



**The Aix Group**

**Two Further Studies:**

**Improving the Gazan Economy and  
Utilizing the Economic Potential of the Jordan Valley**

**Editors:**

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**In collaboration with the Office of the Chief Economist,  
MENA Region, World Bank**

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**Jerusalem, Ambassador Hotel**

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## **PART I: GENERAL INTRODUCTION**

### **Preface**

The Aix Group is a joint Israeli-Palestinian think tank that has been working on the political economy aspects of the conflict since 2002. In this volume the Aix Group presents two additional studies prepared in 2016. The studies were prepared as part of a special project done in collaboration with the World Bank under a contract entitled: "Joint Palestinian-Israeli Research on Improving Palestinian Economic Conditions in the West Bank and Gaza."

The papers were prepared by two joint teams of the Aix Group, including (alphabetically): Shaul Arieli, Arie Arnon, Saeb Bamyra, Adi Finkelstein, Yehuda Greenfield-Gilat, Anan Jayoussi, Saad Khatib, Karim Nashashibi, Jimmy Weinblatt and Yossi Zeira.

From November 4<sup>th</sup> to 6<sup>th</sup>, 2016, the papers were discussed at a conference at the Ambassador Hotel in Jerusalem (for a list of participants see Appendix A); the present volume presents to the public the revised papers that we discussed at the conference.

## 1. The Rationale of the Present Study

The research presented by the Aix Group in the papers echoes the prevalent understanding that the current conditions in the Palestinian economy are grave, and that although it would have been better to change the economic environment via a permanent status agreement, such a path may not be feasible in the near future. Hence, assessing changes that can be implemented in the short and medium terms, even when no permanent agreement is reached, deserves serious study.

The two subjects we researched in this project, done under a contract with the World Bank, embody just some of the troubling issues that the Palestinian economy faces. The conditions in various areas in the Palestinian occupied territory are not identical. Although the Oslo Agreement promised to deal with the West Bank and Gaza as one territory, consider the area as "a single territorial unit" and keep the conformity of the arrangements, in reality the different areas faced distinct restrictions at various times.

The diverging reality has been attributed to political developments in the Palestinian society, but is mainly due to dissimilar restrictions imposed by the Israeli authorities in different areas, reflecting its own considerations and strategy. Thus, those who follow the conflict notice that East Jerusalem, the rest of the West Bank and Gaza are facing dissimilar, even far removed, existences from each other. Even the West Bank itself is far from being uniform; the diverging realities in different localities commencing with the infamous 1995 legal distinction between areas A, B and C, and the variations do not end there.

Thus, studying the two subjects covered in this project -- improving the Gazan economy via changes in its current economic circumstances, and utilizing the economic potential of the Jordan Valley under the present conditions -- we will be able to identify the concrete restrictions in the different areas, their history and the motivation in introducing those "status quos." But more important, the studies outline sets of policy measures that are both feasible and effective in improving life in the Palestinian Territory rather soon. These measures should also be consistent with the permanent status agreement of a "Two State" agreement that we, in the Aix Group, advocate.

The Aix Group considers a permanent status agreement based on the "Two State" formula as the only possible one. In previous stages of our work we outlined the detailed contours of the economics and politics of such an agreement; recently we published summaries

of these works that can be found on our site.<sup>1</sup> These summaries represent the essential elements of the permanent agreement between Israel and Palestine: the type of borders between the two sovereign states; the arrangements in Jerusalem which will become the capital of the two states; the resolution of the crucial issue concerning the Palestinian refugees of 1948; the Territorial Link between the two populated centers of the future state in Gaza and the West Bank, and more.

The research project deals with issues concerning the two geographically separated regions of the Palestinian economy and surveys the main obstacles that also appear, sometimes in different forms, elsewhere in the economy. The short-term policy measures recommended are consistent with the longer-term modifications; they will increase Palestinian capacities as well as control, and pave the path toward more changes that will be part of a permanent status arrangement. Moreover, the outcome of the research project will be more than just the identification of policy measures. The process by which the study is undertaken -- with Palestinian participants from the West Bank and Gaza and elsewhere, with Israeli participants and with well-informed international experts -- enable considerations of different points of view throughout. As such it will prepare the ground for advocating for the required policy changes among the various stakeholders and hopefully will have a real impact. The abysmal split between the two sides over the last fifteen years, and the lack of serious discussions where the existence of two legitimate claims are considered, made such joint thinking projects too rare. Hence, the process we went through will preserve and strengthen cooperation between those, on both sides of the divide, who understand that "two" live between the River and the Sea, maintain a balanced and inclusive perspective and seek win-win outcomes. The advocacy and implementation of the challenging recommendations emerging from the thinking process will benefit from the experience and record of the Aix Group in such endeavors and the expertise, reputation and convening power of the World Bank.

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<sup>1</sup>See <http://aix-group.org> and <http://aix-group.org/index.php/category/summaries/>.



## 2. Aix Group's General Approach

In 2003, the Aix Group agreed on a basic concept which remains central in our discussions to this day. We came to the conclusion that one of the errors committed by the two sides in 1993, when the Oslo process started, and since then, had been to base the peace process on “gradualism.” Gradualism takes the form of an incremental approach, moving one step at a time with no agreement on, or even a serious discussion of, the end result. The right way forward, in our opinion, was to adopt what we have termed a “**reverse engineering**” approach (see the “Economic Road Map,” 2004). In “reverse engineering,” the sides first agree on where they want to go, i.e. on the contours of a permanent agreement, and then decide how to reach that end.

A feasible agreement on two states will have to address tough issues, among them the difficult "trio" of borders, Jerusalem and refugees. It will also have to deal with the question of “pre-emption” and the long-term impact of creating “facts on the ground.” A positive conclusion that addresses the minimum and necessary requirements of the two sides will most probably look like the following:

- The borders between the two states will be drawn so that they will have contiguity; the land will be divided 77 percent to 23 percent based on the 1967 borders, allowing for agreed-upon and limited swaps of land along the “Green Line;” arrangements satisfying contiguity between Gaza and the West Bank will guarantee the free flow of people and goods within both Israel and Palestine so that travel between Gaza and the West Bank will not entail crossing a border.
- Jerusalem will be the capital of both Israel and Palestine. Two options for Jerusalem’s borders can be considered:
  - a. An “open” Jerusalem, necessitating the creation of borders around Jerusalem, or the part of the city that remains “open;”
  - b. A border that will bisect Jerusalem.
- A just and fair solution to the 1948 refugee problem will address both the individual claims and the collective considerations of the two sides and provide a way to reconcile the two. It is the goal that the Palestinian refugees will be able to choose a permanent place of residency, and that the implementation of these decisions will be agreed to by, and subject to the sovereignty of, all the countries that will be affected, including

Palestine and Israel. Programs for the refugees will address resettlement/repatriation, or what we sometimes describe as relocation, as well as rehabilitation. A substantial compensation scheme for the refugees will be agreed upon. The process will end the status of refugeehood and turn all refugees into citizens, with the agreement and cooperation of the refugees themselves.

We suggest that the economic aspect of the new agreement include several key principles. First, it is imperative to agree that the sovereign authority of each party, within internationally recognized borders, includes the right to conduct internal and external economic affairs, including the operation and administration of that party's economic borders, autonomously but in cooperation with one another. Second, economic relations shall be guided by the concepts of cooperation in both trade and labor, as well as in infrastructure, R & D, etc. Thus the parties can establish the rules and arrangements which will regulate the trade in goods and services, and the flows of labor and investment.

### **3. The "Status Quo:" A Misleading Concept**

The project reexamines the current conditions in the Palestinian Territory and focuses on the links between politics and economics and between a permanent agreement in the Israeli-Palestinian conflict and interim arrangements. However, the project intentionally does not concentrate on permanent status economic issues – like the trade borders between the two sides or the difficult issues concerning the refugees and Jerusalem which the Aix Group covered extensively in the past -- but instead focuses on whether reforming the interim arrangements is feasible. Thus, it asks whether there is a path forward which while bypassing a permanent agreement can still positively reform the current interim arrangements.

The project reviews the characteristics of the current social and economic reality in several areas, conditions known in the common jargon as the "Status Quo" [SQ]. We would like to illuminate that in reality there is more than one SQ and the conditions are shifting and fluid and not at all fixed; hence, the term is misleading. There are variations of the SQ on the Palestinian side, characterizing different regions and changing over time. The formative role of the *de jure* current economic regime, outlined in the Paris Protocol signed in 1994, in shaping the Status Quos [SQs] is clear. However, the differing and changing SQs are shaped not less by specific political forces. Thus, we call attention to the complex relations between politics

and economics which is generally true elsewhere as well, but is very significant in the transient Israeli-Palestinian case, in particular. Moreover, in the context of the Israeli-Palestinian conflict, the desire to separate politics from economics is usually a sign that one side prefers to address only economic issues while the other prefers to prioritize political ones. The stronger party has its priority ruling. This explains, to some degree at least, what we have seen in the diversification of interim economic regimes, i.e. different SQs over the last twenty years in the West Bank, East Jerusalem and Gaza.

In the two papers presented at the conference, on Gaza and the Jordan Valley, the rise of different SQs is studied and explained; the papers outline the diversity of the current socio-economic conditions, and how the variations between geographic regions grew over time. Thus, the diversification calls for an explanation of the roles of the uniform elements, like the Paris Protocol, in molding what is known as the SQ, and the specific elements that brought about the various socio-economic conditions.

The Gazan circumstances were already different from those of the West Bank in 1994 (and also before), but the divergence intensified in 2005 with Israel's unilateral decision to implement the "disengagement" in Gaza, and with the internal political changes in Palestinian politics in 2006 and 2007 that brought Hamas to effective power there. These political changes, along with a series of violent clashes with Israel, dramatically transformed the SQ in Gaza. Despite the well-known differences between the two areas they remain part and parcel of any long term arrangements, as well as any attempts to transform the SQ.

#### **4. The Economic and Political Complementarities between the West Bank (including East Jerusalem) and Gaza**

The "Two State" formula in all its more serious versions always presumed that the Palestinian state would be established in the area occupied by Israel in 1967. The Oslo agreements -- both the DoP of September 1993, the Paris Protocol of April 1994, and the Oslo II agreement of September 1995 -- presumed the integrity of the West Bank and Gaza. In the later agreement, in Article XI entitled "Land," the government of Israel and the PLO agreed in the opening section:<sup>2</sup>

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<sup>2</sup>Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip Washington, D.C., September 28, 1995; The Government of the State of Israel and the Palestine Liberation Organization (hereinafter "the PLO"), the representative of the Palestinian people; ARTICLE XI.

1. The two sides view the West Bank and the Gaza Strip as a single territorial unit, the integrity and status of which will be preserved during the interim period.

Twenty years later, unfortunately, we are still, legally, living under the "interim period" regime.

The area referred to in the above clause and in the other agreements has no contiguity, of course; since 1949 Gaza has been separated from the West Bank by the State of Israel. However, economic considerations show the significance and advantages of bringing together the West Bank and Gaza. The economic complementarities they have, and the clear advantages to the Palestinian economy from the creation of economic links between them are clear. Socially, culturally, and politically, the populations in the West Bank and Gaza belong to one nation; living further away from each other, they still belong to the same people as do Palestinians living elsewhere. They have similar desires and they share political perspectives. Integrating the Palestinian economy and utilizing its advantages is feasible even under the interim period. The Oslo agreements, in fact, accepted the need for and advantages in linking the West Bank and Gaza and specified its technical implementation in the short run. It was not conditional on a permanent agreement as we will argue in the following papers.

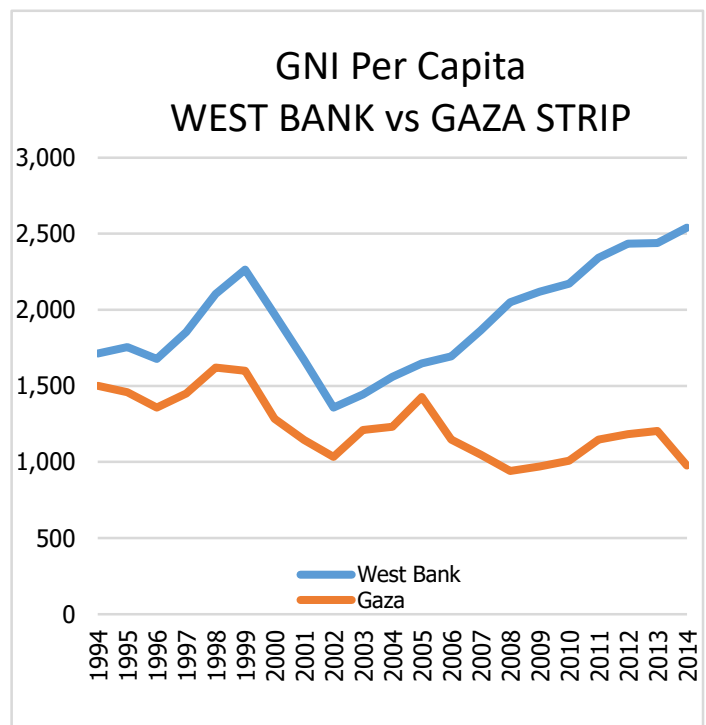
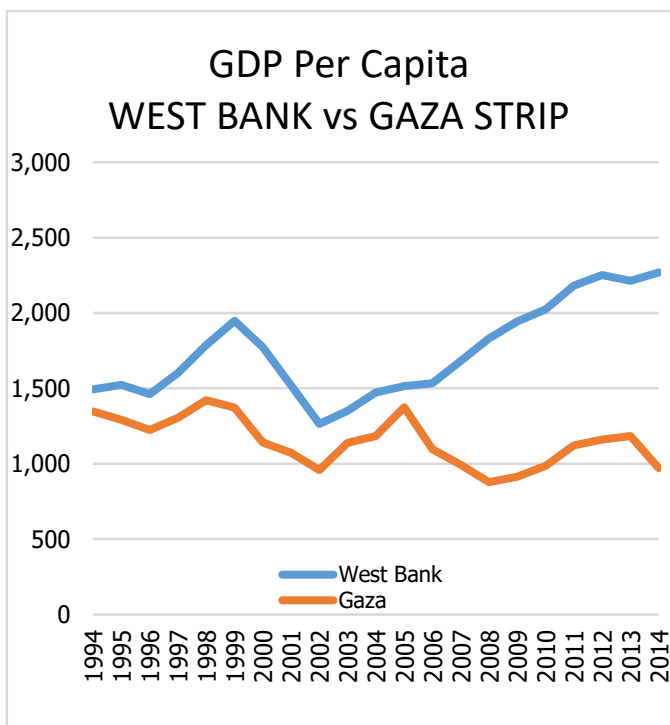
The West Bank, with an area of 5,800 sq. km, is the bigger geography; Gaza is much smaller and has only 365 sq. km. In 2014, the population in the West Bank was 2.8 million and in Gaza 1.8 million. One basic characteristic that demonstrates the economic complementarity is obvious: The West Bank has no access to international water, while Gaza does. Currently both areas' land borders are controlled by Israel.

Economically, the combined economies of the West Bank and Gaza enlarges the economic market significantly, which contributes to a better division of labor with potential advantages of specialization. Historically, Gaza had a strong agricultural base and supplied agricultural products to the West Bank. Other sectors, such as furniture, were also developed in Gaza. The diversification of climate, with what can be described as "seasonal complementarity," provides another advantage to the combined, integrated economy.

From 1994 to 2014 the GDP and GNI of the West Bank grew by 190.5 percent and 183.4 percent respectively, and those of Gaza by 55.4 percent and 40.3 percent. The standards of living in Gaza were historically lower than those in the West Bank. Measured by the GNI ratio, for example, in 1994 the ratio of GNI in the West Bank relative to Gaza was 1.14, in

2006 it was 1.15 and in 2014 we have seen a GNI ratio of 2.6. The story of the distinct changes in Gaza and in the West Bank over the last twenty years is clearly seen in the charts of GDPPC and GNIPC: Gaza's domestic production was always lower (per capita) than that of the West Bank; the second Intifada caused a collapse in standards of living, both measured in GDPPC and GNIPC. In Gaza the GDP and GNI converged, since no laborers continued to work in the Israeli economy. In 2005 the gap between the two areas' GDPPC was small; however, during the next ten years the gap between the areas increased dramatically. Gaza is poorer today than it was twenty years ago, and the economic crisis in Gaza is more severe than that in the West Bank.

Per Capita GDP and GNI, by Region for the Years 1994-2014  
 In constant (2004) Prices of \$US– PCBS.



## **Appendix A: The Paris Protocol Preamble**

### PROTOCOL ON ECONOMIC RELATIONS

between the Government of the State of Israel and the P.L.O., representing the  
Palestinian people

Paris, April 29th, 1994

#### PREAMBLE

The two parties view the economic domain as one of the cornerstone in their mutual relations with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace. Both parties shall cooperate in this field in order to establish a sound economic base for these relations, which will be governed in various economic spheres by the principles of mutual respect of each other's economic interests, reciprocity, equity and fairness.

This protocol lays the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plan and priorities. The two parties recognize each other's economic ties with other markets and the need to create a better economic environment for their peoples and individuals.

## **Appendix B:**

### **Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip**

**Washington, D.C., September 28, 1995**

The Government of the State of Israel and the Palestine Liberation Organization (hereinafter "the PLO"), the representative of the Palestinian people;

#### **ARTICLE XI**

##### **Land**

1. The two sides view the West Bank and the Gaza Strip as a single territorial unit, the

integrity and status of which will be preserved during the interim period.

2. The two sides agree that West Bank and Gaza Strip territory, except for issues that will be negotiated in the permanent status negotiations, will come under the jurisdiction of the

Palestinian Council in a phased manner, to be completed within 18 months from the

date of the inauguration of the Council, as specified below:

- a) Land in populated areas (Areas A and B), including government and Waqf land,

will come under the jurisdiction of the Council during the first phase of redeployment;

- b) All civil powers and responsibilities, including planning and zoning, in Areas A and

B, set out in Annex III, will be transferred to and assumed by the Council during the first phase of redeployment.

- c) In Area C, during the first phase of redeployment, Israel will transfer to the Council

civil powers and responsibilities not relating to territory, as set out in Annex II

I.

- d) The further redeployments of Israeli military forces to specified military locations will be gradually implemented in accordance with the DOP in three phases, each to take place after an interval of six months, after the inauguration of the Council, to be completed within 18 months from the date of the inauguration of the Council.
- e) During the further redeployment phases to be completed within 18 months from the inauguration of the Council, powers and responsibilities relating to territory will be transferred gradually to Palestinian jurisdiction that will cover West Bank and Gaza territories, except for the issues that will be negotiated in the permanent status negotiations.
- f) The specified military locations referred to in Article X, paragraph 2 above will be determined in the further redeployment phases, within the specified time-frame ending not later than 18 months from the date of the inauguration of the Council, and will be negotiated in the permanent status negotiations.
3. For the purpose of this Agreement and until the completion of the first phase of the further redeployments:
- a) "Area A" means the populated areas delineated by a red line and shaded in brown on attached map No. 1;
  - b) "Area B" means the populated areas delineated by a red line and shaded in yellow on attached map No. 1, and the built-up area of the hamlets listed in Appendix 6 to Annex I; and
  - c) "Area C" means areas of the West Bank outside Areas A and B, which, except for



the issues that will be negotiated in the permanent status negotiations,  
will be  
gradually transferred to Palestinian jurisdiction in accordance with this  
Agreement.

**Appendix C: Participants in Aix Group's Conference**  
November, 4-6, 2016, Ambassador Hotel, Jerusalem

Israelis	Internationals	Palestinians
<b>Dan Catarivas</b> Manufacturers Association of Israel – MAI & Aix Group	<b>Dr. Shanta Devarajan</b> Chief Economist, MENA, World Bank	<b>Mr. Samir Hulileh</b> CEO – Padico & Former Cabinet Secretary
<b>Prof. Ori Heffetz</b> Hebrew University of Jerusalem	<b>Dr. Marina Wes</b> Country Director, West Bank and Gaza, World Bank	<b>Dr. Samir Hazboun,</b> DATA and Steering Committee, Aix Group.
<b>Advocate, Tamar Hacker</b> Aix Group	<b>Prof. Gilbert Benhayoun</b> Chairman, Aix Group	<b>Mr. Youssef Habesch</b> IFC – World Bank Group
	<b>Dr. Heliodoro Temprano Arroyo</b> Head of Unit, Neighbourhood countries – Macrofinancial Assistance, The EC	<b>Dr. Samir Abu Zneid</b> Researcher
	<b>Mr. Pierre Cochard</b> French Consul General, Jerusalem.	<b>Sami Abu Dayyeh</b> CEO- Net Tours
	<b>Ms. Nur Nasser Eddin</b> Economist, West Bank and Gaza	
	<b>Mr. Abdalwahab Khatib</b> Economist, West Bank and Gaza	
	<b>Mr. Hugo Darroman</b> Junior political counsellor French Consulate, Jerusalem	

**Aix Group's Teams of Israeli and Palestinian Researchers**  
*Writing Jointly the Studies*

<b>Prof. Arie Arnon</b> Israeli coordinator	<b>Mr. Saeb Bamyra</b> Palestinian coordinator
<b>Prof. Joseph Zeira</b> Hebrew University of Jerusalem & Steering Committee Aix Group	<b>Dr. Karim Nashashibi</b> Former IMF representative to Palestine & Aix Group
<b>Prof. Jimmy Weinblatt</b> Former Rector BGU & Former President Sapir College	<b>Dr. Saad Khatib</b> CORE & Aix Group
<b>Mr. Yehuda Greenfield-Gilat</b> Hebrew University of Jerusalem	<b>GE*</b>
<b>Dr. Shaul Arieli</b> Former IDF Colonel, Independent Researcher	<b>Prof. Anan Jayyousi</b> Aix Group Researcher Water and Agriculture Expert
<b>Ms. Adi Finkelstein</b> Hebrew University of Jerusalem	

\* In writing we had important inputs from an Economist from Gaza (GE); for obvious reasons we use this pseudonym.

## **Part II**

### **Gaza: From Humanitarian Crisis and Economic Decline to Economic Development**

#### **Executive Summary**

According to recent UN reports, Gaza is facing a humanitarian crisis and if the current trend continues, by 2020 Gaza will not be fit for living. This paper tries to outline some required measures that can improve things in Gaza in order to avoid this impending catastrophe. Following the 2014 war, there have been significant efforts for the reconstruction of Gaza, but that is clearly not enough. Gaza has suffered from a deteriorating economy for more than 20 years, and over the past 10 years it has deteriorated even more rapidly. GDP per capita has declined in the last 2 decades and GDP per worker has declined by even more. This means that productivity in Gaza is falling, so that its ability to grow and to feed itself becomes an increasingly distant prospect over time.

The paper begins with an attempt to explain why the Gazan economy has failed to grow. We identify 4 main reasons. The first and most significant is the Israeli siege, closing off Gaza to mobility of both goods and people. This increases transaction costs significantly and that reduces productivity and deters investment. The second reason is the deterioration of the infrastructure in Gaza, mainly of energy, roads, water and sewage. The third reason is the high military and political risks in Gaza that also deter investments. The fourth reason is governance, as Gaza is ruled de-facto by a Hamas government, which is in opposition to the Palestinian Authority government and which controls most of the public and external funds. This sharing of power does not work well and it creates additional difficulties, including obstacles to the supply of energy and to trade flows to and from Gaza.

This analysis and these conclusions guide this paper to put forward proposals to improve the economic situation in Gaza by tackling the two main problems of

insufficient infrastructure and restricted mobility. The paper also makes some suggestions on how to improve governance. In the area of infrastructure, the paper suggests a list of measures to advance the 3 areas of electricity, water and sewage. These measures include laying additional electrical power lines from Israel to Gaza and laying a gas pipeline from Ashkelon to Gaza. In the area of water, we propose an initial increase in imports of water from Israel in order to reduce the pumping of water from the Gaza Aquifer, which is critically overused. In addition, energy imports can help build desalination plants in Gaza and improve the treatment of sewage in order to reuse the water in agriculture. In the area of enabling trade, our first proposal is to gradually reduce the “Dual Use” list, which significantly limits imports of goods to Gaza, on the basis that these goods can be used for military activity as well. The current list, which includes all fertilizers and pesticides, and many industrial and construction inputs, significantly harms investment in industry and in agriculture in Gaza. We show that the list is exaggerated and serious negotiations between the Palestinians and Israel can reduce it significantly and improve the economy in Gaza. Another proposal the paper makes is reopening the safe passage to convoys between Gaza and the West Bank. It suggests opening more passages to goods in addition to Kerem Shalom. We also advocate deepening the fishing port in Gaza, later opening a Sea Lane from Gaza to Cyprus, and in the longer term gradually building a deep-sea port in Gaza. Finally, our proposals include rebuilding and operating the airport in Dahaniya. In the area of governance, we acknowledge the difficulties in overcoming the deep disputes between the PA and the de-facto Hamas government in Gaza, but we also point at the progress already done at bridging these gaps. We show that the financial aspects of these gaps are not significant, while the benefits of reconciliation are large.

At the outset, the proposals we raise have the potential to increase security risks to Israel, but we show in the document that there are ways to control and reduce these risks. First, most of these changes have been implemented in the past with satisfactory security arrangements, which were part of the Oslo process agreements. In most cases, we can restore these arrangements. In some cases, like the airport, there is a need to adjust security arrangements to the new situation in Gaza. It is also important to keep in mind three important points. The first is that even the harshest siege did not guarantee security. Even during the strictest imposition of the siege, the military arm of Hamas was able to produce rockets and explosives and to dig tunnels. The second point is that

after the war of 2014 Israel released many of the restrictions, especially on the imports of construction materials, for the reconstruction project, and it found satisfactory security arrangements for it. The third point is that security is achieved not only by military means, but also by reducing the motivation of the other side to fight against you. The situation of increasing poverty and declining standards of living creates a hotbed for anger and despair, which might lead, sooner or later, to more rounds of violence.

The paper then turns to analyze the potential political implications of increasing mobility to Gaza and mainly asks whether it might strengthen Hamas or weaken it. We estimate that it will weaken Hamas for three main reasons. First, an improvement in economic conditions reduces anger and hostility, which reduces support to radical movements. Second, opening Gaza will make its residents less dependent on Hamas, as it will open alternatives. Third, achieving openness and economic improvement through an agreement with Israel will increase the support to those who champion negotiations rather than to those who oppose them.

In summary, this paper calls three relevant parties to help the Gaza population get out of their terrible economic and humanitarian crisis. The first is Israel, who controls Gaza from the land, the air and the sea. We call on Israel to supply more energy and more water to Gaza, at least in the short term, to relax the “Dual Use” list, open the safe passage and allow the building of the port and the airport. We believe that the risks from such measures are smaller than the risk from a starving, vengeful and desperate neighbor. The second address of this paper is the Palestinians. A major improvement in governance is required. The separation between the PA and Hamas, between the West Bank and Gaza, proved to be damaging to both. Finally, our paper also addresses the international community, which has an important role in saving Gaza. It should participate in financing infrastructure projects and institution building, and in monitoring and solving security problems. Mainly, it should help in putting pressure on all sides to move ahead in implementing these recommendations. The international community has always been involved in Gaza, in bad times as in good times, so they share responsibility for the current debacle. After so many years of suffering and deterioration, the people of Gaza and their Israeli neighbors deserve a new start.

# **Part III**

## **The Jordan Valley: Current Reality and Future Prospects**

### **Executive Summary**

#### **1. Introduction**

The research presented by the Aix Group in this paper echoes the prevalent understanding that the current conditions in the Palestinian economy are grave, and that although it would have been better to change the economic environment via a permanent status agreement, such a path may not be feasible in the near future. Hence, assessing changes that can be implemented in the short and medium terms, even when no permanent agreement is reached, deserves serious study.

The Aix Group considers a permanent status agreement based on the "Two State" formula as the only possible one. The research surveys the main obstacles that also appear, sometimes in different forms, elsewhere in the economy. The short-term policy measures recommended are consistent with the longer-term modifications; they will increase Palestinian capacities as well as control, and pave the path toward more changes that will prepare the ground for advocating for the required policy changes among the various stakeholders which can hopefully have a real impact.

One area where change has the potential to significantly improve social and economic conditions in the West Bank is the Jordan Valley. The Jordan Valley, and more broadly the Palestinian economy in the West Bank, East Jerusalem and Gaza as a whole, is suffering from severe underdevelopment involving low levels of economic growth, high unemployment, a very low level of productive investments, inadequate social services and low standards of living. There is no doubt that the political situation,

specifically the occupation, has to be considered as an important factor in generating these undesirable conditions. The Jordan Valley on its eastern bank (in the Kingdom of Jordan) is a prosperous agricultural area; the Palestinian Jordan Valley offers even greater variety and opportunity both in agriculture and beyond. Specifically, the Jordan Valley has the potential to attract much tourism, and could become a pole of economic activity in other areas, as well. This will be an important contribution to the Palestinian economy and to its society. The economic potential of the Jordan Valley is part of the overall economic capacity of the Palestinian economy; it should be exploited fully in all its dimensions: agriculture, natural resources, tourism, light industry, services, housing and more. This principled position should be respected by all stakeholders and implemented as soon as possible.

## **2. Present Economic and Social Conditions**

The paper starts with a description of the economic and social conditions in the Jordan Valley. According to the PCBS, during mid-2016, the Palestinian population of the Jordan Valley is estimated to be about 54,000 people. According to the 1995 Interim Agreement, about 85.5 percent of the overall Jordan Valley area, which adds up to approximately 1,378,000 dunum, are part of Area C. In the past 5 decades, and even more effectively after the Interim Agreement, Israel has denied Palestinian access to more than 75 percent of the Jordan Valley areas by declaring broad areas as "military zones," "nature reserves" or "State Lands" (see maps in the paper). By doing so, Israel continually denies Palestinians from utilizing these lands. Only 42,000 dunum out of the 163,000 dunum available (27 percent) are cultivated by Palestinians, while extensive cultivation has been carried out by the JV's settlements. The Palestinian cultivated land is mostly in the Jericho area where the main crops are dates, citrus, vegetables and medical herbs.

Water resources are scarce in the region and are additionally negatively affected by the Israeli military measures, both of which have contributed to the under-development of the JV overall. This under-development is manifested in limited rural development and poor economic growth, occasioning an increase in poverty, poor health and sanitation conditions and physical and environmental deterioration. This is the consequence of many challenges and obstacles including inequitable distribution of

water resources, destruction of vital water infrastructure, lack of wastewater management and high water losses.

The main natural resource in the JV in addition to land and water seems to be the Dead Sea. So far two countries, Israel and Jordan, extract minerals from this salt-lake. Palestine, having a shore on the Dead Sea, has claims on its natural resources, but is currently not benefiting from them. The extraction of minerals from the Dead Sea has created severe environmental and geological problems. This calls for significant cooperation between the three involved parties, Palestine, Jordan and Israel, to cope with the challenges and agree on a common future policy. Nevertheless, the Dead Sea as a natural resource would not only be a source of minerals mining, but also an attractive point for the tourism industry.

Currently the tourist sector is far below its potential. Internal tourism uses holiday houses, so that income related to hospitality is low. In addition, there is a lack of high quality services and facilities for tourists, like a proper market for the selling of typical local products (cheese, dates, etc); and the handicraft sector is not developed. There is still a narrow vision of tourism, without connections to the different key attractions or with other sectors (for instance agriculture, handicrafts, etc.).

Industrial and manufacturing activities are underutilized and not modernized; they can be classified in two main sectors: the first concerns agriculture and food processing (e.g. date factories, dairy products, meat processing factories, etc.). The second is manufacturing, such as basic mechanic firms, light steel and iron industry.

Social Services including education and health are weak, mainly due to the region's small and widely dispersed villages. Local schools in most villages are only of an elementary level (6 years of schooling), which means that pupils going into higher classes are obliged to commute (mostly on foot) to schools in other villages. Similarly, health services are noticeably dismal. It is true that nearly all villages have public clinics, but in most cases those clinics are grossly deficient in medical staff and supplies.



### **3. Proposed Policies**

The paper shows that the economic potential of the JV is mainly in the fields of agriculture, tourism, natural resources and light industry. The realization of this potential, or at least part of it, requires the implementation of a number of measures such as enabling the use of arable land in Areas B and C to Palestinian farmers and allotting the needed amounts of water and energy for production and consumption. Moreover, restrictions on land use (see the set of maps describing the restrictions in the paper) and on the mobility of people and merchandise that prevent the efficient production of goods and services ought to be removed. Such policies call for regional planning and for cooperation between the Israeli government that is, at present, in control of most of the area, and the Palestinian Authority.

To change the dismal conditions mentioned above, a set of concrete policies are proposed. These policies are based on the long term developmental vision for the Palestinian side of the Jordan Valley and incorporates protection of the environmental and cultural resources of the Valley through sustainable economic development. The implementation of integrated policies should address the needs of the population. The development of the Jordan Valley and its transformation into a significant income generating region can be realized in the short term with measures consistent with a long term strategy. This requires the adoption of appropriate policies by both the Israeli and Palestinian authorities, specifically regarding Area C, to be implemented immediately in the JV, even before a political agreement is achieved and the formulation of a permanent status agreement is finalized. A Jordan Valley Authority (JVA) responsible for development should be created and should implement the new measures.

Concerning land and planning, the overriding tenets in the new policy should annul the restrictions currently in place concerning land usage. A dominant principle should emphasize the attempt to densify and thicken existing localities rather than building brand new ones. The rationale of this principle is that most Palestinian cities were developed and built without a general comprehensive plan, thus lacking the urban planning strategies that characterize modern cities. Another significant policy factor concerning the land is the preservation of agricultural tradition as a major factor in the design of the Palestinian space.

The new policy will require the utilization of about 40,000 additional dunum in the short and medium terms, and the other 60,000 dunum that are under the control of the settlements and the security zone areas to be utilized in the medium and long terms. That will include, in addition to land reclamation activities, the supply of adequate amounts of water, the investment of appropriate capital in modern equipment, the use of updated production technologies and the availability of human resources.

In addition, agriculture should adopt advanced technologies that require capital investments and can support farmers to at least acceptable standards of living.

For water, the new policy would allow Palestinians to use their rights over natural water resources so that water shortages will not prevent development. The Palestinian administration should be fully entitled to plan and implement all necessary water and wastewater facilities (wells, storage tanks, water and wastewater networks, wastewater treatment plants, etc.).

For tourism, the overarching policy is to develop an integrated strategy that links together heritage policies with urban planning, the educational sectors, economic and social policies and tourist strategies instead of viewing them all as single sites. Development should strive to enhance tourist activities and raise the awareness of the local community toward the importance of the local heritage.

For industry, and from a strategic point of view and taking into consideration the agricultural nature of the Jordan Valley, the region's industrial development should concentrate on food processing and other industries related to agriculture. In addition, the Dead Sea would provide opportunities for many industries based on Dead Sea mineral extraction.

#### **4. Specific Recommendations and Actions**

Based on the above analysis and proposed policies, the paper also provides a detailed set of recommendations for the short and medium terms that will create the basis for the transformation of the Jordan Valley into a prosperous region of Palestine when a permanent status agreement is reached. The main and most important recommendations are:

**Land:** The new Israeli policy should allow more land usages for Palestinians in Area C, taking into account not only micro-development of villages and other localities, but the necessary macro considerations of housing, infrastructure and large scale development, including agriculture. These new allocations will involve changes in the “military zones” maps and the designation of “State Lands” for the usage by the Palestinian population. The JVA will carry the responsibility of land planning and development controlled by the Palestinians. The planning efforts must be gradually removed from the Civil Administration’s control and delivered to Palestinian control, eventually paving the way to a harmonized planning strategy and land control by Palestinians in the Jordan Valley.

The JVA will be responsible for the promotion of regional master plans which address areas A, B and C jointly with a fast-track promotion of local master plans which align with the general development vision of the JV.

**Water:** Rehabilitation of the existing water infrastructure and water resources including springs rehabilitation and utilization of the Al-Fashkha spring, in addition to the development of a regional water conveyance system along the Jordan Valley from north to south to allow for better management of available resources.

**Agriculture:** Utilization and reclamation of available irrigable land of some 90,000 dunum, part of which is state land that is currently used by settlers, for irrigation purposes together with support of agricultural reuse of treated wastewater and the use of modern and efficient irrigation technologies.

**Tourism:** Development of an Integrated Management Plan for Cultural and Natural Heritage Resources and the rehabilitation of landmarks feature. Ability of the Palestinians to access - and movement between - different sites ought to be enhanced.

**The Dead Sea:** Utilization of the Dead Sea’s unique characteristics through the establishment of Palestinian companies for minerals production.

**Industry:** Establishing agro-industrial zones for both agricultural production and the complementary production facilities such as packing, packaging, grading and cooling facilities. Open access for agro-industrial products to the Israeli market.

**Trade:** Allowing the movement of goods from the JV to Israeli ports and airport with facilitated movement in containers or utilizing tractor-trailer exchange mechanisms to reduce damage to goods resulting from back to back. This will be enhanced by allowing container movement through the Karamah (Allenby) Bridge, completing the rehabilitation and re-opening of the Damia/Adam Bridge for Palestinian trade with and through Jordan and the establishing of a bonded area near the Karamah Bridge, with the responsibility for customs clearance being handed over to Palestinian customs.

**Education, Health and Other Services:** In general, develop the comprehensive health needs master plan for the JV and further develop the education needs master plan. For other services, it is necessary to provide permits for renewable energy (solar) projects in Area “C” of the JV, in addition to providing permits for water and solid and liquid waste for residential communities.