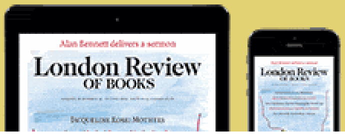

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Organised Hypocrisy on a Monumental Scale

Robert Wade on the Economic Occupation of the West Bank

Late last year I made my first visit to the West Bank. I'd never before been anywhere in what was once known as the Levant, between Anatolia and Egypt, though I've travelled in other parts of the world, as a researcher into economic and political development. Mostly I look at institutions – of all kinds and sizes – and the ways they go about their business, whether it's the management of common resources at village level, such as grazing and irrigation, or the state-level implementation of policies on industry and technology. I visited the West Bank at the invitation of the Kenyon Institute, which arranges visits and lectures by British-based academics. As well as lecturing, I interviewed civil servants and politicians, NGO officials and owners of small factories, and travelled across much of the territory. I was struck by the development impasse in the West Bank, and by the granular details of Palestinian life under the Israeli control system: I mean daily life, at the basic level, as distinct from the high-profile feuds and negotiations with which we're all familiar.

First, some figures. In the combined territory of Israel plus Palestine, the population of Israeli Jews is just over six million, of whom about half a million live in East Jerusalem or settlements in the West Bank. The population of Palestinian Arabs is about six million, of whom some 2.7 million live in the West Bank, 1.7 million in Gaza and 1.7 million in Israel. So the ratio of Palestinian Arabs to Israeli Jews in the combined territory is 49.8:50.2. However, two qualifications have to be made. First, the population of Palestinian Arabs living as refugees is estimated at 6.8 million, bringing the number of Palestinian Arabs to nearly 13 million. Second, within the borders of Israel plus Palestine, the Arabs in the four territories where Arabs live (West Bank, Gaza, East Jerusalem and Israel) have little exchange with one another; they are in no sense a unit.

The West Bank's population of 2.7 million is around a third the size of Israel's (including Arabs), but has a much higher birthrate (though the birthrate among Jewish settlers in the West Bank and East Jerusalem is even higher).

The average income of Jewish Israelis (at market exchange rates) is around $40,000; that of Arab Israelis $13,000; that of West Bankers $3700, and less in Gaza.

At the end of the Second World War, Jews accounted for about 34 per cent of the population of historic or British Mandate Palestine, Arabs 66 per cent; the average income of the Jews was about twice that of Arabs. Today, the population ratio is almost 50:50; the average income of Jews is about 11 times that of West Bankers. Few places in the world have a long land border with such a large average income disparity between the two sides.

Before I arrived in the West Bank I had read about the Israeli system of control. 'The miracle is based on denial,' Ari Shavit writes in *My Promised Land*. 'Bulldozers razed Palestinian villages, warrants confiscated Palestinian land, laws revoked Palestinians' citizenship and annulled their homeland.' But reading about it is one thing; encountering the system at first hand is quite another.

The souk in Hebron's old city was eerily empty, with almost no people or goods to be seen. Walking through it I noticed netting strung over the street, and looking up

towards the bright blue sky was puzzled to see rubbish strewn on the netting. My hosts explained that Israeli settlers had occupied the apartments of departed Palestinians above the souk, or built new apartments on top of the Palestinians'; and from this vantage point had taken to tossing their rubbish onto the heads of passing Palestinians below. Hence the netting. I was told that a minister in the Palestinian Authority recently had a chamber pot emptied on top of her.

The souk was like a ghost town, my hosts explained, because the Israeli government had closed off most access points to Palestinians, in order to ensure that the Israeli settlers could enter and leave the city by dedicated routes, avoiding all contact with Palestinians. The main way in to the souk had a revolving steel gate guarded by an Israeli soldier. As we passed through, two men on one side had a stack of cartons of canned goods on a trolley; they lifted the cartons one by one high up over the top of the barrier, into the hands of two men on the other side, who lowered them onto their trolley, ready to move elsewhere. Think of the transaction costs of shifting those canned goods a couple of metres through the checkpoint.

The next day, on a dusty dirt road outside Nablus, with the Israeli security fence on one side and an olive grove on the other, I met two brothers walking towards the town some three kilometres away, where they lived. They had been working on their (ancestral) land on the Israeli side of the fence. The Israelis manned a gate closer to the town, they said, but opened it for only one hour in the early morning, one hour at midday and one hour in the late afternoon. If they wanted to come or go at other times they walked, or sometimes drove a tractor, several kilometres to the next gate, which had more extended opening hours. They also each needed a permit to cross the fence. The permits didn't last long. The period varied but was commonly about two months. When it expired the men had to apply for another permit, which could take weeks. Last year they applied for a permit to cover the period for harvesting their greenhouse tomatoes, their main source of income. But it took 40 days to arrive, by which time the crop had rotted. They had two more brothers who were not allowed to cross the fence under any circumstances, because years before they had been jailed for protesting against Israeli rule.

On to a nearby herder community, where fifty households tend several thousand head of sheep and goats on barren land. Electricity lines run overhead, water and sewage pipes run below, but the herders have no access to them. They buy water from an Israeli-owned water depot some distance away. They can pay for an Israeli-owned tanker to bring water to their cistern; but it was cheaper for them to tow their own water container to the depot behind a tractor, fill it, and pull it back home. In 2008 the Israeli authorities confiscated their water container, saying it did not meet standards. Now they pay the extra for the Israeli-owned tanker delivery.

The Palestinian Hydrology Group, an NGO, has been working for more than twenty years to improve water and sanitation facilities throughout the West Bank. The Nablus office has provided toilets to fifty poor communities, including this settlement of herders. In Israeli eyes the toilets are illegal, because built without a permit. The PHG knows from experience that the chances of getting a permit are practically zero. So, backed by Spanish aid, it built quickly collapsible toilet cabins. With just a few minutes' notice the components can be spirited out of sight and reassembled when the soldiers are gone. In Area C of the West Bank (more than 60 per cent of the territory) it is illegal even to mend a failing water cistern without a permit – which is rarely given. Solar panels would require a permit, too.

The same restrictions mean that areas A and B of the West Bank (40 per cent of the territory), where Palestinians have greater scope for self-government, cannot be connected to scale-efficient infrastructure networks for electricity and water. The areas are fragmented (ghettoised) into small enclaves surrounded by area C land, where infrastructure projects require Israeli permits, which are rarely given. This greatly increases the cost of infrastructure services and restricts their supply to most of the West Bank population.

At the other end of the socio-economic ladder, I spoke to a senior Palestinian telecommunications executive. He told me that the Oslo Accords explicitly stated that the West Bank administration had the right to establish 'separate and independent telecommunication networks'. But the fine print said that Israel would allocate frequencies for the Palestinians (or not). Unsurprisingly, given the enveloping structure of rule, the Israeli government has not allocated anything like enough frequencies to the Palestinians, with the result that the costs of building networks in Palestine are three times higher than they otherwise would be. Palestinians are unable to access the internet or email on their phones, because Israel has not allocated the frequencies needed for 3G (for 'security reasons'). Israel has however allocated 3G frequencies to Israeli companies serving West Bank settlers and to provide seamless telecom access to Israeli citizens moving about the West Bank.

Telecom equipment can only be brought in through Israeli ports. Several years ago the Palestinian telecom agency ordered equipment from Ericsson, identical to Ericsson equipment imported at the same time by Israel. The Israeli equipment passed through customs in two weeks; the Palestinian equipment was held for two years for 'security checks', all the time incurring daily storage fees. Israel also insists on the same equipment standards for Palestine as for Israel, despite the income disparity.

Israel systematically blocks Palestinian external trade with other countries (70 per cent of the West Bank's exports are sold in Israel). The only alternatives to Israel's ports are two land bridges to Jordan. Israel often closes one of them, and the other is often choked by insufficient infrastructure. Israel levies murky forms of protection against Palestinian products, such as health and safety standards that Palestinian producers cannot comply with. Israeli law requires a wide range of products, including pharmaceuticals, to be certified before entering Israel; but Israeli security law also typically prohibits Israeli citizens from performing inspections in the Palestinian territories. Palestinian products subject to these rules therefore cannot be sold to the Israeli market, because they cannot be inspected by Israelis before entering Israel.

Israel has steadily blocked Palestine's bids for membership of the World Trade Organisation, despite EU support and US non-objection, so Palestine cannot bring complaints against Israel's restrictions on its exports to the WTO dispute settlement mechanism. At the same time as Israel is unconstrained by WTO rules in its dealings with Palestinian trade, the Palestinian economy bears the brunt of the free trade policies – unrestricted imports – instituted by the Palestinian Authority in compliance with the rules of the customs union with Israel and with the prescriptions of the World Bank and IMF.

No surprise, then, that the ratio of Palestine's exports to GDP has steadily declined over the past two decades. One need not believe in free international trade as a magic bullet for development to see that Israel's restrictions on Palestine's international trade – even with Israel – are a major obstacle to Palestine's economic development.

Around 70 per cent of the Palestinian Authority's revenue comes from customs and other fees collected by the Israelis on the PA's behalf. The Israelis take a sizeable collection fee and pass on the balance (or not). If some Palestinians behave badly in Israeli eyes – by striking back against the occupation or pressing for membership of international organisations – they may withhold the revenue, starving the PA of funds and making it difficult to provide even minimal public services.

Universities on the West Bank can usually employ visiting academics from outside Palestine for only one month before a permit is required; the permit may take years to arrive. It is widely said among the Palestinian elite that the quality of university education is deteriorating. To get a quality university education young people must leave, but few have the resources to do so.

Everywhere I went, I encountered despair about the Palestinian Authority and its effectiveness, even allowing for the tight Israeli constraints. Some 70 per cent of the PA's revenues goes on salaries to public officials. Members of parliament, ministers and the president pay themselves extremely generously compared to average income: their average salary is about 24 times the Palestinian average, one of the highest ratios in the world (in Lebanon it's 15:1, in Bolivia 10:1, Saudi Arabia 5:1, USA 5:1, Norway 2:1).

I visited a shoe factory in Hebron and a soap factory in Nablus. They are both supply rather than demand-constrained; they could sell more, mainly for export, if they produced more (though the shoe factory would then have to import more materials, with all the transaction costs that would incur). But the factories are a mess, in bad need of modernisation, not just of their equipment (which would have to be imported) but in terms of layout, storage, cleanliness and lighting.

The engineers of Taiwan's Industrial Development Bureau, which I studied in the 1980s, were required to spend several days a month visiting factories, coaching owners and managers on improving production layout, investing in new equipment, exploring links with foreign-invested firms in Taiwan, investigating export markets.

I asked the shoe and soap factory owners if they had received any visits or support from officials of the Palestinian Authority. They said not. Later I asked a senior official whether the PA had any industrial development coaching or extension service. Yes, he said, we have PalTrade (a trade promotion agency). I said that what I had in mind was quite different from trade promotion. Well, he said, we have a Labour Ministry which looks after work conditions in factories.

His response illustrates what happens when a state is barely able to support itself, at the mercy of its neighbour's (un)willingness to hand over its due revenue and to allow imports and exports. Under such conditions no state can sustain a development strategy, and it is no wonder that many PA officials are focused above all on survival: both their own survival in their well-paid positions, and the survival of the power structure they benefit from. Then the Washington-Brussels Consensus – that market liberalisation is the route to development – can be used to sprinkle justification on passivity. The fact that Chinese textile makers can profitably sell nylon keffiyehs in Palestine for only 10 shekel, undercutting Palestine-made cotton scarves at 25 shekel, can be interpreted as a simple gain for consumer welfare; with the hope, inspired by the theory of comparative advantage, that redundant textile workers will find employment in higher value-added activities elsewhere. But unemployment is high and rising, especially among the young.

The restrictions that the Israeli state imposes on Palestinians in the West Bank (to say nothing of Gaza, which I did not visit) are most visible in the Wall and security fence, which divides the whole length of the West Bank, including deep intrusions to annex additional land for Israel. But the restrictions also cover the movement of people, the import and export of goods and services, investments, and access to basic infrastructure (electricity, water, sanitation). They are so pervasive and systematic that it almost seems as if the Israeli state has mapped the entire Palestinian economy in terms of input-output relations, right down to the capillary level of the individual, the household, the small firm, the large firm, the school, the university, so as to find all possible choke points, which Israeli officials can tighten or loosen at will.

Under these circumstances – which I'm happy to say I have never encountered elsewhere – political and economic development is barely possible. In November 2013, the Israeli foreign minister, Avigdor Lieberman, said: 'We can talk seriously about a political settlement with the Palestinians when their per capita GDP reaches $10,000 – not a day before that' (because only then will Palestinians have enough at stake genuinely to want peace). This expresses organised hypocrisy on a monumental scale. Until Palestine has substantial sovereignty, including control over borders and natural resources, the conditions for a 'political settlement' will be postponed indefinitely, and the region will remain a generator of conflicts feeding larger regional conflicts – indefinitely.

Still, even within narrow constraints, the Palestinian Authority or its successor could do more than at present to foster economic development. For example, it could give higher priority to industry and agriculture, and less to 'services' (including the salaries of public officials). It could create a public-private-NGO agency to perform the same functions as Taiwan's Industrial Development Bureau and its agricultural equivalent. The Occupied Territories now get more non-military aid per person than just about anywhere else in the world, through multilateral, US and European channels. Aid donors could do more to steer the allocations in more productive directions, and press the Palestinian Authority not to use aid money as an excuse for constructing a social compact with Palestinian citizens. They could press international organisations like the WTO and the International Olive Council to admit Palestine as a member. But in the end, firms, universities, pension funds and NGOs must mount sustained pressure on the US and Israeli governments to change their joint operating premise, 'a sovereign Palestinian state eventually, but not now'.

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