



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

By Hardin Lang and Rudy deLeon April 13, 2016

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.

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

