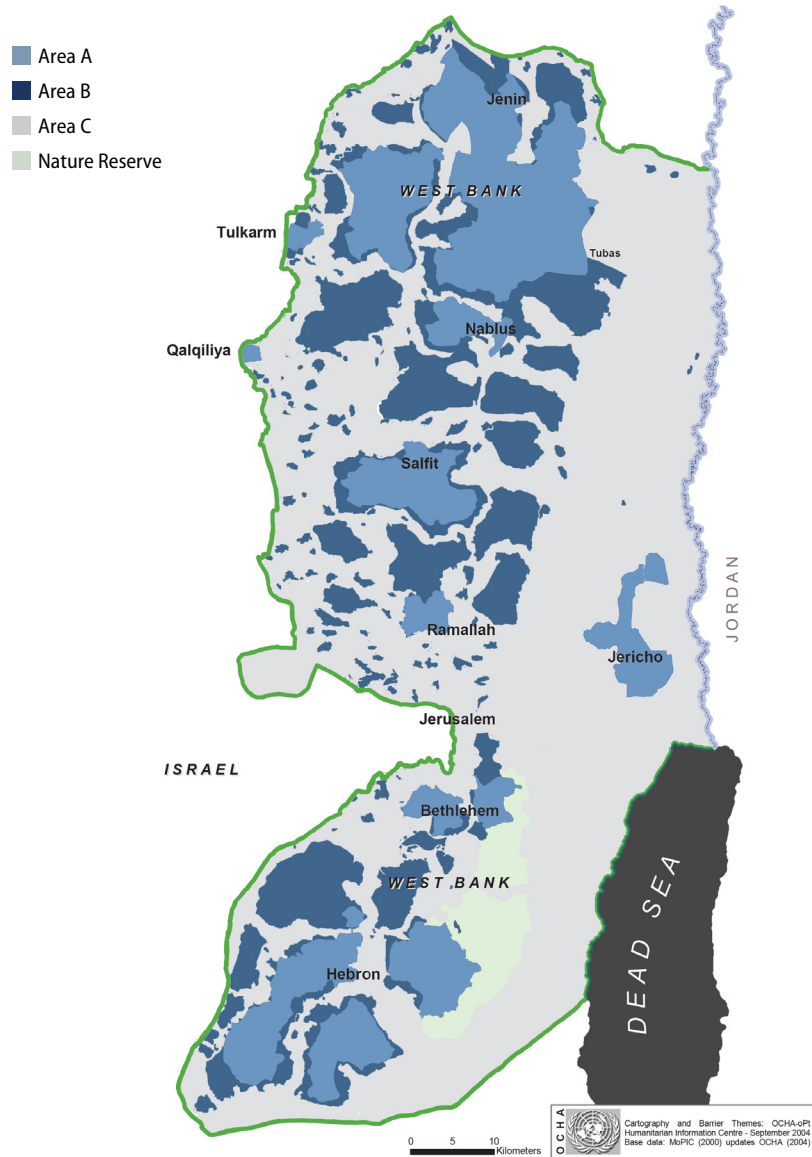
Small- and medium-sized enterprises, or SMEs, represent the majority of Palestinian businesses and are particularly vulnerable to shortages of credit. SMEs also happen to be the biggest employers of women and provide livelihood opportunities to some of the most economically vulnerable populations in the Palestinian territories.⁶⁹ Palestinian SMEs identify access to credit as the number one constraint on growth.⁷⁰ Some progress has been made, however. At least 7 of the 16 main Palestinian banks have special lending facilities, or “windows,” for SMEs. Quds Bank, one of largest in Ramallah, reports that it has lent more than \$120 million to SMEs over the past few years.⁷¹ Nevertheless, many SMEs still find lending terms prohibitive.⁷²

Access to and management of the land

Access to land in the West Bank remains as politically sensitive as it is economically important for the Palestinian economy. In accordance with the Israeli-Palestinian agreements of the 1990s, the West Bank is divided into three territories

known as Areas A, B, and C. The PA controls most government functions in Area A, while Israel retains security control over Area B. Israel retains almost complete control over Area C, which constitutes more than 60 percent of the West Bank. Palestinians' access to Area C is severely limited, and they are largely prevented from developing it economically. Area C separates the geography of Areas A and B, complicating the ability of Palestinians to move freely across the latter.

FIGURE 1
The West Bank under the Oslo II Accord



Source: CAP adaptation of U.N. Office for the Coordination of Humanitarian Affairs, "West Bank: Oslo Agreement & Barrier Projection – 20 Feb 2005" (2005), available at http://www.ochaopt.org/documents/wb_oslogov&barrier_july05.pdf.

The World Bank has estimated that restrictions on Area C cost the Palestinian economy more than \$2 billion each year.⁷³ In the agricultural sector alone, the opportunity cost of the restrictions on access run as high as \$700 million⁷⁴ per year by preventing the development of higher-value irrigated crops. Loss of revenue from foregone resource extraction—such as mineral extraction from the Dead Sea—could exceed \$900 million.⁷⁵ The restrictions on access to Area C also limit real estate opportunities for Palestinians and thereby inflate the price of housing by up to \$240 million per year.⁷⁶

Of all the obstacles to growth, those interviewed for this study felt that movement on access to Area C would have the greatest positive impact on Palestinian-Israeli relations. Senior diplomatic officials close to the peace talks underscore that access to Area C is the only step that will give Palestinians a tangible reason to think that a two-state solution is still viable.⁷⁷ But all of those interviewed were deeply skeptical that the current Israeli government would be willing to make any significant concessions on Area C. Indeed, the composition of the current government in Israel makes movement on Area C extremely difficult, even if Prime Minister Benjamin Netanyahu were disposed to do so.⁷⁸ The prime minister has a “razor-thin majority in one of the most right-wing Knessets in Israeli history.”⁷⁹

Those Palestinians who successfully invested in projects in Area C did not work through government channels but instead quietly partnered with the Israeli private sector to move projects forward. When problems arose with the Israeli government, these silent Israeli partners proved effective in navigating the Israeli legal system to arbitrate the issue. This model has shown proof of concept in the agriculture sector, which, as a senior Palestinian investor observed, the “Israelis considered less threatening as we didn’t have to build anything.”⁸⁰

However, even in the areas where the PA exercises partial or full control—Areas A and B—it has failed to maximize the value of the land. The PA lacks efficient land management processes to the extent that only 35 percent of land in Areas A and B is formally registered. Moreover, there are no title deeds to the unregistered land. Without title deeds, it is impossible for landowners to use land as collateral to access finance. The inadequate level of land registration also results in lost PA revenue from uncollected land fees and taxes. It has been estimated that full West Bank land registration could raise the PA’s revenues from around \$25 million annually to \$75 million per year.

Most economic sectors are vulnerable to restrictions

Two recent reports—one by The Portland Trust and the other by the Quartet—identified the Palestinian economic sectors with the greatest potential for growth and jobs: agriculture; information and communications technology, or ICT; tourism; construction; and energy.⁸¹ Palestinian businessmen and investors interviewed for this report were less sanguine about the energy and tourism sectors. For instance, they saw a future in energy tied to resources off the coast of the Gaza Strip that are currently subject to Israeli policy. When it comes to tourism, leaders in this sector were quick to point out its vulnerability, tied as it is to the state of the security environment. In Bethlehem, for example, the leading hotels were significantly underbooked for the 2015–2016 holiday season as a result of ongoing clashes between Palestinian youth and the Israeli security forces. Some hotel owners were even concerned that they would need to begin layoffs.⁸²

However, the business leaders interviewed for this report repeatedly referenced agriculture—more specifically, agribusiness—and ICT as sectors with the greatest growth potential, especially in light of the current political and security environments. Agribusiness is considered to have the potential to create jobs, albeit a limited number, through the introduction of high-value vegetable crops and through allowing for greater revenue capture by building local value chains.⁸³ More importantly, growth could be driven by domestic consumption inside the West Bank and Gaza through import substitution.⁸⁴

In addition, many interviewees considered ICT to be the most dynamic sector. By its very nature, the ICT sector is relatively insulated from the many of the challenges and restrictions imposed by the occupation. Indeed, there have already been some success stories: One startup, Gaza Sky Geeks, raised \$250,000 in seed capital through crowdsource funding. One successful regional tech entrepreneur recounted how Gaza Sky Geeks managed to stay online and deliver on a Silicon Valley contract during the 2014 war in Gaza.⁸⁵

Opportunities for ICT sector growth exist, with the introduction of e-government services, business process outsourcing by international firms to Palestinian firms, software development, and call centers.⁸⁶ Eight years ago, Cisco Systems Inc. made a “strategic investment” of \$10 million in business service outsourcing in West Bank. Since then, the sector has reportedly grown from 1 percent to between 5 percent and 6 percent of the Palestinian economy.⁸⁷ However, obstacles to the

development of a Palestinian ICT ecosystem remain. Although Palestinian youth education levels are relatively high by regional standards, young Palestinians lack key skills and exposure to the technologies required for startups.⁸⁸

Legitimacy and transparency of the Palestinian Authority

The Palestinian Authority currently suffers from a crisis of legitimacy in the eyes of its own people. As a long-time champion of a negotiated settlement with Israel, President Abbas' standing has been damaged in recent years. The failure of U.S. Secretary of State John Kerry's initiative in 2014 strengthened those critics who charge that Abbas was naïve to invest so much of his credibility in the diplomatic process. But the legitimacy of the Palestinian Authority has also begun to suffer because of failures in governance. Palestinians appear to be increasingly losing trust in the Palestinian Authority under its current leadership. Some 80 percent of Palestinians believe that their government is corrupt.⁸⁹

None of the Palestinian entrepreneurs or investors who were interviewed for this report considered the PA to be a partner in economic growth. In their view, the most important and concrete economic function it performed was that of employer. Although the private sector would benefit from a more effective public sector, some in the private sector go to great lengths to avoid the PA out of concern that its intervention in business matters would be either incompetent or predatory. As one Palestinian investor put it, "You have to be very low profile. Otherwise the big politicians will extort you."⁹⁰ At a macro level, the World Bank has found that the general ease of doing business in the West Bank and Gaza has deteriorated in recent years, including in areas that are under the purview of the PA.

Recommendations

The challenges to the Palestinian economy are well known. In the more than two decades since the Oslo Accords, there have been repeated and sustained efforts by donors and diplomats to make progress on these challenges. There has been some limited success but few major or lasting breakthroughs. Despite this history, the next U.S. administration will need to redouble its efforts to improve the Palestinian economy as part of a broader plan to sustain a two-state solution. The following recommendations for an agenda for growth are set out in two categories. The first category lays out priorities for U.S.-Israel-Palestinian dialogue, which are designed to minimize further economic deterioration and offer pathways for limited private-sector growth in the West Bank. The second set outlines priorities for direct engagement between the United States, other donors, and the Palestinian Authority to promote private-sector growth and resiliency in the West Bank.

Priorities for U.S.-Israel-Palestinian diplomacy

Insulate the payment of clearance revenue from the politics of Palestinian-Israeli relations. The Palestinian Authority having regular and predictable access to clearance revenue is key to averting economic collapse. The payment of clearance revenue has a direct impact on the ability of the PA to pay its bills. As the largest employer in the West Bank, however, the PA's payment of salaries has a significant multiplier effect across the wider Palestinian economy. The United States and European donors should encourage Israeli authorities to return to regular and comprehensive clearance revenue transfers in the future. The decision by Israel's finance minister to release a tranche of clearance revenue in March signals that progress is possible. The next U.S. administration should prioritize an agreement between Israel and the PA to formulate a predictable calendar of revenue transfers that is insulated from political disagreements. This agreement and the schedule of payments could be formalized in a commitment to a third party, preferably the United States. If the agreement does not rise to the level of a formal diplomatic agreement, it should at least ensure that the Palestinian economy does not suffer

from the volatility of relations between the PA and Israel. Over the longer term, it may be necessary to revisit the 1994 Paris Protocol, which outlined the financial relationship between Israel and the Palestinian Authority. The Paris Protocol was only intended to last for five years, and some of its elements could be updated in line with current economic realities.⁹¹

Ease restrictions on employment in Israel. Israel should be encouraged to follow up on the recent proposal by Israeli Defense Minister Moshe Ya'alon and Maj. Gen. Yoav Mordechai, coordinator of government activity in the Palestinian territories, to increase the number of work permits issued to Palestinians.⁹² It should also explore options to increase Palestinian employment quotas across Israeli industries. The recent deterioration of the security situation could complicate such a move. However, senior Israeli security officials are seeking to increase the quota of work permits for Palestinians by up to 30,000, specifically in order to help stabilize the security situation in the West Bank.⁹³ In addition, it may be possible to lower age restrictions or drop requirements that successful applicants be married or have a child in order to provide greater opportunity for Palestinians—particularly younger Palestinians—to work in Israel.

Improve the Allenby Bridge border crossing. Building trade linkages between Palestine and Jordan, the Gulf, and Asia will be critical to long-term growth. The first step is to improve the choke point at the Allenby Bridge border crossing. As the Quartet argued in May 2015, “Containerization of border crossings, increasing the permitted height for pallets to 1.7 meters, and extended, reliable hours at border crossings” would help reduce costs for Palestinian businesses.⁹⁴ Jordanian traders investing in the West Bank underscored the importance of this project. There has been significant progress made on this goal in recent months. New interim measures are anticipated by the end of 2016.⁹⁵ Jordan, Israel, and the Palestinian Authority should translate their current diplomatic and technical engagement into long-term planning to ensure that containerization expands beyond the requirements of current demand.

Rationalize the system for processing dual-use goods. The lack of transparency and the unpredictability of the processes for approval of dual-use goods were flagged repeatedly across sectors as principle obstacles to commerce.⁹⁶ As a first step, the list of dual-use goods should be refined to exclude items that are already easily available in the West Bank and Gaza, such as office equipment, personal computers, and GPS devices. Definitions should be made more precise so as not

to include innocuous items. Once the dual-use goods list is refined, the processing of approvals for dual-use goods should be streamlined and made more transparent. This new system should also recognize so-called known traders—those entrepreneurs and businesses that have established and secure trading histories. It should also address the unique challenges of large-scale, multi-year projects that cannot be held hostage to unpredictable changes to or implementation of dual-use restrictions.

Reduce movement restrictions inside the West Bank. Israel should seek to reduce the number of surprise, or flying, checkpoints it erects in the West Bank. The number of these checkpoints rose from 65 during a seven-month period extending from 2008 into 2009 to 361 in April 2015 alone.⁹⁷ These checkpoints help undermine the gains that have resulted from the removal of other West Bank checkpoints and create unpredictability for Palestinian businesses and workers. Israel should also work to end the practice of prohibiting Palestinians from even crossing Israeli-only roads, which keeps Palestinians from using otherwise available roads. This practice is not enshrined in formal Israeli policy, and the ongoing robust security cooperation between Israel and the PA should reduce the risks to Israeli security.

Improve access to land in all areas of the West Bank. Allowing access to Area C could have a major positive impact on the Palestinian economy. It is also one of the most politically sensitive and challenging issues on any agenda for growth. In the absence of a broader political agreement that gives Palestinians access to Area C, negotiations should focus on increasing and accelerating practical support for the development of specific Palestinian high-impact projects and infrastructure in Area C. In addition to its economic benefits, such concessions would be considered a “game changer” for many Palestinians. As one senior Palestinian entrepreneur remarked in respect to easing tensions and improving relations, “With no horizon on the political front, we need something big like progress in Area C to calm things down.”⁹⁸ Beyond Area C, the United States and other donors could work with the Palestinian Authority to improve the latter’s capability to manage land in Areas A and B of the West Bank. Specifically, additional technical assistance could target the Palestinian Land Authority and accelerate land registration.⁹⁹

Destination Bethlehem

Imbedded in the tile floor of the St. George Church in Madaba, Jordan, is one of the most historic maps of the Middle East. The mosaic laid in this early Byzantine church is positioned east to west like a compass, bounded by the Nile River to the south and by Lebanon to the north.

From Madaba pointing due west, across the Dead Sea and the Jordan Valley—in earlier times referenced as the Valley of the Moab—is Jerusalem. Southwest on the mosaic is Bethlehem, an international destination for thousands of years. But today, unlike neighboring Jerusalem, Bethlehem is isolated by the complex politics, diplomacy, and security of the West Bank.

With its significant tourism potential, Bethlehem represents an important catalyst for economic development in the West Bank. The city is also an important educational center for thousands of young Palestinians studying at Bethlehem University, an institution devoted to developing those youth to play an active and positive role in their society.

Whether the destination is Manger Square and the Church of the Nativity, Bethlehem University, or neighboring towns and villages, as the Mayor of Bethlehem

notes, “Bethlehem is a global city, and change must come soon or it will never happen. Losing hope is most dangerous because young people all want to leave.”¹⁰⁰ Unemployment is high, and movement is hard and unpredictable.

While diplomacy and security concerns remain central to the region’s dilemma, 2015 marked the third year of operation for the Bethlehem Development Foundation. The purpose of the foundation is to regenerate and revitalize the Bethlehem community as a vibrant international tourist destination.

Development in Bethlehem—supported by a wide range of grants from institutions including the U.S. Agency for International Development, or USAID; international charities; the Russian government; and others—is comprised of three tracks: private-sector investments, public infrastructure projects, and philanthropic activities. All three are aimed at establishing a pipeline of sustainable projects that will spur further economic growth, development, and prosperity.

The challenge remains to restore Bethlehem to its role as a peaceful beacon and unique spiritual center for both pilgrims and citizens of this historic destination.

Priorities for direct bilateral and multilateral economic engagement with the Palestinians

Improve domestic access to finance. Bilateral and multilateral donors should make a stronger effort to expand Palestinian domestic lending activities and to match users to providers of capital, particularly in the small- and medium-sized enterprises marketplace. The International Finance Corporation, or IFC, has partnered with Quds Bank and other Palestinian financial institutions to enhance their capacity to lend to small- and medium-sized enterprises.¹⁰¹ But more could be done to take these programs to scale. More broadly, international financial institutions, or IFIs, should help to map the gaps that exist in the market and use their convening authority to cultivate international and Palestinian-diaspora investors. The IFIs and other donors should work to identify businesses with the potential for growth and provide them with the technical assistance required to develop the business expansion plans that they need to secure loans and investments.

Promote growth in sectors that show promise under current conditions.

The United States, European donors, and IFIs should invest in sectors of the Palestinian economy that show promise of delivering either jobs or growth despite Israeli restrictions. Information and communications technology, for instance, can move around traditional barriers to commerce to link the Palestinian economy to the regional and international market place. Building a Palestinian ICT sector would require investment in Palestine's secondary education institutions and universities to develop the necessary expertise.¹⁰² Essential venture capital could be facilitated through seed funds or matching grants.¹⁰³ Modest investments in infrastructure would be required to provide physical locations for would-be ICT entrepreneurs to gather. Finally, programs to bring delegations of ICT entrepreneurs to technology hubs around the region and in the West would be essential for generating new contacts and opportunities.¹⁰⁴

Improve transparency and reduce corruption inside the Palestinian Authority.

Perceptions of corruption inside the Palestinian Authority have led to a dysfunctional relationship between the PA and the Palestinian private sector. Predatory behavior has shifted Palestinian perceptions of the PA. For some, the PA is now an obstacle—not a partner—to growth. Increased transparency and anti-corruption measures could help build a healthier relationship between Palestinians and their governing authority. In particular, the United States and other donor nations should help the PA bolster its financial management and reporting

capabilities and hold it accountable for greater transparency. Whatever specific method is chosen, public reporting of PA finances should be used to verify that local government units are using PA and donor funding to deliver necessary public services.

In addition, the United States and other interested partners should take steps to ensure that important economic institutions such as the Palestine Monetary Authority remain insulated from political pressure. The United States can make clear that attempts to politicize these institutions will lead to negative consequences for bilateral relations between Washington and Ramallah. The United States should also work to increase international assistance to these institutions, making them more capable of carrying out their functions and more able to resist political meddling.

Support a Palestinian Authority local public works program. In tandem with measures to strengthen transparency and lessen corruption, the United States and other donors should consider supporting a local public works program in the West Bank. The program could be administered through the Palestinian Authority and target infrastructure needs at the community level that would help unlock the potential of local entrepreneurs and SMEs. Projects should be identified in conjunction with local officials to ensure that they reflect community priorities and would need to be carefully tailored to work around Israeli restrictions. For example, where water is needed to expand opportunities for agriculture and agribusiness, the program would increase output of existing wells, foregoing licensing requirements for new construction. With proper execution and community consultation, a local public works program could both grow local economies and help restore the credibility of the PA.

Conclusion

The next U.S. president will enter office at a time when a resolution to the Israeli-Palestinian conflict remains elusive. The political landscape and popular sentiment in Israel and amongst the Palestinians are unlikely to favor a diplomatic settlement. Prime Minister Netanyahu and President Abbas do not trust each other. Neither leader has an appetite to return to the table. None of this undercuts the strategic logic of a two-state solution. But the feasibility of that solution is increasingly under threat. For a Palestinian state to be viable, it will require a healthy economy that can provide jobs and growth to its people. The lack of economic opportunity already contributes to the difficulties of daily life in the West Bank and Gaza and helps to fuel the recent unrest.

In the absence of a final status agreement, the next administration will need to steer a pragmatic course with a greater focus on what is achievable economically. The United States must be clear-eyed in its expectations. Progress down this path will likely be incremental and will require patience and determination. Relations between the parties do not lend themselves to quick wins or major breakthroughs. But an agenda of smaller, concrete steps can achieve meaningful improvements in conditions for Palestinians and sustain hope for a two-state solution.

About the authors

Hardin Lang is a Senior Fellow at the Center for American Progress, where he focuses on U.S. national security, multilateral affairs, and Middle East policy. He has two decades of experience in peacekeeping, peacebuilding, and stabilization, including a 12-year career with the United Nations. Before coming to CAP, Lang was a senior fellow at the Center for Strategic and International Studies. During his 12 years at the United Nations, he served as head of office for former President Bill Clinton in his role as U.N. special envoy for Haiti after the 2010 earthquake and helped launch U.N. stabilization in Mali. Other overseas postings included Afghanistan, the Balkans, Central America, and Iraq.

Rudy deLeon is a Senior Fellow with the National Security and International Policy team at the Center. He has worked at the organization since 2007 and focuses on U.S. national security issues. His 25-year government career concluded in 2001 after his tenure as deputy secretary of defense, during which time he served as the chief operating officer at the Pentagon, a member of the Deputies Committee of the National Security Council, and a member of the U.S. Department of Veterans Affairs National Partnership Council on labor-management issues. In earlier Pentagon assignments, deLeon served as undersecretary of defense for personnel and readiness from 1997 to 2000 and as undersecretary of the Air Force from 1994 to 1997.

Acknowledgments

The authors would like to thank CAP Senior Fellow Brian Katulis and CAP Senior Fellow John Craig for their support and guidance on this report. The authors would also like to thank an impressive team of CAP interns—Ayla Bitmouni, Sangita Kanumalla, Shaun Kleber, and Robert Stephens—for their research in support of this study. This report would not have been possible without their help.

Endnotes

- 1 Eliana Rudee, "Analysis of New Palestinian Poll Shows Fertile Ground for Escalation of Violence," *The Algemeiner*, January 5, 2016, available at <http://www.algemeiner.com/2016/01/05/poll-shows-palestinians-support-violence-not-diplomacy/>; Gil Hoffman, "Poll finds nearly half Israelis feel two-state solution is dead," *The Jerusalem Post*, October, 14, 2015, available at <http://www.jpost.com/printarticle.aspx?id=424970>.
- 2 Salam Fayad, "Farewell to Victimhood," *Atlantic Council*, January 15, 2016, available at <http://www.atlanticcouncil.org/publications/articles/farewell-to-victimhood>.
- 3 Einat Wilf and Ghaith al-Omari, "Roundtable: Preserving a Path to a Two-State Solution," *Washington Institute for Near East Policy*, December 23, 2015, available at <https://www.washingtoninstitute.org/policy-analysis/view/preserving-a-path-to-a-two-state-solution>.
- 4 David Pollock, "New Palestinian Poll Shows Hardline Views, But Some Pragmatism Too," *Washington Institute for Near East Policy*, June 25, 2014, available at <http://www.washingtoninstitute.org/policy-analysis/view/new-palestinian-poll-shows-hardline-views-but-some-pragmatism-too>.
- 5 Palestinian Welfare Association, interview with authors, Ramallah, West Bank, October 24–26, 2015.
- 6 Authors' interviews with Palestinian nongovernmental organizations, Ramallah, West Bank, October 24–26, 2015.
- 7 Eric Schwartz, "Student group's demand to divest from Israel goes too far," *The Third Narrative*, March 1, 2016, available at <http://thirdnarrative.org/bds-does-not-equal-peace-articles/student-groups-demand-to-divest-from-israel-goes-too-far/>.
- 8 Brian Katulis, Marc Lynch, and Robert C. Adler, "Window of Opportunity for a Two-State Solution: Policy Recommendations to the Obama Administration on the Israeli-Palestinian Front" (Washington: Center for American Progress, 2009), available at <https://www.americanprogress.org/issues/security/report/2009/07/15/6412/window-of-opportunity-for-a-two-state-solution/>.
- 9 Office of the Quartet, "Quartet Principals' Statement," October 1, 2015, available at <http://www.quartetrep.org/page.php?id=5dc909y6146313Y5dc909>.
- 10 Peter Juul, "Don't Cut Aid to the Palestinian Authority: U.N. Membership Bid Could Have Serious Consequences," *Center for American Progress*, September 26, 2011, available at <https://www.americanprogress.org/issues/security/news/2011/09/26/10264/dont-cut-aid-to-the-palestinian-authority/>.
- 11 Karim Nashashibi, Yitzhak Gal, and Bader Rock, "Palestinian-Israeli Economic Relations: Trade and Economic Regime" (Stockholm and Jerusalem: Palestine International Business Forum, International Council of Swedish Industry, and Office of the Quartet Representative, 2015), available at <http://www.quartetrep.org/files/image/report.pdf>.
- 12 Former Palestinian economic official, interview with authors, Washington, D.C., March 20, 2016.
- 13 Central Intelligence Agency, "The World Factbook: West Bank," available at <https://www.cia.gov/library/publications/the-world-factbook/geos/we.html> (last accessed April 2016).
- 14 Association for Civil Rights in Israel, "East Jerusalem – By the Numbers," May 7, 2013, available at <https://www.acri.org.il/en/2013/05/07/ej-figures/>.
- 15 Central Intelligence Agency, "The World Factbook: Gaza Strip," available at <https://www.cia.gov/library/publications/the-world-factbook/geos/gz.html> (last accessed April 2016).
- 16 U.S. Department of State, *West Bank and Gaza Investment Climate Statement 2015* (2015), available at <http://www.state.gov/documents/organization/242007.pdf>.
- 17 Ibid.
- 18 World Bank staff, interviews with authors, Washington, D.C., December 10, 2015.
- 19 Chairman of large Palestinian real estate company, interview with authors, Amman, Jordan, October 17–22, 2015.
- 20 World Bank, "Economic Monitoring Report to the Ad Hoc Liaison Committee" (2015), available at http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/05/27/090224b082eccb31/5_0/Rendered/PDF/Economic0monit0oc0liaison0committee.pdf.
- 21 World Bank, "Gaza Economy on the Verge of Collapse, Youth Unemployment Highest in the Region at 60 Percent," Press release, May 21, 2015, available at <http://www.worldbank.org/en/news/press-release/2015/05/21/gaza-economy-on-the-verge-of-collapse>.
- 22 Associated Press, "Gaza Could Become 'Uninhabitable' by 2020, UN Report Warns," *Haaretz*, September 2, 2015, available at <http://www.haaretz.com/middle-east-news/1.674064>.
- 23 Moran Azulay and Itamar Eichner, "Military Intelligence chief: Deterioration in Gaza endangers Israel," *Ynetnews*, February 24, 2016, available at <http://www.ynetnews.com/articles/0,7340,L-4770471,00.html>.
- 24 U.N. Office for the Coordination of Humanitarian Affairs, "The Humanitarian Impact of Gaza's Electricity and Fuel Crisis" (2015), available at <http://gaza.ochaopt.org/2015/07/the-humanitarian-impact-of-gazas-electricity-and-fuel-crisis/>.
- 25 Office of the Quartet, "Gaza recovery and beyond: Reliable infrastructure: Energy," available at <http://www.quartetrep.org/page.php?id=5d7398y6124440Y5d7398> (last accessed February 2016).
- 26 United Nations Conference on Trade and Development, "Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory" (2015), available at http://unctad.org/en/PublicationsLibrary/tdb62d3_en.pdf.
- 27 Office of the Quartet, "Gaza recovery and beyond: Reliable infrastructure: Water," available at <http://www.quartetrep.org/page.php?id=5d774fy6125391Y5d774f> (last accessed April 2016).
- 28 Ibid; Senior U.S. government official, interview with authors, Washington, D.C., April 1, 2016.

- 29 A. Bennett and others, "West Bank and Gaza: Economic Performance and Reform under Conflict Conditions" (Washington: International Monetary Fund, 2003), available at <https://www.imf.org/external/pubs/ft/med/2003/eng/wbg/wbg.pdf>.
- 30 World Bank, "Economic Monitoring Report to the Ad Hoc Liaison Committee."
- 31 Khaled Abu Toameh, Tovah Lazaroff, and Lahav Harkov, "Israel freezes Palestinian tax revenues in response to ICC membership" *The Jerusalem Post*, January 3, 2015, available at <http://www.jpost.com/Israel-News/Politics-And-Diplomacy/Israel-freezes-Palestinian-tax-revenues-in-response-to-ICC-membership-386556>.
- 32 World Bank, "Economic Monitoring Report to the Ad Hoc Liaison Committee."
- 33 Adam Eliyahu Berkowitz, "Israel to Implement Economic Aid to PA as Solution to Violence," *Breaking Israel News*, February 26, 2016, available at <http://www.breakingisraelnews.com/62328/finance-minister-proposes-economic-solution-to-violence-jerusalem/#JztXXl6km9hJU2du.99>.
- 34 Israeli official, interview with authors, Washington, D.C., March 17, 2016.
- 35 Senior representative of a Palestinian investment company, interview with authors, Amman, Jordan, October 17–22, 2015.
- 36 Palestinian Welfare Association, interview with authors.
- 37 Office of the Quartet, "Strategy and Priorities 2015-16: 'Building the State, Empowering the Economy'" (2015), available at <http://www.quartetrep.org/files/server/OQ%20Strategy%20and%20Priorities%202015-2016.pdf>; World Bank, "Economic Monitoring Report to the Ad Hoc Liaison Committee."
- 38 U.K. Department for International Development, "Support to the work of the Office of the Quartet Representative (OQR) in the Occupied Palestinian Territories," available at <http://iati.dfid.gov.uk/iati-documents/3717418.odt> (last accessed March 2016).
- 39 Senior representative of the Arab Palestinian Investment Corporation, interview with authors, Amman, Jordan, October 17–22, 2015.
- 40 Office of the Quartet, "Strategy and Priorities 2015-16"; World Bank, "Economic Monitoring Report to the Ad Hoc Liaison Committee."
- 41 Office of the Quartet, "Movement and trade: Containerization at Allenby Bridge," available at <http://www.quartetrep.org/page.php?id=5d6fe1y6123489Y5d6fe1> (last accessed April 2016).
- 42 Ibid.
- 43 Office of the Quartet, "Report for the Meeting of the Ad-Hoc Liaison Committee on Action in Support of Palestinian State-Building" (2015), available at <https://unispal.un.org/DPA/DPR/unispal.nsf/3d14c9e5cdaa296d85256cbf005aa3eb/c364aaf8dafd150985257ece0067e527?OpenDocument>.
- 44 Office of the Quartet, "Movement and trade: Containerization at Allenby Bridge."
- 45 Jordanian Business Council, interview with authors, Amman, Jordan, October 17–22, 2015.
- 46 Office of the Quartet, "Report for the Meeting of the Ad-Hoc Liaison Committee on Action in Support of Palestinian State-Building."
- 47 Ibid.
- 48 Office of the U.N. High Commissioner for Human Rights, "Freedom of Movement: Human Rights Situation in the Occupied Palestinian Territory, Including East Jerusalem" (2016), available at http://www.ohchr.org/Documents/Countries/PS/SG_Report_FoM_Feb2016.pdf; C. Ross Anthony and others, "The Costs of the Israeli-Palestinian Conflict" (Santa Monica, CA: RAND Corporation, 2015), available at http://www.rand.org/content/dam/rand/pubs/research_reports/RR700/RR740-1/RAND_RR740-1.pdf.
- 49 Office of the U.N. High Commissioner for Human Rights, "Freedom of Movement."
- 50 Massimiliano Cali and Sami H. Miaari, "The Labor Market Impact of Mobility Restrictions: Evidence from the West Bank" (Washington: World Bank, 2013), available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/05/22/000158349_20130522112115/Rendered/PDF/WPS6457.pdf.
- 51 Ibid.
- 52 Office of the U.N. High Commissioner on Human Rights, "Freedom of Movement."
- 53 Palestinian hotel and business owners in the tourism sector, interviews with authors, Bethlehem, West Bank, October 24–26, 2015.
- 54 Anthony and others, "The Costs of the Israeli-Palestinian Conflict."
- 55 Eric Neumayer, "On the detrimental impact of visa restrictions on bilateral trade and foreign direct investment," *Applied Geography* 31 (3) (2011): 901–907, available at <http://eprints.lse.ac.uk/37226/>.
- 56 CEO of one of the largest pharmaceutical retail chains in Jordan, interview with authors, Amman, Jordan, October 17–22, 2015.
- 57 Chairman of one of the largest Palestinian banks, interview with authors, Ramallah, West Bank, October 24–26, 2015.
- 58 Leila Farsakh, "Palestinian Labor Migration to Israel since Oslo and Beyond," *Topics in Middle Eastern and North African Economies* 4 (2002), available at <https://pdfs.semanticscholar.org/ec08/5e8cc8cd7795226546eaaaf7d844ad157d0e.pdf>.
- 59 Ibid.
- 60 Sebnem Akkaya and others, "Economics of 'Policy-Induced' Fragmentation: The Costs of Closures Regime to West Bank and Gaza." Working Paper 50 (World Bank Office of the Chief Economist, 2008), available at http://www.gla.ac.uk/media/media_84244_en.pdf.
- 61 Ibid.
- 62 International Labour Organization, "ILO: Unemployment among Palestinians up by over 25 per cent," May 28, 2015, available at http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_371179/lang-en/index.htm.
- 63 Bank of Israel Office of the Spokesperson and Economic Information, "Expansion of Palestinian employment in Israel and its characteristics" Press release, March 3, 2015.
- 64 Senior representative of a Palestinian investment company, interview with authors, Amman, Jordan, October 17–22, 2015.

- 65 Office of the Quartet, "Strategy and Priorities 2015-16."
- 66 Ibid.
- 67 Chairman of major Palestinian real estate company, interview with authors.
- 68 Padico Holdings, interview with authors, Ramallah, West Bank, October 24–26, 2015.
- 69 Leading Palestinian businesswoman, interview with authors, Ramallah, West Bank, October 24–26, 2015.
- 70 Office of the Quartet, "Strategy and Priorities 2015-16."
- 71 Quds Bank senior board member, interview with authors, Amman, Jordan, October 17–22, 2015.
- 72 Office of the Quartet, "Strategy and Priorities 2015-16."
- 73 World Bank, "West Bank and Gaza: Area C and the Future of the Palestinian Economy" (2013), available at http://www-wds.worldbank.org/external/default/WDContentServer/WDSP/IB/2014/01/23/000442464_20140123122135/Rendered/PDF/AUS29220REPLAC0EVI-SION0January02014.pdf.
- 74 Ibid.
- 75 Ibid.
- 76 Anthony and others, "The Costs of the Israeli-Palestinian Conflict."
- 77 Senior United Nations official based in the Middle East, interview with authors, Washington, D.C., March 21, 2016.
- 78 Israeli political analyst, interview with authors, Washington, D.C., March 21, 2016.
- 79 Padraig O'Malley, "It's too late for a two-state solution in Israel-Palestine," *The Conversation*, January 7, 2016, available at <http://theconversation.com/its-too-late-for-a-two-state-solution-in-israel-palestine-48803>.
- 80 Senior Padico Holding official, interview with authors, Ramallah, West Bank, October 24–26, 2015.
- 81 The Portland Trust, "Beyond Aid: A Palestinian Private Sector Initiative for Investment, Growth and Employment" (2013), available at http://www.portlandtrust.org/sites/default/files/pubs/beyond_aid.pdf; Office of the Quartet Representative, "Initiative for the Palestinian Economy" (2014), available at <http://quartetrep.org/files/image/initiative.pdf>.
- 82 Hotel owners and other leaders in the Bethlehem tourism sector, Bethlehem, West Bank, interviews with authors, October 2015.
- 83 Office of the Quartet Representative, "Initiative for the Palestinian Economy: Agriculture," available at <http://www.quartetrep.org/files/server/agriculture.pdf> (last accessed April 2016); Office of the Quartet, "Strategy and Priorities 2015-16."
- 84 Padico Holding, interview with authors; Arab Palestinian Investment Company, interview with authors.
- 85 Founder of leading regional tech company and Dubai, United Arab Emirates-based internet venture capital firm, interview with authors, Amman, Jordan, October 17–22, 2015.
- 86 Office of the Quartet, "Strategy and Priorities 2015-16."
- 87 Isabel Kershner, "West Bank's Emerging Silicon Valley Evades Issues of Borders," *The New York Times*, July 29, 2012, available at http://www.nytimes.com/2012/07/30/world/middleeast/palestinians-building-tech-hub-in-west-bank.html?_r=2&partner=rss&emc=rss.
- 88 Palestinian investors and entrepreneurs, interviews with authors, Jordan and West Bank, October 2015 and January 2016.
- 89 Wilf and Omari, "Roundtable: Preserving a Path to a Two-State Solution."
- 90 Leading regional entrepreneur and Palestinian businessman, interview with authors, Amman, Jordan, October 17–22, 2015.
- 91 Adam Rasgon, "First, an Economic Peace: Revisiting Israel and Palestine's Paris Protocol," *Foreign Affairs*, November 17, 2015, available at <https://www.foreignaffairs.com/articles/israel/2015-11-17/first-economic-peace>.
- 92 Amos Harel, "Military Wants 30,000 More Palestinians Working in Israel," *Haaretz*, February 8, 2016, available at <http://www.haaretz.com/israel-news/.premium-1.702003>.
- 93 Neri Zilber, "The business end of Palestinian despair," *The Times of Israel*, March 3, 2016, available at <http://blogs.timesofisrael.com/the-business-end-of-palestinian-despair/>.
- 94 Office of the Quartet Representative, "Report for the Meeting of the Ad-Hoc Liaison Committee on Action in Support of Palestinian State-Building" (2015), available at <https://unispal.un.org/DPA/DPR/unispal.nsf/0/DCA80249053CD09085257E4D00503B81>.
- 95 Office of the Quartet, "Report for the Meeting of the Ad-Hoc Liaison Committee on Action in Support of Palestinian State-Building," p. 23.
- 96 Palestinian-diaspora investors, interviews with authors, Amman, Jordan, October 17–22, 2015; Jordanian Business Council, interview with authors.
- 97 B'Tselem, "Checkpoints, Physical Obstructions, and Forbidden Roads," May 20, 2015, available at http://www.btselem.org/freedom_of_movement/checkpoints_and_forbidden_roads.
- 98 Founder of one of the largest Palestinian real estate companies, interview with authors, Amman, Jordan, October 17–22, 2015.
- 99 Office of the Quartet, "Report for the Meeting of the Ad-Hoc Liaison Committee on Action in Support of Palestinian State-Building."
- 100 Mayor of Bethlehem, interview with authors, Bethlehem, West Bank, March 2013.
- 101 Chairman of one of the largest Palestinian banks, interview with authors.
- 102 CEO of a leading technology firm, interview with authors, Ramallah, West Bank, October 24–26, 2015.
- 103 Founder of leading regional tech company and Dubai, United Arab Emirates-based internet venture capital firm, interview with authors.
- 104 CEO of a leading technology firm, interview with authors, Amman, Jordan, October 17–22, 2015.

Our Mission

The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans, through bold, progressive ideas, as well as strong leadership and concerted action. Our aim is not just to change the conversation, but to change the country.

Our Values

As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

Our Approach

We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

Center for American Progress

