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Ending the Palestinian Economy

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> The contention was that we needed justice first and that we would come to freedom later on, as if slaves could ever hope to achieve justice. And forceful intellectuals announced to the worker that bread alone interested him rather than freedom, as if the worker didn't know that his bread depends in part on his freedom. – Albert Camus

The terrible violence and destruction that now describes the conflict between Palestinians and Israelis in the West Bank, Gaza and Israel is without precedent but not without context. This context has many dimensions but is defined primarily by Israel's continued occupation of Palestinian lands. Israel's violent five-week incursion into the West Bank that began at the end of March 2002 and daily incursions into parts of the West Bank and Gaza Strip (WB/G) since then, particularly Israel's reoccupation of most West Bank cities in June 2002, are perhaps the most visible illustrations of the government's unwillingness to end the occupation. Another critical dimension of the current context is economic, particularly as Palestinians unquestionably face the approaching breakdown of their economy, a humanitarian crisis and the destruction of ordinary life.

In an appearance on American television, the Israeli foreign minister, Shimon Peres, stated that "poverty does not cause terrorism; terrorism causes poverty."[1] Echoing a similar sentiment, a group of former (and right wing) Israeli generals argued that if Israel declared sovereignty over the area west of the Jordan River, the Palestinian uprising would wither "because the suicide bombers are not blowing themselves up out of despair, but out of hope they can drive us out of the territories. As soon as they find out that won't happen, the level of violence will also drop."[2]

These statements at best reveal a fundamental misunderstanding of the context in which the majority of Palestinians now live. This context is dehumanizing and paralyzing and is characterized in large part by levels of poverty and despair that have no parallel during Israel's 35-year occupation of WB/G. Not since 1948, perhaps, have Palestinians faced such conditions of loss and dispossession. These conditions, writes Edward Said,

> multiply the distortions stemming from the original condition of loss and dispossession . . . . [T]hey offer additional dislocations and the reproduction of distortions whose widening effects extend the whole range, from war to increasing numbers of refugees, more property abandoned and taken, more frustration, more anger, more humiliation . . . .[3]

The roots of Palestinian terrorism are far broader than poverty alone; indeed, the repression and lack of possibility that such poverty reflects nurture the terrible violence emanating from WB/G. The phenomenon of terrorism among Palestinians – as morally reprehensible in the Palestinian context as it is in the Israeli one – emerged in a specific historical period long shaped by Israeli occupation and, more recently – with the beginning of the Middle East peace process over nine years ago – by occupation's increasingly violent and brutal nature.

The losses confronting Palestinians are profound, among them the potential collapse of the Palestinian economy and the impoverishment of virtually the entire Palestinian population. This oncoming collapse is not a matter of rhetoric but of reality. Its features have been described in published and unpublished reports by such institutions as the World Bank, the International Monetary Fund (IMF), the U.S. State Department and a variety of U.N. agencies. Using these sources and others, this article will demonstrate that, while the decline in the Palestinian economy is not new and has been almost continuous since the start of the Oslo "peace" process, the scale of the decline is unprecedented and threatens the future recovery and viability of the Palestinian economy. In this regard, the primary solution to the current economic crisis is political not economic.

BACKGROUND

The present state of the Palestinian economy derives fundamentally from dynamics institutionalized during and by the Oslo peace process, which lasted officially from September 1993 through September 2000. The premise behind the (U.S.-led) peace initiative emphasized "Israeli security as its driving force preceding an end to the occupation."[4] As such, the peace process did not aim to dismantle the structure of Israeli occupation but rather to maintain and strengthen it, albeit in a different form. It is from this singular defining fact that all else emanates, including the now possible collapse of the Palestinian economy.

At the beginning of the peace process, the donor nations believed that "peace would only take root if there were significant, sustained improvements in the economy of WB/G."[5] Since October 1993, donors have pledged $6.5 billion and disbursed $4.4 billion in aid. This amounts to $195 per person per year since 1994, among the "highest levels of per capita official development assistance anywhere in the world."[6]

Yet, despite these massive infusions of aid and contrary to what is commonly believed, the peace process failed in its attempts to promote sustainable growth or prosperity, let alone economic development or reform in the Palestinian entity.[7] Recent data from the World Bank reveal that average per capita income is already below what it was when the Oslo agreements were signed in 1993. Furthermore, and perhaps more important, the peace process did considerable damage to the Palestinian economy. Not only did it fail to ameliorate or end the terms of Palestinian economic dependence and de-development, it actually accelerated these processes by introducing into the Palestinian economy two new dynamics – closure and territorial fragmentation – that further attenuated an already weakened economic base. In this regard, Israeli policy has been primary, although the policies of the Palestinian Authority (PA) played a similarly damaging, albeit secondary, role.[8] These factors among others provided the context for the current uprising.[9] While it is beyond the scope of this article to provide a detailed discussion of closure and territorial fragmentation, certain points are important to highlight for purposes of this discussion.

Closure[10]

Israeli closure (and work-permit) policy remains largely unknown and misunderstood in the West. Yet it proved to be the primary measure affecting the Palestinian economy and society during the Oslo period and beyond. Closure refers to Israeli-imposed restrictions on the free movement of Palestinian goods, labor and people across internal and external borders and within WB/G. Given Palestine's deep economic integration into Israel – e.g., for every dollar earned by Palestinians, approximately 75 cents returns in some form to the Israeli economy – closure's effects have been devastating. Because of this integration, the Palestinian economy remained extremely vulnerable to Israeli policy and other external shocks even during periods of economic growth.

Closure assumes four basic forms: closure of the borders between the occupied territories and Israel (and hence international markets); closure between WB/G; closure of international crossings between the West Bank and Jordan, and the Gaza Strip and Egypt; and internal closure within WB/G. Closure can be partial, when some movement is allowed, or total, when no movement is allowed at all.

First imposed in 1991 during the Gulf War and later by Prime Minister Yitzhak Rabin in March 1993, closure became an economic fact of life in WB/G, a permanent system that introduced new constraints and problems into an already diminished and structurally distorted economy, further reducing the possibility of economic growth and reform. Indeed, between 1993 and 1996, years considered the optimistic height of the peace process, the Israeli government imposed 342 days of total closure (when no movement of any kind was allowed) in the Gaza Strip and 291 days in the West Bank. That is, for almost one-third of each year between 1993 and 1996, Palestinians were denied the right to leave WB/G or to engage in economic activity across their borders. And for the remaining portion of those years, Palestinians were subject to closure in a less extreme form.[11] By so shaping the movement of labor, goods and people, Israel's closure policy produced a dissection of the occupied territories that was demographic and economic.

Demographically, closure separated and isolated Palestinians living in WB/G as well as Palestinian communities within those territories. By restricting the movement of people and goods in and out, Israeli closure policy severed most movement between the two territories. Indeed, by 1998, almost all demographic (and commercial) interaction between Gaza and the West Bank had ended, resulting in the separation of their populations, a reality without precedent since 1967. Closure also cut off the Gaza Strip and, to a lesser degree, the West Bank from Israel. This proved injurious to the Palestinian economy, particularly Gaza's, given its longstanding historical dependence on the Israeli market for employment and trade. Similarly, closure policy severed most contact between the northern and southern regions of the West Bank and between those regions and Jerusalem, historically the cultural and commercial heart of the West Bank. As a result, Jerusalem's Arab economy suffered substantial economic damage as well.

Economically, closure introduced myriad problems during the Oslo period.[12] Most significant among them were high and fluctuating unemployment rates – averaging 10-20 percent in the West Bank and 18-30 percent in the Gaza Strip between 1997 and 1999 – and permanent unemployment for an expanding segment of the labor force. Rising unemployment rates resulted largely from the loss of Palestinian jobs in Israel and the income associated with them. Closure also affected Palestinian trade, which became characterized by the preponderance of imports over exports, limited access to markets outside Israel, and reduced investment in needed export-oriented industries. Closure lowered agricultural and industrial production levels and altered the character of domestic production toward more traditional activities. These factors, among others, resulted in declining levels of income, consumption and savings, which substantially lowered the standard of living in WB/G and increased poverty and child-labor rates to levels not before seen during the entire period of Israeli occupation. With the imposition of total and partial closures during the current uprising, particularly after the March-April 2002 incursion, these problems have become acute and threatening.

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Territorial Fragmentation[13]

The fragmentation of Palestinian land into geographically noncontiguous areas or cantons, with exit and entry tightly monitored and controlled by Israel, was a reality directly imposed on the Gaza Strip and the West Bank by the terms of the Oslo peace agreements. It is not well known that the division of the Palestinian territories was first carried out in the Gaza Strip in October 1993, just one month after the Declaration of Principles – the first Oslo document – was signed on the White House lawn. In Gaza, Israeli settlements, now housing 6,000 Israeli settlers, were grouped into three blocks along with a network of bypass roads and military bases, which amounted to around one-third of Gaza's total land area. The remaining two-thirds of the Gaza Strip, home to 1.1 million Palestinians, was cut into three cantons.

With the signing of the Oslo II agreement in November 1995, the territorial division of the West Bank was also institutionalized. It was divided into areas A, B and C under varying degrees of Palestinian and Israeli control. By the time of the Camp David Peace Summit in July 2000 (and two months before the start of the current uprising), Israel retained total control of 59 percent of the West Bank (Area C), where the bulk of Palestinian agricultural land was located, and security control over 23.8 percent of the West Bank (Area B), where the Palestinian Authority was given civilian control. Consequently, Israel maintained practical control over 82.8 percent of the West Bank, leaving the Palestinian Authority with full control over the remaining 17.2 percent (Area A) of the territory in non-contiguous entities.

By December 1999, the Gaza Strip had been divided into three cantons and the West Bank into 227, the majority of which were no larger than two square kilometers in size. While Palestinians maintained control over many of the cantons and were promised authority over more if not most, Israel maintained jurisdiction over the land areas *in between* the cantons, which in effect gave Israel control over all the land and its disposition. Hence, the actual amount of land under Palestinian authority proved far less important than the way that land was arranged and administered. The logical and intended consequence of territorial cantonization was separation and isolation, greatly facilitated by closure policy. In fact, although closure was imposed prior to the implementation of the Oslo agreements, these agreements institutionalized and formalized closure as a policy measure.

Geographic cantonization and closure have had a deleterious impact on economic activity by dividing already small economic units into even smaller ones and by denying Palestinians control over their borders, both internal and external, to WB/G. Furthermore, such geographic discontinuity has given Israel a new mechanism with which to maintain unchallenged control over Palestinian resources and factors of production – namely labor, land and water – and maintain Palestinian economic dependence on, and integration with, Israel. This remains the case particularly since the start of the Al Aqsa intifada.[14]

Adding to the disabling of Palestine's economic base during the period of the peace process was Israel's continued confiscation of Palestinian lands, some of it with the explicit approval of the Palestinian Authority, which was formalized in the Oslo II agreement. Between September 1993 and August 2001, over 70,000 acres of Palestinian land were taken – much of it viable agricultural land worth more than one billion dollars – largely for Israeli settlement expansion and the construction of settlement infrastructure.[15]

Settlement expansion, Israel's primary claim on Palestinian land, was aggressive during the Oslo period and a key factor fragmenting Palestinian lands. Between 1992 and 2000, the settler population in WB/G nearly doubled from 109,784 to 213,672 people respectively. These figures do not include East Jerusalem, where the total settler population rose from 141,000 in 1992 to 170,400 in 2000. There are 130 Israeli settlements in the West Bank and 16 in the Gaza Strip. At the start of the Oslo peace process in September 1993, WB/G settlements consisted of 32,750 residential units. Between September 1993 and July 2000, an additional 17,190 units were under construction, representing an increase of over 52 percent.[16] During this same period, Israel demolished close to 800 Palestinian homes in the West Bank alone.[17]

During the first year of the current uprising, at least 360 Palestinian homes were destroyed in the Gaza Strip and over 200 in the West Bank[18] while 5,575 homes were partially demolished.[19] According to the British medical journal *Lancet*, 333 Palestinian homes were demolished (and their families evacuated) during January and February 2001 alone.[20] The Palestinian Ministry of Housing reports the destruction of 1601 Palestinian homes between September 2000 and April 2002 and damage to 14,436 more, affecting approximately 96,100 people.[21] In October 2002, Israel ordered the demolition of over 100 houses and apartments in Beit Sahour, which lies adjacent to the Israeli settlement, Har Homa. The majority of the houses belong to the Greek Orthodox Community Housing Project. Over 600 people will become homeless.[22]

In striking contrast stands the fact that in 2001, the Israeli government issued tenders for the construction of 810 family housing units in Israeli settlements in the West Bank, followed a year later by tenders for 957 additional settlement homes. An aerial survey by the Israeli group Peace Now revealed that 34 new settlement sites were established throughout the West Bank in the year following the February 2001 Israeli elections.[23] The Hebrew version of the Israeli newspaper *Ha'aretz* further reported on May 7, 2002, that the Knesset Finance Committee approved a transfer of 30 million shekels ($6.17 million) for the settlement movement including agricultural projects in the Jordan Valley, grants for young settlers, and security infrastructure in the settlements.[24]

The West Bank is 5,640 square kilometers in size (Gaza is 360 square kilometers). Built-up settlement areas comprise 1.7 percent of the total area of the West Bank, itself a stunning statistic in light of the fact that Palestinian built-up areas comprise only 5.0 percent of the West Bank. However, settlements actually control 41.9 percent of the area of the West Bank, according to the Israeli human-rights group B'tselem. The municipal boundaries of the settlements are three times as large as the built-up areas, covering 6.8 percent of the West Bank, while regional councils cover an additional 35.1 percent of the land area.[25] Furthermore, since the start of the current uprising, "Israel appears to be planning 'no-go' areas 70-500 meters (approximately 23-167 feet) wide around each settlement and every military installation in the occupied territories."[26]

During the Oslo period, furthermore, 250 miles of settler bypass roads costing $3 billion also were built throughout the West Bank on lands confiscated from Palestinians. Designed to connect Israeli settlements and create massive barriers to Palestinian movement, bypass roads were built like a grid running north-south and east-west throughout the entire West Bank, further encircling, truncating and separating Palestinian enclaves. The process continues. On July 17, 2002, the IDF commander in the Gaza Strip issued an order calling for the seizure of 60 dunums (15 acres) of land located east of the Israeli settlement Netzarim and south of Gaza City. The order states that the land is being confiscated for "military necessity," but, given the land's location, it is more likely being taken to build a bypass road connecting Netzarim to an Israeli military outpost near Gaza City. The order will remain in effect from July 17, 2002, to July 17, 2007.[27]

Hence, despite intermittent periods of economic growth and declines in unemployment and poverty levels (notably between 1998 and September 2000) during the seven years of the peace process, the Palestinian economy became weaker. This is because economic growth rates were unsustainable, responding not to market forces or internal structural reform aimed at the development of the private sector, but largely to Israel's lessening of closure restrictions and the temporary opening of its borders to Palestinian labor and trade. Moreover, the economic growth that did occur was not enough to restore pre-Oslo per capita income levels, given the absence of major economic adjustment and the high population growth rates among Palestinians. Furthermore, the two most important sources of labor-market growth, the Israeli market and the Palestinian Authority, had by September 2000 little absorptive capacity left.[28]

In the absence of sovereignty, demarcated borders and free access to world markets, for example, the economy became more fragmented, disarticulated and dependent, moving toward a structure that in part was characterized by small production units using local inputs to produce for the domestic market. This factor, among others, not only constrained growth but limited its impact when it did occur. The damaging measures imposed on the Palestinian economy during the Oslo years demonstrate that economic reform cannot precede political change but must follow from it. In the continued presence of Israeli occupation and the denial of rights on which it rests, meaningful and continuing economic change is simply not possible. The economic crisis that has emerged in WB/G since the start of the al Aqsa uprising in September 2000 is perhaps the starkest illustration of this impossibility.

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KEY FEATURES OF THE ECONOMY (SEPTEMBER 2000-)

Context

In an internal brief prepared in August 2001, almost one year into the uprising, the World Bank concluded that "[t]he Palestinian economy has been *decimated* by a year of conflict"[29] (emphasis mine). The shock to the Palestinian economy caused by the intifada is the worst in 30 years, according to many donor agencies. The fact that economic conditions could deteriorate so quickly in such a short period of time attests, more than anything, to the weakened state of the economy prior to September 2000. And, closure is (and always has been) the primary factor underlying Palestinian economic demise.[30]

Since September 28, 2000, the Israeli government has established over 90 fixed and mobile military checkpoints in the West Bank and over 30 in the Gaza Strip in order to enforce more intense and comprehensive closures and has dramatically tightened the permit regime. In this the government has been successful. Between September 2000 and December 2001 – a period of 15 months – the West Bank was under severe internal closure 73 percent of the time, while Gaza suffered such closures 4 percent of the time.[31] Under severe internal closure "pedestrian and vehicle mobility on main roads is reserved for Israeli military personnel, settlers and non-Palestinians, while even on days of 'partial' closure these checkpoints have created a life of roundabout routes, interminable delays and frequent harassment."[32]

Closure has brought economic devastation to certain regions and individuals. Hebron's plum harvest, for example, dropped in value from $2.5 million in 2000 to $250,000 just one year later because the plums could not be transported from an area near Hebron in the southern West Bank to Nablus in the north.[33] According to the Palestinian Ministry of Planning and International Cooperation, closure restrictions on cement imports (mostly from Israel) delayed construction and cost the economy $230 million between September and December 2000 alone. During this period, cement prices virtually doubled from NIS 330 to NIS 650 per ton.[34]

In addition to the severe internal closures described above, the Israeli authorities imposed partial internal closure on the West Bank for an additional 27 percent of the September 2000-December 2001 period or 125 days, and did the same in the Gaza Strip for 95 percent of the reporting period or 433 days.[35] Partial closure allows relatively more movement but remains highly restrictive and generally involves diverting traffic away from Israeli settlements. As a result of severe and partial internal closures, the main north-south road in the West Bank was inaccessible to the Palestinian population for the majority of the first 15 months of the uprising. In the Gaza Strip, these closures resulted in an extreme reduction in travel between Gaza's northern and southern regions and in the creation of three semi-isolated enclaves in the areas around Gaza City, Jabalya and Rafah/Khan Younis.[36] According to the U.N. Conference on Trade and Development (UNCTAD), internal closures have divided WB/G into 54 "fragments of isolated areas under Palestinian Authority . . . jurisdiction."[37]

Palestinians wishing to enter Israel from Gaza and the West Bank have been subject to severe restrictions as well. According to the World Bank, between October 2000 and December 2001, the main crossing point between Israel and Gaza was closed for 65 percent of the time. Even when it was open, the number of Gazans entering Israel to work fell below 20 percent of its pre-intifada average of 29,000, due to permit restrictions.[38] The U.N. Special Coordinator's Office (UNSCO) estimates that the number of Gazans working in Israel declined by 30,000 to 3,000 (a 90-percent loss) in the year following the start of the intifada.[39] According to the World Bank, West Bank laborers also suffered dramatic declines from levels of 95,000-100,000 working in Israel before the uprising to 20,000 less than three months afterward.[40] By the end of the uprising's first year, UNSCO found that the number of West Bankers working in Israel had declined by about 56,000 to 60,000.[41]

Commercial activity across Israel-Gaza borders through the end of December 2001 fared little better than labor movement. Of the three main commercial crossings in the Gaza Strip, two – Erez and Sufa – were closed for over 60 percent of the time, and Karni for only 9 percent. All three crossings, however, were completely closed for 30 days. West Bank products did relatively better because their owners have access to Israeli-registered trucks, which do not require permits. However, for those areas in the West Bank under internal-movement restrictions, commerce was severely affected.[42]

Israeli restrictions put into place during the Oslo period had by 1998 all but ended any movement between WB/G. What did exist was limited to several thousand Palestinians using the "safe passage" route designed by Israel for movement between the two territories. In early October 2000, the safe-passage access was closed and has not reopened, thus ending almost entirely any form of economic or demographic exchange between the two territories.

The intifada closure also restricts Palestinian access to neighboring countries. Gaza's border with Egypt (through Rafah) was partially or totally closed to people and goods for 57 percent and 60 percent of the October 2000-December 2001 period respectively. The West Bank's border with Jordan was similarly closed 18 percent of the time for people and 83 percent for commerce.[43] Gaza's airport also was virtually shut down 80 percent of the time. The destruction of its runway by the Israel Defense Forces (IDF) during the current crisis has rendered the airport unusable. The Gaza seaport, including all installations, administrative buildings and retaining walls, was similarly destroyed by Israeli bombardment in September 2001. Access to international markets, which occurs through Israeli ports, has been curtailed as well due to movement restrictions between the ports and the territories, and delays resulting from security inspections.

Impact

The combined impact of total and partial closures, sustained unchallenged for over two years, has been disastrous. Those vestiges of normalcy that existed before have largely been destroyed. Life and work have been interrupted and thwarted, devoid of control, predictability and safety. Normal business and commerce is "a thing of the past"[44] according to the World Bank, leading to "economic dislocation and dismemberment, or 'economic cantonization.'"[45] Access to basic services, especially health and education, is increasingly denied.[46] Employment in Israel, long so critical to Palestinian economic growth, has been radically curtailed, and with it have come other effects that have crippled and disabled the individual and the economy. Outright economic collapse has been averted – for now – by PA and donor assistance, illegal employment in Israel and social safety nets. With further declines and increased economic pressures, however, these resources will disappear, bringing dire economic consequences. As stated by the World Bank, ". . . a sustained further tightening of closure will impoverish Palestinians and will lead to economic implosion and a scale of hardship so far only hinted at."[47] The following sections will explain why.

Employment

The dramatic loss of employment, particularly in Israel and in the private sector, resulting from closure has been a critical factor in the present economic crisis. In September 2000, when the al Aqsa uprising began, there were 688,000 workers in WB/G (734,000 including East Jerusalem) and unemployment averaged 10 percent or approximately 69,000 workers. By December 2001 – 15 months later – the World Bank indicated that unemployment levels had more than tripled to 35 percent (including discouraged workers [individuals who have stopped looking for work and are outside the labor force] and the natural growth of the labor force), leaving 275,800 people without a source of income.[48] Given the high dependency ratio – the ratio of population per employed person – among Palestinians of 6.6 people in the third quarter of 2001, unemployment potentially affected over 1,800,000, or more than half the total population.[49] In poorer areas such as Gaza, unemployment had soared to as high as 50 percent in three months.[50] Recent data released by UNSCO reveal the overall adjusted unemployment rate for the WB/G through June 2002 increased from 35-36 percent to 50 percent (including discouraged workers). On curfew days, which affect roughly 600,000 people, the unemployment rate in the West Bank (excluding Jerusalem) increases to 63.3 percent.[51]

In its most recent report (end of September 2002), the World Bank similarly placed unemployment at 44.7 percent with the inclusion of discouraged workers (and at 33.6 percent without).[52] It is important to note that the dependency ratio among Palestinians has risen dramatically – by more than 50 percent – since September 2000. Whereas in the third quarter of 2000, one worker supported 4.3 people in the West Bank and 5.9 people in the Gaza Strip, today that same worker must support 6.9 and 9.4 people in the West Bank and Gaza, respectively.[53]

The loss of employment in Israel (including Israeli settlements and industrial zones) was a major factor in rapidly rising unemployment rates, underlining the extreme vulnerability of the economy. Within weeks of the uprising's start, approximately 100,000 Palestinian jobs in Israel out of a total of 125,000-130,000 (excluding East Jerusalem) disappeared, representing a loss of 80 percent in a labor market critical to the Palestinian economy.[54]

The immediacy of the loss was due to the dramatic reduction in the number of work permits issued by the Israeli government and heightened movement restrictions, which affected the number of unofficial or non-permit-holding workers, who account for over half of all Palestinians employed in Israel and Israeli settlements. Although an average of 50,000 workers from the West Bank (not Gaza) have managed to find work (without permits) inside Israel and the settlements since the start of the uprising, they remain vulnerable to total closures and other restrictions and their numbers have fluctuated, at times dramatically.[55] UNSCO similarly found that between the third quarter of 2000 and the third quarter of 2001, Palestinian employment in Israel fell by over 50 percent.[56] The number of Palestinians working in the Israeli labor market is far less than half of what it was before the uprising – and fluctuating.

In the second quarter of 2002, according to the World Bank, Palestinian employment in Israel and Israeli settlements – including East Jerusalem residents – fell to 33,000 (31,000/WB and 2,000/G), a decline from 146,000 (116.000/WB and 30,000/G) before the intifada.[57] On August 27, 2002, the Israeli authorities issued a total of 12,490 permits to Palestinians from the WB/G to work inside Israel,[58] and by the end of September, the number of issued work permits reached 31,179. No data, however, are available on the number of permits actually used.[59] It should also be noted that Israel employs 300,000 migrant workers largely from China, Rumania, Thailand and the Philippines, 40 percent of whom work legally. Trade in migrant workers is extremely profitable, having generated about $3 billion for the Israeli economy.[60]

The loss of employment in the Israeli market also has had enormous negative repercussions for the domestic economies of WB/G. Because workers earn substantially higher wages in Israel than they do locally,[61] remittances from work in Israel play an essential role in internal demand for goods and labor. The drop in worker remittances resulting from the precipitous loss of jobs inside Israel due to closure depressed demand for goods obtained in WB/G,[62] which in turn contributed to a declining demand for domestic labor.

Within the first three months of the uprising alone, domestic employment in Gaza declined by over 25 percent from 164,000 to 120,000 workers, destroying approximately 44,000 jobs.[63] Within the first six months, almost 100,000 domestic jobs were destroyed overall, falling from 515,000 employed to 418,000 employed; by mid-2001, however, the number of employed increased to 443,000, due in part to donor-funded employment programs.[64] Nonetheless, UNSCO reports that 72,000 domestic private-sector jobs were destroyed over the first year of the uprising, which is particularly alarming given the sector's increasing role in labor absorption prior to the uprising.[65] Indeed, between 1997 and mid-2000, for example, the private sector's contribution to domestic employment grew from 38.2 to 70 percent.[66]

The World Bank summarizes, "By the end of June 2002 . . . [a]lmost as many jobs that were created in the [five-year] period through September 2000 [approximately 220,000 jobs] were lost; 50,000 in the Second Quarter of 2002 alone."[67]

The decline in overall employment has, of course, led to a decline in total wage income. Monthly wage income among Palestinians fell from $233 million in the third quarter of 2000 to $131 million in the second quarter of 2002, a decline of 43.8 percent. During the same period, per capita (as opposed to per employee) wage income in the West Bank fell from $105 per month to $48 per month and in Gaza from $56 to $29, levels that are half of what they were before the uprising and that reflect rising dependency ratios. In this eroding context, PA salaries play an essential role, contributing $56 million per month or 43 percent of total monthly wage income.[68]

Within this scenario, not only does the number of unemployed workers increase but also the number of discouraged workers. Because of this, labor-force participation among Palestinians has decreased dramatically. According to UNSCO,

> Between October 2000 and September 2001, the labour-force participation rate declined from 48.3 to 38.3 percent. Due to this decline, the size of the labour force was reduced by 7.6 percent over the same period, despite the rapid 4.2 percent growth in working age population. In Gaza, the

contraction in the absolute size of the labour force was a more dramatic 13.6 percent. Such a contraction in the economically active population – i.e. a retrenchment in the supply of labour available for the production of goods and services in the economy – is indicative of a severe macroeconomic crisis.[69]

The Private Sector

One of the greatest constraints on the development or modernization of the private sector is the small size and traditional character of business and industry. Even after massive infusions of "development" assistance over the seven-year period of the peace process, the private sector remained – despite certain improvements – fundamentally unchanged (structurally) since 1967. By September 2000, the private sector, which employed 334,000 people or 52 percent of the total workforce (if employees of local authorities and public enterprises are included), continued to be dominated by approximately 60,000 business units, over 90 percent of which were small to medium-sized enterprises or micro-businesses engaged largely in services, employing an average of 2.5 people and capitalized for no more than $10,000.[70] A more recent survey of 526 Palestinian firms in the WB/G carried out by the Palestinian Federation of Industries and the Palestine Trade Center in June and July 2002 found that 78 percent of manufacturing firms were small- (42 percent) and medium- (36 percent) scale. The former are capitalized for less than $100,000 and the latter for between $100,000-$500,000.[71]

The available data, therefore, show that the Palestinian business sector is small in size and organizational structure. This fact alone – apart from the manifold difficulties currently plaguing the business environment – represents a formidable obstacle to the development of the private sector. Because of these and other inherent limitations (and closure),[72] only 23 percent of private-sector earnings derived from exports in 1999, another indication of the sector's weakness.[73] With the dramatic drop in the overall demand for internal goods and services and intensified closures since the uprising, the private sector has suffered enormous losses. According to UNCTAD, total domestic output was cut by almost half in the first three months of the uprising alone.[74]

Furthermore, those businesses still operating (in 2001) also endured immense losses, which included an average 47-percent drop in sales and profits (among 94 percent of Palestinian firms surveyed) and profit rates that were only 47 percent of their pre-intifada levels. The average firm, furthermore, was working at 50 percent of capacity compared with 85 percent before the uprising.[75] These losses are further compounded by interruptions in supply and fluctuating prices in addition to the higher costs of operation, transaction, distribution and storage, all resulting from closure.

Prior to the intifada, Palestinian firms were already in a weaker competitive position vis-à-vis their Israeli counterparts. Indeed, Palestinian businesses "seeking to export or import through Israeli ports faced transaction costs that [were], on average, 35 percent higher than for an Israeli firm in the same industry."[76] With this starting disadvantage and the added exigencies imposed since the intifada, transaction costs for Palestinian firms have increased to an unprecedented level.[77] Indeed by September 2002, these costs were 41.8 percent above their pre-intifada level in the

West Bank. Because of increased overall costs, many suppliers have raised their prices, further undermining their market competitiveness. "Manufacturers thus become more dependent on local markets, as the "cantonization effect" of military restrictions becomes binding."[78] Given weakened demand, estimated output in the first half of 2002 (compared with a year before) fell by 21.9 percent in the West Bank and by 17.5 percent in the Gaza Strip. If one compares just second quarter 2002 with second quarter 2001, output declines were near 46.5 percent in the West Bank and 16.9 percent in the Gaza Strip, or 40.3 percent overall.[79]

As the end of 2002 approaches, only 6.9 percent of industrial firms are operating at their pre-intifada levels (12 percent in the West Bank and 3.4 percent in the Gaza Strip), 76.3 percent are working at a lower capacity, and 16.9 percent have closed down completely.[80] Almost 33 percent of firms are behind in payments and an additional 15 percent are in default.[81]

In this regard, the problems associated with closure and their deleterious effect on the private sector (including a weak legal and regulatory environment and PA corruption) were evident during the Oslo years as well. Hence, it is not the substance of the problems that have changed since the intifada but their scale.

During the first year of the crisis, domestic economic losses were valued somewhere between $1.87 and $2.67 billion, which then translated into a daily domestic loss averaging between $6.0 and $8.6 million per business day.

Trade

Palestinian trade has also experienced serious declines resulting from closure that have affected both exports and imports, with imports from Israel experiencing greater relative declines than exports to Israel. Indeed, exports declined by 7.4 percent and 7.6 percent in 2000 and 2001 respectively while imports dropped 10.9 percent in 2000 and 19.4 percent a year later.[82]

Palestinian trade has long been characterized by a preponderance of imports over exports. According to the Palestinian and Israeli Central Bureau of Statistics, imports declined 40-50 percent during the first three months of the uprising. Based on the number of truckloads entering Gaza and the West Bank, UNSCO argues that imports dropped 75 percent between the second and fourth quarters of 2000.[83] Another study (based on a survey of 177 private firms with international activities) by the Palestinian Federation of the Chambers of Commerce found that imports declined by 56.1 percent during the second quarter of 2001 compared with pre-intifada levels. The largest declines occurred in capital goods (83.7 percent), vehicles (79 percent), household equipment (63.3 percent), construction materials (52.7 percent) and consumption products (48 percent).[84] The Chambers of Commerce survey also found a marked decline in total exports from WB/G to Israel and other countries of 50.3 percent relative to pre-intifada levels (with a 52.6-percent fall in agricultural exports and a 49.6-percent decline in industrial exports).[85] The Israeli newspaper *Ha'aretz* similarly reports that in April 2000, 3,773 trucks carrying NIS 97 million worth of goods entered Gaza from Israel; by April 2002, only 979 trucks entered Gaza, with NIS 27 million worth of goods, a reduction of 72 percent in monetary terms. UNSCO reports a more dramatic reduction from 12,122 trucks crossing into Gaza through different entry points in April 2000 to 1,133 trucks crossing through the only entry point at Karni in April 2002, a reduction of 91 percent. (On October 20, 2002, the Israeli army spokesperson reported that 230 trucks entered Gaza from Israel through the Karni crossing.)[86] During that same period, exports from Gaza also fell precipitously from NIS 28 million in April 2000 to NIS 424,000 in April 2002, a decline of 98 percent.[87]

All in all, the World Bank estimates that with the rising inaccessibility of outside markets and the decline in capital flows and higher import prices, the capacity of the Palestinian economy to import fell by $168 million in 2000 and by as much as $336 million in 2001.[88] Agricultural and manufacturing exports, similarly, lost approximately 30 percent and 24 percent of their potential export value respectively in 2001.[89] By August 2002, the agricultural sector, which relies on the Israeli and European markets for its exports, was practically paralyzed.[90] Beyond the actual costs incurred by the Palestinian exporter lies the declining competitiveness of Palestinian products in international markets, which threatens to sever the WB/G producer from his foreign customer, a problem with damaging long-term effects.

Productive Capacity

Since Palestinian production is highly dependent on imported inputs, import reductions have had damaging effects on the efficiency and capacity of the productive system. Similarly, the high operational costs imposed by closure have had a negative impact on capacity because these costs have reduced efficiency; that is, "[fewer] goods and services were produced with a given amount of available resources"[91] such as labor, capital or land.

Productive capacity has also been damaged by the loss of investment flows, both private and public, which naturally emanate from such a diminished economic environment. Simply put, the risks now present in WB/G – violence and political uncertainty, erratic imports, the heightened inability to conduct business reliably and predictably, a weak regulatory environment and the more recent destruction of Palestinian institutional and governmental structures – have deterred potential (private) investors and forced others to disengage. According to the Palestinian Ministry of Planning and International Cooperation, in just the first three months of the uprising alone, many foreign companies left the country and took with them nearly $50 million in investments, while other companies such as Nestle, Pepsi and Coca-Cola cancelled planned investments valued at an additional $55.8 million.[92]

Furthermore, low domestic demand has exacerbated the problem. During the first year of the crisis, domestic economic losses were valued somewhere between $1.87 and $2.67 billion, which then translated into a daily domestic loss averaging between $6.0 and $8.6 million per business day.[93] Indeed, investor confidence in the Palestinian business sector has been hurt and may not recover even in an improved environment. Similarly, business ties have been cut and will take a very long time to be reestablished, if they can be at all.

Under such extreme economic conditions, businesses increasingly have had to divert their working capital from long-term development to short-term survival in the face of mounting losses, itself a great disincentive to investors and banks. Indeed, new company registrations declined by 80 percent between the third and fourth quarters of 2000 while the capitalization in U.S. dollars of firms registered on the Palestinian stock exchange dropped by 34 percent between September 2000 and September 2001 (from $936 million to $622 million).[94] Add to this investor flight from sectors considered viable before the intifada such as tourism or housing, where investments had been planned. Tourism has evaporated as the conflict has intensified, and housing construction has been obstructed by closure's restrictions on the flow of raw materials, notably cement, which accounts for almost 80 percent of construction costs. Indeed, according to UNSCO, between the third and fourth quarters of 2000, the volume of imported cement dropped by 64 percent.[95] Furthermore, the much-heralded industrial estates costing $173 million have been frozen.[96] These factors, among others, have slowed the expansion rate of productive capital stock – housing and businesses – in the Palestinian economy.[97]

Says the World Bank, "Without the intervention of the donors, and in particular the Arab League and the European Union states, all semblance of a modern economy would have disappeared by now."

Public investment has contracted as well. In 2000, such investment (grants and soft loans) was overwhelmingly (93 percent) financed by donors. Although donor funding has been maintained at close to pre-intifada levels, the composition of that funding has changed dramatically due to the acute economic conditions in WB/G. Over 90 percent of donor disbursements now goes to budget support and emergency relief, leaving little for development or investment in other sectors.[98] The World Bank estimates that *total* investment may have fallen in real terms by 19 percent in 2000 and by an additional 30 percent in 2001, after gains of 8 percent and 16 percent in 1998 and 1999, respectively.[99] Cumulative lost investment opportunities reached $1.2 billion by the end of 2001.[100] The effects of this stunning decline in investment will take years to reverse and may, in fact, be impossible to reverse completely. Furthermore, the World Bank believes that most of the $4-5 billion invested in WB/G since 1993-94 has been destroyed.[101]

The Fiscal Crisis: the PA and the Municipalities

The Palestinian Authority can no longer contribute to public investment in any meaningful way, given the fiscal crisis it now confronts. In fact, one new feature of the current situation is the radically weakened fiscal position of the PA. Prior to the March-April 2002 invasion, which inflicted enormous economic damage, the World Bank had already determined that the PA was effectively bankrupt and had to rely on Arab and European donors for 75-80 percent of its monthly expenses. The PA is also borrowing from commercial banks, cutting salaries and delaying the payment of bills. These strategies are approaching their limits: by December 2001, the PA owed $430 million,[102] and by end-June 2002, was $527 million in arrears ($295 million due suppliers and $232 million in wages, including pensions).[103]

The IMF cites three reasons for the PA's weakening fiscal situation in 2001 and 2002:

- a dramatic decline in the PA's revenue-making capacity (current revenues, made up of indirect taxes on consumption, the largest component at 80 percent [e.g. VAT, import taxes, excise taxes on fuel and tobacco] – and direct taxes collected by the PA and tied to the level of Palestinian demand);
- the suspension by the government of Israel (GOI) of accumulated clearance revenue transfers (taxes collected by the Israeli Tax Administration on the PA's behalf), which amounted to $0.5 billion by the end of December 2001 and $681 million by end-June 2002, accruing at a monthly rate of around $29 million;[104] (the last such transfer by the GOI to the PA was in December 2000); and
- the adverse effect on expenditure associated with emergency needs arising from the crisis.[105]

Because of the extreme hardships caused by dramatically reduced tax collection, the withholding by Israel of PA funds, and reduced demand resulting from high levels of unemployment, PA revenues have fallen markedly. For example, average monthly revenues declined from $91 million during the third quarter of 2000 to $22 million by the third quarter of 2001 for a loss of 76 percent.[106] By the second quarter of 2002, central government revenues had fallen to $15.7 million for a decline of 82.7 percent since the third quarter of 2000.[107] Clearly, without direct budgetary support from the donor community – mainly from the Arab League states through the Islamic Development Bank (IDB) – the Palestinian Authority would collapse.

More alarmingly, says the World Bank, "Without the intervention of the donors, and in particular the Arab League and the European Union states, all semblance of a modern economy would have disappeared by now."[108] Between November 2000 and December 2001, the PA received some $584 million in emergency budgetary support – compared with $265 million during the first three years of the PA's existence[109] – from the Arab League/IDB ($405 million), European Union ($114 million), Saudi Arabia ($40 million), the UAE ($15 million) and Norway ($10 million) (which had increased to $900 million by August 2002). This averaged out to $41.7 million per month or 46 percent of monthly budget outlays.[110] Add to this the $22 million per month the PA was able to collect, and the resulting shortfall was approximately $27 million or a stunning 30 percent of the PA's monthly budget needs in 2001. In 2002, the PA has run an average monthly deficit of approximately $20 million after donor contributions.[111] The PA has dealt with this deficit by borrowing from domestic banks, not paying private-sector suppliers, delaying payments of salaries, pensions and benefits to social-welfare recipients, and reducing expenditures.

Total expenditures also dropped between the third quarter of 2000 and the second quarter of 2001 from a monthly average of $107 million to $90 million respectively, where they remained through the end of 2001. Although wages accounted for the largest share of expenditures and non-wage expenditures such as operations and maintenance accounted for the smallest, it was the latter that suffered the largest reductions; the monthly salary component actually increased. Traditional (non-emergency) non-wage expenditures fell 74 percent in just over one year, from an average of $54 million per month during the third quarter of 2000 to an average of $14 million per month during the fourth quarter of 2001, most of which were used for emergency needs.[112]

While the Authority has been able for the most part to meet central-government salaries, reduced funds have meant that the PA has been increasingly unable to deliver basic public services, which are breaking down. There are, for example, severe shortages of drugs, school materials and spare parts for water, electricity and solid-waste-collection systems.

One illustration of this breakdown comes from the Ministry of Health, which reported a June 2000 budget of $18 million compared to a June 2001 budget of $5.3 million. Because of Israel's tightened closure and rising fiscal problems during the period September 2000-July 2001 for which data are available, 5-16 percent of health professionals could not reach work on any given day; drugs were in increasingly short supply; 40-50 percent of medical staff lost two to four hours per day due to transport difficulties; transport costs tripled; the infant mortality rate (IMR) increased by 13 percent; home deliveries increased by 30 percent overall and by 128 percent in some remote villages of the West Bank; high risk pregnancies increased by 29 percent; contraceptive use declined by 30 percent; and environmental health activities were reduced by 30-90 percent.[113]

The breakdown of public services is perhaps more immediately felt at the municipal level since municipal budgets – already acutely stretched by the crisis – do not receive external budgetary support. As a result, revenues for 14 surveyed municipalities in WB/G fell an average of 30 percent during the first 12 months of the uprising (with the municipality of Al Bireh experiencing a loss of 57 percent) because two critical sources of municipal revenue – user charges and taxes – declined as people quickly became unable to pay their electricity, water and tax bills.[114] With the loss of revenue, most municipal governments had to reduce their expenditures, particularly with regard to such services as road maintenance and solid-waste collection and disposal, with obvious implications for public and environmental health. An April 2002 survey by Bir Zeit University found that 26 out of 34 villages in the Tulkarm district had long disruptions in garbage collection and 26 villages had problems with sewage removal.[115] Another serious problem is the closing of municipal slaughterhouses, which is widespread. This in turn has forced people to butcher animals in their homes and has resulted in a significant increase in the level of animal blood in wastewater.[116]

The delivery of municipal services is further obstructed by the Israeli military and closure. Since March 2002, for example, the landfill for Gaza has been inaccessible. Consequently, solid waste has been disposed in open areas, including inside urban areas. Similar problems have confronted municipalities in those West Bank towns that have been under intermittent curfew since June 2002. The possible outbreak of communicable diseases is a growing fear. Already, since July 2002, approximately 600 cases of shigellosis (bloody diarrhea) have been registered in the Nablus governorate.[117]

Most municipalities furthermore experienced deficits since the decline in expenditures was not as high as that of revenues. Municipalities have financed these deficits by withholding staff salaries and payments to suppliers, especially Israeli suppliers of water and electricity, who in turn have threatened to cut off supplies entirely. The World Bank estimates that by the end of September 2001, total debt for the 14 municipalities sampled increased from less than $1 million to over $4 million. If all municipalities are included (based on the sample), then total debt reached $20-23 million by December 2001 and has increased at a monthly rate of near $1 million ever since.[118] When one adds an estimated $430 million owed by the PA by December 2001 (to the $20 million in municipal debt) – approximately 10 percent of Palestinian GDP – it is clear that Palestinian debt is a problem of dramatic proportions, having accumulated at an average rate of $30 million per month in the first 15 months of the uprising.

If the current crisis continues, economic conditions and living standards will deteriorate even more rapidly, forcing the Palestinian economy into a deeper, more acute recession. By the end of 2001, Gross National Income (GNI=GDP + factor income from abroad), an important measure of economic loss, had plummeted an astounding $4.5 billion according to the World Bank's most recent estimates.[119] This is particularly stunning when compared with an estimated annual GNI of $5.4 billion in 1999.[120] Lost income associated with declining employment in Israel and Israeli settlements – having reached $635 million in 2001 alone – is a major factor in GNI declines.[121] For example, net wage income from employment in Israel (including Israeli settlements) dropped from $81 million per month in the third quarter of 2000 to $17 million per month during the second quarter of 2002, a decline of 79 percent.[122]

During the first nine months of the uprising alone, October 2000-June 2001, the Israeli army damaged or destroyed 317,541 trees – olive, date, citrus, almond and other – valued at $35,395,765. By December 2001 – six months later – 454,874 trees had been attacked; the damage incurred was valued at $107,590,000.

In 2002, GNI is predicted to fall by 29 percent (when factoring in a 4-percent population growth rate). Per capita GNI has fallen 33 percent this year alone and a cumulative 52 percent since 1999.[123] Average per capita real income is therefore well below its level in 1994, when the Gaza-Jericho Agreement was signed, forcing WB/G behind Egypt and Morocco in regional per capita income rankings. Before the intifada, per capita income levels in the WB/G were higher than those in Jordan.[124] Given the dramatic GNI declines, the World Bank has declared that the Palestinian economy has "finally lost its ability to 'bounce back.'"[125]

With the draining of the economy's resources, it is not surprising that by April 2001, 80 percent of Palestinian households had already reduced expenditures, 40 percent had drawn down or depleted savings, and median household income was already 50 percent below pre-intifada levels.[126] As a result, households have responded in some other ways that could prove injurious to the economy over the long-term. One response, economically harmful but necessary to sustain people in the short-term, is a turning to agricultural production of basic food products, which has in part skewed production towards low-value-added products destined for the local market rather than high-value-added products for export markets.[127] Actually, this dynamic emerged in the last few years of the Oslo process in response to the exigencies of marketing and transacting commerce under closure. It has grown more acute in the last two years, with at least a doubling of people engaged in agricultural work.[128]

The crisis appears to have imposed certain structural changes on trade/ commerce and the labor market that will have ramifications for the economy's future growth potential. For example, those sectors oriented toward exports such as fruits and vegetables have been particularly affected. According to the World Bank, their export-market shares have been lost, perhaps permanently.

As to labor, the percentage of wage workers and employers in the labor force has declined dramatically, while the number of unpaid family laborers and self-employed has risen. This structural shift in the labor market reflects the growing informalization of the economy, itself occurring within a context of eroding domestic production and income.[129] Furthermore, domestic employment also shows a shift in the sectoral distribution of employment away from construction and manufacturing toward agriculture and public services, which accounted for a very high share of domestic employment creation as opposed to the receding private sector.[130]

Physical Damage

The productive capacity of the economy has been further diminished by the damage and destruction, through closure and armed confrontation, of Palestine's capital resources i.e., infrastructure, buildings (including equipment and furniture) and agriculture (buildings, irrigation systems, wells, trees).[131] Data published by the president's office of the Palestinian Authority reveal a loss of $116.19 million in the first year of the uprising due to damages, 65 percent ($75 million) of which occurred in the Gaza Strip.[132]

The World Bank estimated the loss to be considerably higher. Between October 2000 and June 2001, the Bank conservatively placed the damage at $168 million; six months later, the damage had increased by 81.5 percent or by $137 million, to $305 million. The Gaza Strip incurred 63 percent of the damage ($193 million) much of it concentrated in Gaza City and the northern governorates. In the West Bank, the Ramallah and Bethlehem areas sustained most of the damage to the territory ($112 million).[133]

When viewed by sector, agriculture suffered the most during the period September 2000-December 2001, sustaining $176.6 million in damage or 58 percent of the regional total.[134] During the first nine months of the uprising alone, October 2000-June 2001, the Israeli army damaged or destroyed 317,541 trees – olive, date, citrus, almond and other – valued at $35,395,765.[135] By December 2001 – six months later – 454,874 trees had been attacked; the damage incurred was valued at $107,590,000.[136] Another source states that Israel destroyed 5.5 square kilometers (2.1 square miles) of Palestinian orchards and 4.5 square kilometers (1.7 square miles) of field crops.[137] Furthermore, 80 percent of total agricultural losses ($141 million) through December 2001 were concentrated in the more impoverished Gaza Strip. In fact, agricultural damage accounted for 73 percent of total damage in the Gaza Strip, representing 89 percent of total damage in the north, 84 percent in the middle areas, 76 percent in the south and 72 percent in the Gaza City region.[138] In the West Bank, damage to agriculture accounted for 31 percent of total damage in the West Bank and was highest in Qalqilia (80 percent) and Jericho (69 percent).[139] A report prepared for the Quartet (EU, U.N., U.S. and Russian Federation) in August 2002 found that since the beginning of the uprising, the IDF had destroyed or otherwise alienated 12,668 acres of agricultural land in the West Bank and Gaza. Approximately 5,636 acres of agricultural land (45 percent of the total) were leveled just in the Gaza Strip.[140]

After agriculture, private buildings incurred the most damage at $47.5 million or about 16 percent of total damage through December 2001. The West Bank suffered the most damage in this sector at $25.5 million (54 percent of the sectoral total); Gaza lost $22 million (46 percent). Within this category, residential dwellings accounted for $32 million or 67 percent of private-building damage, while private commercial and industrial buildings accounted for the rest. Public buildings suffered a loss of $40.8 million or 13 percent of total damage and accounted for 21 percent of all West Bank damage compared with 9 percent of Gaza's.[141] Building damage to schools, for example, was extensive. Of 1,800 primary and secondary schools in WB/G, 400 were damaged – from broken windows to total destruction – in the first nine months of the conflict alone, the majority in Hebron and southern Gaza. This represents almost one-quarter of all Palestinian schools.[142] Also included in the public-building category are the national television facilities in the West Bank and the airport in Gaza. Damage to infrastructure accounted for $40.1 million or 13 percent of total WB/G damage with losses proportionately greater in the West Bank (24 percent of WB total) than Gaza (7 percent).[143]

Israel's West Bank Incursion (March-April 2002): Accelerating Economic Disintegration[144]

Profound physical damage has been done in 2002, dramatically increasing the total loss due to physical destruction to near one billion dollars. For example, Israel's military incursion into Palestinian refugee camps and the bombing of Gaza in March 2002 will cost UNRWA at least $3.8 million to address. During that month, 22 U.N. schools, four U.N. health clinics, two U.N. ambulances and four camp service centers were damaged. In addition, 141 refugee homes were destroyed, which alone will cost a minimum of $2.3 million to rebuild, while 1,800 shelters incurred minor damage that will require $540,000 to repair.[145]

However, the greatest physical destruction occurred during Israel's five-week incursion into the West Bank, which began on March 29 and was known as Operation Defensive Shield. This incursion created an additional $361 million in damage and loss (*excluding far greater income losses and other social costs*) according to the UNSCO/World Bank Local Aid Co-ordination Committee.[146] So great was the destruction resulting from the April incursion that the damage done in this single five-week period exceeds by $56 million the total damage done during the first 15 months of the uprising ($305 million). The greatest damage was done to the Nablus region ($114 million) followed by Jenin ($83 million) and Ramallah ($51 million).[147]

The private sector incurred the greatest costs at $97 million, almost half of which consisted of damage to buildings and equipment and spoilage. Damage to roads, private housing and ancient cultural sites is estimated at $64 million, $66 million and $48 million respectively in addition to the costs of repairing other infrastructural networks and public structures.[148] The March-April incursion increased by over 100 percent the number of home demolitions since the start of the uprising. Between September 2000 and February 2002, 720 Palestinian homes were demolished by the Israeli army and an additional 11,553 damaged, which affected 73,600 people. Israel's five-week incursion resulted in the destruction of another 881 homes and damaged 2,883 more in refugee camps, leaving their 22,500 residents without proper housing.[149]

The Israeli incursion into Jenin alone resulted in the destruction and subsequent demolition of 170 structures, leaving at least 4,000 people homeless.[150] An additional 20-30 structures will have to be torn down due to severe structural damage, while another 200 homes will require extensive rehabilitation. The resulting cost of reconstruction is estimated at $25-$30 million and will be funded by the Red Crescent Society of the United Arab Emirates.[151] Furthermore, according to a number of U.N. agencies, donors and NGOs, an additional $47.3 million is needed "to implement a number of emergency interventions ranging from food and water distributions to psychosocial support to traumatized children."[152] Current World Bank calculations place total infrastructure damage in the West Bank and Gaza through early June 2002 at over $800 million.[153]

On June 18, 2002, the IDF launched Operation Determined Path, which led to the reoccupation of most West Bank towns. This accelerated declines in economic activity – e.g., productive capacity, output, income – and resulted in more physical damage.

The Social Consequences of Emerging Economic Dissolution[154]

Closure's impact has been pernicious and made worse by growing levels of armed violence. The combined effect of closure and armed conflict since September 28, 2000, has resulted in precipitous declines in employment, trade and investment (and associated losses and distortions), depleting and shrinking an economy that was already weak, small and fragmented to begin with. Indeed, even if closure were removed today and relations normalized, the damage done to the Palestinian economy is so acute that the World Bank estimates it would take at least two years for per capita income and economic activity generally to return to pre-intifada levels, and only if "private-sector confidence in the future of the economy can be significantly restored; *it would take much longer to restore real per capita income levels prevailing in 1994*" (emphasis mine).[155] The Bank further argues that even after two solid years of economic recovery, pre-intifada living standards – not high to begin with – would continue to be elusive, since "poverty would still affect 30 percent of the population."[156] Because these predictions were made prior to the massive economic and physical destruction that resulted from the March-April invasion and the June operation, they likely underestimate the problem.

The devastation of the economy has led directly to the devastation of the individual.[157] The U.N. Special Coordinator in the Occupied Territories, Terje Larsen, stated in December 2000, just three months into the uprising: "[W]hat was achieved in progress in the living conditions of the Palestinians over the last three years has been completely destroyed over the last two months."[158] Similarly, a report commissioned by the U.S. Agency for International Development (USAID) as early as December 2000 argued, "[I]f the current situation remains, there will be indications of a humanitarian crisis – measured in high malnutrition rates, increased morbidity and mortality – among vulnerable groups within three months."[159] This is not surprising, given that, by June 2001, 14.2 percent of Palestinian households had completely lost their sources of income during the uprising, and 47.4 percent of households reported losing more than 50 percent of their income.[160] More recent World Bank data reveal that 56.5 percent of all Palestinian households – 58.0 percent in the West Bank and 53.6 percent in the Gaza Strip – have lost more than half their income since before the uprising.[161]

In the first four months of the intifada, the number of people living below the poverty line (defined as a household with two adults and four children with a yearly consumption of less than $2.10 per person per day), increased from 650,000 to one million, or from 21 percent to 32 percent of the population.[162] (Remember, too, that the impoverished must pay Israeli, not developing-world prices). One-half of the Palestinian poor live in and around three areas – Khan Younis, Gaza City and Hebron – most severely affected by closure. These areas were cut off almost completely from labor and commercial markets in Israel and in the larger Palestinian towns, with poverty rates falling between 40 and 51 percent.[163]

By July 2001, the number of people living below the poverty line doubled from 1 million to 2.1 million people or 65 percent of the total population – 57 percent in the West Bank and 80 percent in Gaza – according to the Palestinian Central Bureau of Statistics (PCBS).[164] More conservative World Bank estimates placed 40-50 percent of the population in poverty by the end of 2001.[165] The Palestinian Ministry of Social Affairs (MOSA) calculated that by October 2001 – one year into the uprising – 410,000 families were in need of assistance: unemployed workers who once worked in Israel, 120,000; unemployed workers in industrial zones and Israeli settlements, 15,000; workers unemployed before the current uprising, 70,000; workers unemployed due to the current economic conditions, 120,000; families already obtaining assistance from MOSA, 65,000; and families of unemployed workers, 20,000.[166] This represents approximately 2,050,000 people who were in need of assistance by October 2001.[167]

In 2001, UNRWA carried out two emergency appeals that provided food and cash aid to 216,000 refugee families classified as hardship cases – 127,000 families in Gaza (53 percent of Gaza's total population) and 89,000 families in the West Bank (21 percent of the West Bank's total population) – or almost 1.1 million people. Prior to the intifada, UNRWA was feeding only 11,000 families classified as hardship cases.[168] During this same period, UNRWA also created 540,300 working days through various employment-generation schemes, 72 percent of which were located in the Gaza Strip. The total cost for these and other assistance programs came to over $76 million for a seven-month period.[169]

The March-April incursion diminished access to food even more. According to a consortium of donor agencies including the U.N. World Food Programme (WFP),

> Severe damage to the physical infrastructure, including water, electricity and road networks combined with imposed curfews have brought to a halt all economic activities and caused a rapid deterioration of living conditions. People's access to food and basic necessities has been severely curtailed. Even people with money have difficulties to get to the market to buy the little food available. The condition of those people with limited financial means and who have been unemployed for more than one year is even more critical.[170]

For those towns hardest hit by the invasion – Jenin, Ramallah, Nablus, Bethlehem and Tulkarm – massive food shortages were reported both at home (37-64 percent of households) and in the marketplace (43-89 percent of households).[171] The WFP estimates that around one million people have been directly affected by the March-April incursion, and their condition worsened. Of this, approximately 300,000 non-refugees in the Gaza Strip and 320,000 non-refugees in the West Bank are in need of emergency food assistance.[172] According to the PCBS, during the period just prior to the incursion and the weeks that followed it, more than 56 percent of households lost at least half their income while almost 20 percent lost their income entirely.[173] The WFP will assist 500,000 people (prior to March 29, 2002, the WFP was feeding 373,500 people – 224,900 in the West Bank and 148,600 in Gaza[174]) and the needs of the remaining 120,000 will be addressed by other NGOs. However, in July 2002, the WFP reported that its emergency food operation remained 90 percent underfunded and that the agency was struggling to cover the basic needs of the Palestinian population.[175]

In addition, the International Committee of the Red Cross (ICRC) was expanding its support to some 300,000 mostly rural people in the West Bank post-incursion.[176] The ICRC will also be starting an urban food voucher program for an estimated 20,000 families.[177] UNICEF has focused its food distribution efforts on child protection institutions and more recently on families expelled from the Jenin refugee camp. The Lutheran World Federation is also supporting almost 23,000 people in the Gaza Strip.[178] All in all, USAID found that over 30 percent of the more than three million Palestinians living in WB/G are dependent on food handouts. AID also found that 50 percent of all Palestinians require external food assistance to meet their minimum daily caloric intake.[179] The World Bank/PCBS estimated that by February 2002, 58.3 percent of all Palestinian households had received humanitarian assistance during the uprising – 45 percent in the West Bank and 86.1 percent in the Gaza Strip.[180]

By August 2002, approximately 1.8 million Palestinians were receiving food aid and other forms of emergency assistance – a number that will only grow if closure and other restrictions continue.[181] (The more than $700 million now owed the PA by Israel would help mitigate this problem if released. In July 2002, the Israeli government announced that it would release NIS 70 million or approximately $15 million of these monies [the first of three payments] or 3 percent of what Israel owes. In addition, Israel deducted around NIS 140 million or around $30 million to offset PA debts to the Israel Electric Company.[182] On August 20, 2002, the PA received another $14 million.)

One illustration of personal hardship comes from the following account by a USAID fieldworker:

> There are 12 members of the family, and only one is working, a teenage son, and he works only intermittently. The husband is in deep despondence because he can't support his family. He has tried going off to cross the green line, despite the risk, but was scared off and came home.
>
> There is an elderly mother of the wife living with them, in need of medication that the family cannot provide. The mother used to get 96 NIS/month from social services, but this has stopped months ago . . . . They have almost no cash. The baby, who is 13 months old, has a chest infection, and the mother is trying home remedies although she is afraid that what he really needs is a doctor, because there is no money for that, just as there is none for the aged mother. The problem is that she has no way to know if the child must have a doctor or not, and if she takes him and he doesn't need this treatment, then she will be unable to feed her children that day, and if he does need it, where will she get the money for the medication?[183]

By January-February 2002, prior to Operation Defensive Shield, the PCBS already found 66.5 percent of Palestinians living below the poverty line: 57.8 percent of households in the West Bank and 84.6 percent of households in the Gaza Strip.[184] The United Nations considers approximately two million Palestinians "vulnerable" or in need of food, shelter and access to health services.[185] According to the World Bank, 57 percent of Palestinians will be living in poverty by the end of 2002. And, as alarming,

> [e]ven if the closures are lifted, the poverty rate will not fall by much in 2003 and 2004. According to the World Bank's econometric simula-

> tions, even if donor aid inflows were to increase by $1 billion per year in 2003 and 2004, this would still have only a minor impact on poverty, allowing it to fall to 52 percent by the end of 2004.[186]

Despite the desperate need for food, UNRWA officials report: "[T]he Israeli authorities continue to block the entry of basic foodstuffs, medicines and fuel, and refuse to relax internal restrictions on the movement of all goods and personnel."[187] An internal U.S. State Department memo dated May 10, 2002 described the restrictions affecting people in Gaza:

> UNRWA has 300 containers of food languishing in Ashdod and not enough in Gaza for rations. UNRWA's duty-free fuel is not being allowed through Karni, which means they have to buy fuel on the local market, costing an additional $19,000 per month. Since March 28, 2002, Karni has been closed except for a little food and one export of flour. [The] private sector is at a standstill because there are no raw materials and no exports. Municipal salaries in Gaza haven't been paid since February 2002. The citrus crop of 140,000 boxes is not going to get out of Gaza because of the closure. The growers aren't even picking the fruit because it isn't effective to do so. There are no construction materials available in Gaza.[188]

And from the same memo,

> One of the latest examples of the difficulties posed by the closures involved the need for a convoy organized by several relief agencies with water, food and urgently needed medical supplies, which was hoping to reach Shweike, a village north of Tulkarm, today. The village is in its 38th day of total curfew, and its 7,000 inhabitants have been unable to leave their homes, even for medical care except for the short period when the curfew is lifted so people can buy food (which [has] occurred twice a week at the most). The consortium of agencies reports earlier Palestinian attempts to deliver bread to Schweike had been turned back, and many essential food items are not available there.[189]

An internal memo from a prominent donor agency working in the Gaza Strip dated May 2002 further states,

> Gaza City remains much easier than the south, where IDF incursions, gunfights and bulldozing are daily or nightly occurrences. Products are generally available in Gaza City, but flour is sometimes hard to get in the south, depending on whether or not Karni has been open. (Israel apparently wants to send in fresh produce, but not construction materials or staples such as flour).[190]

According to the Food and Agriculture Organization (FAO), "Israel is virtually the sole supplier of food to the West Bank and Gaza, accounting for 95 percent of total agricultural imports and almost 100 percent of exports."[191] In addition, the Israeli authorities at the Erez border crossing are under orders that no money is to be allowed into Gaza.[192]

The crisis is made worse by the imposition of curfews, which confine people to their homes almost continuously. Under curfew, typically, people are only able to leave their homes for a few hours every third or fourth day to buy food. With Operation Determined Path and Israel's reoccupation of the West Bank's major population centers, curfews were (and continue to be) widely imposed. For example, the 24-hour curfew imposed on Nablus between June 21, 2002 and September 27, 2002 had only been lifted for a total of 83 hours. That is, Nablus had been under curfew for 2,293 out of 2,376 hours. The Nablus curfew, which is still ongoing, is now well over 100 days old. Other West Bank towns were also placed under curfew during roughly the same June-September period: for example, Tulkarem for 1,886 hours (plus 490 hours – or 21 percent of the time – without curfew), Jenin for 1,801 hours (plus 646 hours – 26 percent – without curfew), and Ramallah for 1,747 hours (plus 557 hours – 24 percent – without curfew).[193] UNSCO also reports:

> During 2002 Israeli military incursions, there were essentially two waves of curfew imposed over the West Bank: one that began on March 29, 2002, and the other in the latter part of June. In between the two periods, there were many cases of curfew, in addition to more than 90 smaller-scale military incursions that were carried out in Palestinian localities in May 2002.[194]

Furthermore,

> [a]t least 600,000 Palestinians live under intermittent curfews and most of the time are confined to their residences, thus unable to adequately exercise their economic and social activities. Recent reports indicate that up to 37 percent of families in curfewed cities house other families because of life-threatening danger, destroyed or occupied houses, or being stranded and unable to reach their homes. Over 50 percent of families in areas under curfew report considerable damages to their neighborhoods, and 28 to 59 percent of families are reportedly exposed to shooting on a daily basis . . . .[195]

Closure has also had a severe impact on the health-care sector at a time when needs have increased and resources have declined. As PA and MOH funds become less and less available, other providers dependent on those funds (and patient fees, which most people can no longer pay) have had to cut or curtail their services, firing medical staff or reducing their salaries as much as 40 percent. Long-term projects have been frozen as organizations struggle to deal with basic health needs at the cost of other critically important areas such as preventive care and the treatment of chronic diseases, which have received little financial support. Budgetary problems also have forced substantial cutbacks in the maintenance of facilities and equipment, fuel (for ambulances) and medicines. By September 2001, 130 medications were no longer available, including those for hypertension and diabetes.[196]

One of the greatest problems affecting this sector is the inability of patients and medical personnel to access health facilities or to do so in a timely manner. Because over 70 percent of Palestinians live in rural areas with few if any health facilities, "closure therefore severely restricts the majority of the population from secondary and tertiary health-care facilities."[197] According to a study by the World Health Organization (WHO) covering the first year of the uprising, problems of access vary by region, creating acute "pockets of vulnerability" for some 40,000 people, many of them Bedouin.[198] Indeed, West Bank hospitals report a marked decline in access to services. St. Luke's hospital in Nablus, for example, reports a 49-percent reduction in general patients, a 73-percent decline in specialty services and a 53-percent decline in the number of surgeries performed. St. John's ophthalmic hospital in East Jerusalem is the only one of its kind in the West Bank. Given closure restrictions, it is probably safe to say that the majority of West Bankers can no longer access this hospital.[199] There have been numerous stories of men, women and children impeded by Israeli soldiers at checkpoints from reaching hospitals or other health-care facilities for such services as dialysis or cancer treatment, giving birth or bleeding injuries, sometimes with tragic results.

A survey conducted over a two-week period in August 2002 by The Johns Hopkins University, CARE and others found that 45.6 percent of Palestinians in the WB/G requiring dialysis (among all those needing it) could not receive it (79.0 percent in the WB and 25.0 percent in G); 50 percent requiring chemotherapy could not access it (74.2 percent/WB and 34.7 percent/G); and 38.4 percent needing diabetes treatment were unable to obtain it (56.6 percent/WB and 18.1 percent/G).[200] The inability to access services was due primarily to closure/curfew and secondarily to the lack of money. For example, "in the Bethlehem governorate, 72.9 percent of households reporting the need for emergency care were not able to access it due to curfew 97.5 percent of the time . . . . In 68.6 percent of households with children needing immunization, there is no access due to curfew 93.8 percent of the time."[201]

In an UNRWA study on the impact of closures on prenatal care and anemia prevalence among pregnant women, the organization found the following: between 1999 and October 2001, there was a 75-percent drop in early registration by pregnant women for prenatal care (from 8.7 percent to 2.1 percent); a near 50-percent drop in regular prenatal-care attendance (from 46.1 percent to 25.4 percent); a more than doubling of home deliveries (from 6.1 percent to 13.5 percent), which could increase the spread of neonatal tetanus and hepatitis B (without immunization at delivery, the HepB virus could spread since 3 percent of pregnant women in the West Bank are carriers[202]); and a 37-percent increase in anemia deficiency among pregnant women (from 35.5 percent to 48.5 percent) despite the introduction by UNRWA of an iron-supplementation policy in 2000. The higher levels of anemia deficiency in turn have contributed to a 23-percent increase in the proportion of high- and alert-risk pregnancies, a 100-percent increase in the proportion of very-low-birth-weight babies and a 21-percent increase in the proportion of low-birth-weight babies.[203] In addition, 48 percent of women of childbearing age suffer from moderate to mild anemia.[204]

UNRWA concludes that the only explanation for the decline in prenatal care is "the poor accessibility of women to health centers because of closure, economic hardship and the inability of those living outside the camp to pay for the transportation."[205] Similarly, UNRWA argues, "The 'only explainable reason' for the increase in anemia despite the introduction of an iron supplementation policy is 'the deteriorating social economic status' of women resulting from the 'current closure, siege, curfews, demolitions and stress.'"[206]

Another emerging problem regards public health and the continued control of water and sewage testing, water chlorination and vector control, all of which have been interrupted. The MOH reported that, within the first 10 months of the uprising, water sampling was reduced by 52 percent and sewage sampling by 95 percent, with obvious implications for public health, particularly as regards the spread of infectious disease.[207] Furthermore, the spread of infectious disease, particularly cholera, is heightened by overcrowding, inadequate shelter and diminished access to clean and potable water. In fact, a USAID environmental assessment team found that of 300 households surveyed in Nablus, not one had access to drinking water acceptable by international standards.[208] According to the report prepared for the Quartet:

> Of 708 localities in the West Bank and Gaza, an estimated 300 that rely on the purchase of water from private or municipal water tankers have limited access to water sources because of closures and delays of tankers at checkpoints. As a result of increasing transportation costs, prices for tanker-water rise considerably – up to 80 percent in certain West Bank locations. In addition to the rise in water prices, preliminary assessment reports indicate that due to a combination of economic and closure [logistics] factors, the water supply in several West Bank locations is falling below a minimum required 15 litres per person per day.[209]

A recent report on water scarcity in 101 Palestinian communities in WB/G prepared by Oxfam and the Palestinian Hydrology Group found the following problems (among others):[210]

- 25 percent of total surveyed communities (TSC) have difficult or no access to public health centers.
- 25 percent of TSCs have a relatively high number of people infected with diseases – largely amoeba and skin – related to inadequate or substandard water and sanitation. Among the worst affected areas are Rantis near Ramallah, Nur Shams Camp near Tulkarem, and Deir Abu Mashaal near Ramallah where 1,600 people (65 percent of the total population), 800 people (11 percent of population) and 400 people (14 percent of population) respectively are infected with parasites.
- 8 communities with more than 500 people have no water network and rely on tankers, cisterns or springs.
- All communities with available water networks have difficulty paying their water bills, which is due entirely to the current economic crisis. In 47 out of 86 surveyed communities, over 50 percent of households do not pay their bills.
- 16 out of 101 TSCs have water consumption levels that are low (below 30 liters/capita/day). In two of these communities, Al Faqir and Al Burj, both near Hebron, Mekorot completely stopped the supply of water. In Az Zuweidin (Hebron), Mekorot is providing only 5 percent of the normal supply and in Rantis (Ramallah), Mekorot is supplying only 20 percent of the normal supply.
- 47 of the communities surveyed receive their water from Mekorot. Most face serious reductions: 33 communities (70 percent) are receiving less than 75 percent of their normal supply; 3 communities (including Al

Faqir and Al Burj above) have had their water supply terminated completely; and 5 communities (including Az Zuwiedin and Rantis above) are receiving no more than 30 percent of their normal supply.
• 40 communities have damaged water supply systems (wells, springs, cisterns, tankers and roof tanks). For example, 1,200 roof tanks were damaged in Tarqumiya (Hebron), 1,000 in Khan Younis, 350 in Adh Dhahiriya (Hebron) and 200 in Salfit.

On October 22, 2002, Israel's infrastructure minister ordered the water commissioner to stop all drilling for water by West Bank Palestinians (some of which is done illegally) and to freeze the issuing of all permits for future drillings. This will have a very damaging effect on Palestinian agriculture, which relies heavily on water drilled from the ground.[211]

Another health-related concern is vaccination coverage, which remains high despite declines from 98 percent before the intifada to 91 percent in September 2001. However, by early May 2002, the vaccination schedule for almost 500,000 children in the West Bank had been disrupted, in some areas by as long as six months. This could increase the spread of measles, hepatitis B and polio.[212] Continued restrictions on movement not only could threaten the level of coverage even more but diminish the efficacy of vaccines that are administered since delays in transportation have exposed them to heat.[213]

The mental health needs of the population have also increased. Long a problem and largely neglected, the mental health of Palestinians has declined even further under the pressures of closure and continued violence. The U.N. Office for the Coordination of Humanitarian Affairs (UNOCHA) found that during the first year of the uprising, 360,000 people were exposed daily to severe shelling and shooting.[214]

The MOH reported a 105-percent increase in patient registrations at mental-health clinics, most of them children under 18, and a 72-percent rise in the demand for counseling services in the West Bank during the first seven months of the conflict.[215] In a study investigating the nature of post-traumatic reactions in children 9-18 exposed to bombardment and home demolition (and in those who were not) during the Al Aqsa intifada, the authors found far greater post-traumatic stress disorder (PTSD) reactions in children who had experienced bombardment and the destruction of their homes (more than twice as many) than in those who did not. While this is not surprising, the authors also found that these disorders were widespread. For example, 66 percent of exposed children identify the event as extremely stressful, 58 percent have difficulty concentrating, and 57 percent have problems sleeping. Furthermore, 76 percent are afraid of being in a high place because they fear it will collapse, 69 percent fear being in a closed space, 69 percent have fears of height and high buildings, 67 percent fear things and people the child knows will not hurt him, and 64 percent fear having an untreatable disease.[216]

Another study conducted by an Israeli psychologist at Tel Aviv University found that 70 percent of Palestinian children and 30 percent of Jewish children in Israeli settlements suffer from trauma.[217] The prevalence of mental-health disorders among Palestinian children is similar to that found in children exposed to war in Iraqi Kurdistan, and displaced children in Iran and Croatia.[218]

During the March-April siege, exposure to political violence was greater and more concentrated. In Tulkarm, Jenin, Nablus, Ramallah and Bethlehem, for example, 87 percent, 78 percent, 67 percent, 52 percent and 31 percent of households respectively witnessed some sort of destruction while 90 percent, 89 percent, 70 percent, 93 percent and 87 percent of households reported mental health problems during the siege. Between 71 percent and 93 percent of families also reported despair over the deterioration of their daily life.[219] A related point of extreme importance is the fact that, increasingly, traditional leaders who regulated social behavior and provided protection are being replaced by political leaders who sanction violence and who provide no guarantees of safety or protection.[220]

The Palestinian family has responded to economic distress in different ways. The overwhelming majority have reduced their expenditures of both non-essential and essential goods. Various surveys report a marked decrease in consumption of basic food products, which the poor are increasingly unable to buy. The consumption of animal protein has fallen from an average of twice per week to once or twice per month. A PCBS survey conducted in 2001 found that 35 percent and 55 percent of respondents reduced the quantity and quality of their food intake respectively, while 65 percent reported a reduction in meat and fruit consumption, and 43 percent reduced their consumption of milk and milk products.[221] On a visit by the author to a refugee camp in the southern Gaza Strip in January 2001, women raged that they did not have enough food to feed their children. A typical meal consisted of bread and *zatar* (spices), tea and sugar. Yet, food represents the largest part of consumption, accounting for over 40 percent of spending by WB/G Palestinians.

A study conducted by CARE and The Johns Hopkins University (JHU) in all 16 governorates of the WB/G (during two-week sampling intervals) found that in mid-to-end-May 2002, 67.8 percent of households had decreased their intake of meat, chicken and fish; 60.9 percent were eating less fruits and vegetables; 49.7 percent were consuming fewer milk and dairy products; and 30.3 percent had lowered their consumption of bread, potatoes and rice, which is perhaps most concerning.[222] By early September 2002, the percentage of households with reduced intake of meat/fish and fruits/vegetables had increased to 71.6 percent and 67.2 percent, respectively.[223]

A key factor affecting food intake is affordability – 54.1 percent of 2,240 households were forced to borrow money to purchase food [61.4 percent in Gaza and 48.6 percent in the West Bank] while 17.7 percent were forced to sell assets to buy food [25.1 percent/G and 14.4 percent/WB].[224] Another factor affecting food intake is curfew, which affects largely West Bank households.

According to preliminary findings from USAID, chronic malnutrition (stunting – growth retarded by poor diet) and acute malnutrition (wasting – weight less than normal for age or height) affects 30 percent and 21 percent of Palestinian children under five years of age respectively, a fourfold increase from 7 percent for chronic malnutrition in 2000 and an almost tenfold increase from 2.5 percent for acute malnutrition in 2000.[225] USAID further states that "moderate and severe malnutrition rates" and "moderate and severe anemia rates found to date [June 2002]" are "significant" among children under five years of age.[226] In another study by CARE/JHU, the percentages are lower but still alarming. This assessment report found that 22.5 percent of WB/G children below five suffer from chronic (13.2 percent) and acute (9.3 percent) malnutrition.[227] Chronic malnutrition affects 17.5 percent of children in Gaza, five times greater than the rate (3.5 percent) in the West Bank.[228] The situation is most dangerous in Gaza, where 13.2 percent of children under five suffer from acute malnutrition (and 4.3 percent in the West Bank), "a rate comparable to [that] of Sub-Saharan Africa,"[229] in fact, higher than Zimbabwe (13.0 percent) and just below the Congo (13.9 percent).[230] The outbreak of serious diseases, particularly cholera, is now an unquestioned risk.

According to the U.N. Disaster Assessment and Coordination Team (UNDAC),

> The current situation in the oPt [occupied Palestinian territories] can be defined as a crisis within a crisis. While the Jenin drama had serious impact on the livelihoods of thousands of Palestinians, 4,000 of whom have been rendered homeless, the overall impact of the intifada and the Israeli policy of closures have a much more extensive humanitarian impact. Given the current level of closures and siege of entire populated areas, it is increasingly believed that the international community is facing a medium-to-long-term humanitarian crisis in the West Bank and Gaza."[231]

Some Concluding Thoughts

Many of the studies made of the post-September-2000 economy, notably the World Bank reports from which many of the data in this article are drawn, treat the current closure and the myriad problems created by it as something new and virtually without precedent. This is true only up to a point: with regard to the scale of the problem, but not with regard to its structure. The structural reality imposed by closure (and its damaging effects) can be traced back to January 1991 during the Gulf War and represented the beginning of an important shift in Israeli policy vis-à-vis the Palestinians. Since 1993, at least, the egregious economic impact of closure has been clear and well documented. Closure proved to be the single most damaging measure affecting the Palestinian economy during the Oslo period. *It was during the years of the peace process and not during the current crisis* that the inextricable connection between closure and economic growth was established and demonstrated. Indeed, long before September 2000, closure had already done considerable damage to the Palestinian economy. This is one reason economic conditions deteriorated so quickly afterward.

In this regard, Israeli policy toward WB/G has not changed fundamentally throughout the occupation despite various modifications to that policy, both benign (e.g. allowing the free movement of Palestinians in the early years of the occupation) and malignant (e.g., closure). Israeli policy has always aimed to prevent the emergence of a viable Palestinian economy and state and has consistently used economic measures to insure continued Palestinian dependence and de-development.[232] The political, economic and physical changes to WB/G during the Oslo period provide ample evidence of this. More recently, Ron Ben Eshai, a commentator for the Israeli newspaper *Yedioth Ahronot*, wrote, "It is impossible to vanquish the Al Aqsa intifada militarily, but it is definitely possible to frustrate it and to wear out the Palestinians physically and economically until it dies out."[233]

According to a study carried out by USAID, the Palestinian economy has responded to the intifada in three phases:

> The first phase was one of massive dislocation from October to December 2000, which sent all of the main economic indicators plummeting. This was followed by a more stable period . . . when the economy settled into a lower level equilibrium, as Palestinian households adjusted to the closures and the sharply lower levels of private sector activity and employment. During this period, the economy was sustained by large infusions of donor assistance. . . .
>
> [I]t is . . . clear that the economy has entered a second – even more vicious – downward cycle. As a result of the successively higher thresholds of military activity, the situation is now catastrophic in certain areas of the West Bank. In general there is increasing deprivation and reduced access to basic services. The coping strategies which were successfully employed last year are no longer effective, and the economy is being demonetized as cash transactions decline in favor of a barter economy.[234]

The movement of people and goods in WB/G is becoming even more restricted with the introduction by Israel of a new travel-permit system between Palestinian localities and the cutting of the Gaza Strip in half.[235] These measures, coupled with the deepened cantonization of the territories and the erection of new barriers, such as ditches, barbed-wire fences, electronic warning systems and walls approaching 27-feet high around the perimeters of Palestinian towns, will give Israel total control over the movement of Palestinians *within* Arab areas, including those areas (Area A) previously under total Palestinian control, thereby eradicating the concept of Palestinian-controlled territory. This is altogether new. The security wall, already under construction and intended as a permanent structure, is to be 349 kilometers (217 miles) long (over twice as long as the Berlin Wall) and will cost $1 million per kilometer to build. Furthermore, according to the Palestinian mapping department, the wall will be built up to 3 kilometers inside the West Bank, taking up to 1.3 percent of West Bank land and 11 villages and dispossessing 26,000 people of their agricultural plots.[236] According to Jeffrey Halper, coordinator for the Israeli Committee Against House Demolitions, the security wall will be built 5-10 kilometers inside Palestinian territory, forcing over 100,000 Palestinians to live between the border and the wall.[237]

On May 7, 2002, at a meeting between the Israeli army and international aid officials, the former outlined a plan to create buffer zones around the eight major population centers (key cities and their outlying villages) of the West Bank: Ramallah, Nablus, Hebron, Bethlehem, Jenin, Tulkarm, Qalqilya and Jericho. According to the plan, Palestinians would have to apply for a special permit – valid only from 5 am to 7 pm – to enter or exit a given zone. These permits are only valid for one-month periods and must be renewed.[238] Trucks carrying goods would not be allowed to cross zones but would have to offload goods at crossing points onto other trucks. This back-to-back system has long been in effect in the Gaza Strip and exacts enormous added costs. Furthermore, under the Israeli plan, no Palestinian would be permitted to enter Israel. Because East Jerusalem is defined as part of Israel, those West Bank Palestinians who work in East Jerusalem, many of them in aid agencies headquartered there, will lose their jobs. Perhaps most important, Israel's new restrictions will further obstruct the delivery of desperately needed humanitarian assistance.[239] The resident representative of the Norwegian's People Aid, Gudrun Bertinussen, writing on June 27, 2002, describes the problem:

> New restrictions on movement within the West Bank and within the Gaza Strip have serious consequences for humanitarian assistance to the Palestinian population. Israeli authorities have introduced a permit system in which Palestinian staff of local and international NGOs and of donor organizations no longer can move freely between villages and cities within the Palestinian territories.
>
> ... Local NGOs are increasingly facing difficulties in carrying out their humanitarian activities within their regions. We have seen during the last weeks an intensification of unprecedented military restrictions on humanitarian access to the populations affected by the conflict. Local Palestinian organizations and Palestinian staff of international organizations have reported that they have been harassed at checkpoints. They have been denied travel between project sites and offices within the West Bank and within the Gaza Strip. Military checkpoints have multiplied and have been strengthened. Temporary military checkpoints are turning into permanent ones. At the time of writing all Palestinian cities in the West Bank except Jericho and Jerusalem are under curfew. Some areas are severely affected by the closures – a number of smaller villages in the West Bank and Gaza Strip have been under permanent curfew for up to 18 months.
>
> In the Gaza Strip there is a different kind of internal closure. Parts of the Palestinian road network have been closed with physical barriers, and there is now one road linking the north to the south of [the] Gaza Strip. This road is frequently closed half way at Abu Hole, close to [the] Kfar Darom settlement, where there is a military point. At this military point there is no checking of ID cards. Cars are merely stopped from both directions and for the last weeks the road has been opened for a few hours in the morning and evening. The only road connecting the north and south of Gaza remains closed for most of the day.
>
> The situation also affects people's living conditions. . . . Ongoing long-term development projects . . . have to be re-planned in terms of what is operationally possible in each particular region and in terms of people's immediate needs. . . . [L]ocal organizations adapt in creative but also risky ways. Palestinian humanitarian workers bypass road-blocks and checkpoints in their efforts to continue their work. . . . [One] organization is cooperating with other local organizations to further decentralize their activities within Gaza. Travel between even short distances is difficult for project staff as well as for beneficiaries . . . who are mothers with severely undernourished children

> [who] cannot risk delays at check-points for up to eight hours in the summer heat. . . . With the new restrictions, humanitarian agencies are no longer able to effectively reach the population in immediate need of assistance, and our capacity to provide sustained and quality support in the long term has been severely undermined.[240]

For Israelis, the army plan is designed to keep suicide bombers from entering Israel. For Palestinians the plan will establish prison walls further designed to divide and isolate sections of WB/G from one another, fueling even greater frustration and hatred.[241] Prime Minister Sharon's new policy of seizing and holding Palestinian lands in response to continued suicide bombings will only intensify the problem (as will President Bush's approval of this policy and his threat to terminate U.S. aid to Palestinians should Yasser Arafat be re-elected president).[242] Indeed, Israel's June 2002 military operation includes not only the reoccupation of seven of eight main Palestinian population centers in the West Bank -- the Israeli army redeployed from Bethlehem in August 2002 – and the imposition of widespread curfews, but the reimposition of direct Israeli rule, which is a major component of that reoccupation.[243] Prime Minister Sharon has since made it clear that he will focus the army's efforts on Gaza as well.

By August 2002, according to the humanitarian report prepared for the Quartet:

> Travel by Palestinians between cities and villages has come to an almost complete halt. The principal economic result has been a near complete cessation of all productive activity in the main West Bank centers of manufacturing, construction, commerce and private and public services. Activities in these centers account for at least 75 percent of the value of goods and services produced in the West Bank. The Palestinian economy will cease to function completely should the current closure regime be undetermined in its length, as announced by the IDF.[244]

Clearly, the economic impact of such Israeli measures, whatever their motivation, will be nothing short of destructive. According to one World Bank official, "We could see the emergence of enclave economies relying on local subsistence agriculture and petty trade and in which the financial system would be reluctant or unable to extend meaningful credit."[245] Under this scenario, the donor program – estimated to rise from $930 million to $1.2 billion this year – would be transformed into a quasi-welfare program in part because the movement of material aid and aid workers would be obstructed. If this happens, it will no longer be possible to build a Palestinian economy in preparation for statehood.

It would logically follow that Israel, as sovereign, would control WB/G militarily while the international community assumes responsibility for the population by preventing the local economy from collapsing.[246] The report to the Quartet acknowledges: "While maintaining troops in the oPt, and thus paralyzing the functioning of the civil service and private sector, the IDF and the Israeli civil administration now rely on [the] international relief community to ensure continuity of basic services that are otherwise impossible to deliver."[247] By so doing, the donors, in effect, are also providing financial support for the deepened cantonization of the territories.[248] Indeed, the World Bank recently concluded that given the severe recession of the Palestinian economy, donors will, for the next few years, have to focus on humanitarian and emergency needs, including direct budgetary support to the PA and job creation programs.[249] The Bank states: "Under the current circumstances, foreign assistance, though significant, can at best maintain minimum welfare and address immediate humanitarian needs. It cannot meaningfully address unemployment levels or foster real economic recovery."[250]

Now, as before, "progress" and "growth," if those terms still apply, are really measured not by any viable movement forward (structural reform of the economy) but by a slower movement backward (moderate and less frequent declines and constrained growth). Such are the parameters within which the Palestinian economy has *always* been confined.

The human impact of a disintegrating economy has been devastating. The individual has been ravaged by widespread poverty, declining health status, eroding education, physical and environmental destruction, and the absence of hope. During the first two years of the uprising, 1,781 Palestinians were killed and 20,455 injured (as were 622 and 4,578 Israelis, respectively). Palestine is not a failed society, as some have argued, but a wounded one. In Palestinian words:

> I don't want my land back. Land belongs to God. I want to work and live. . . . Doesn't Israel understand how dangerous poverty is to everyone? Does Israel think it can throw us out? This situation makes everyone want to explode. I'm convinced that everyone that blew himself up has an unemployed brother.[251]

Recommendations designed to promote sustainable socioeconomic recovery – and there are many – must first seek a political, not an economic, solution. For the crux of the problem between Palestinians and Israelis is occupation and Israel's continued repressive control of Palestinian lands and resources. One Israeli political analyst put it this way: "[W]hat does it mean for economic sustainability if you have 4m-5m people who are in an impoverished and inequitable position?"[252] Israeli occupation remained structurally intact during the Oslo period. This is the primary reason the Oslo process failed and with it the expectation of meaningful political and economic reform. During this time, donors sought economic change in the absence of a political solution. Placing the economic cart before the political horse was destined to fail because the locus of control remained with the occupier and reflected the occupier's interests and objectives. Hence, donors could not respond to the developmental needs of the Palestinians but had to work within an Israeli-imposed framework that sought to preclude those needs often through the imposition of restrictive measures such as closure. As a result and despite certain positive achievements, donors were often placed in a position of having to mitigate the damaging effects of Israeli occupation policy rather than addressing the legitimate needs of the Palestinian economy.

In its very lengthy economic studies cited in this paper, the World Bank rarely if ever used the word "occupation" to describe the current crisis. Yet, the Bank describes the natural outcome of occupation when it argues that, if current conditions of tightened closure and confrontation continue, this will lead

> in all probability to a functional collapse of normal civil governance within a year [by September 2002], a reversion from any semblance of modern business activity into barter trade and subsistence farming, and a growing dependence on donor food aid, as under such conditions a monetized economy can scarcely function (thus dampening the impact of further conventional donor contributions). Unemployment could climb to about 40 percent by the end of 2002, poverty rates could reach 60 percent of the population, and GNI per capita could fall a further 30 percent, leaving GNI per capita at only half the pre-intifada level.[253]
>
> [Hence], if closure is tightened further, current PA, community and donor efforts will not suffice, and the economy will unravel. Soon little will remain of the private sector other than subsistence agriculture, petty trade and workshop manufacturing.[254]

Again, given that these predictions were made prior to the March-April 2002 and June 2002 invasions, economic declines will be (and in some cases already are) more dramatic than those predicted above.

It is both puzzling and tragic that donors including the World Bank are still pursuing the same kind of apolitical approach, seeking technical solutions that will mitigate economic damage rather than political solutions that will enable structural reform.[255] This approach did not work during the seven years of the peace process and will not work now, particularly given the rapid disintegration of the Palestinian economy. Although there are interim economic measures that can and should be pursued (lifting closure, dismantling the system of internal checkpoints, reopening the Israeli market to Palestinian labor, transferring Israeli-held revenues to the PA), long-term Palestinian economic growth, let alone development, cannot occur or be sustained without a complete end to Israeli occupation. The destruction of the Palestinian economy is not a technical problem but a political one, and it requires a political solution. Anything short of this will fail.

[1] Interview with Shimon Peres, the *Charlie Rose* television show, February 2002. A related argument can be found in Daniel Pipes, "God and Mammon: Does Poverty Cause Militant Islam?" *The National Interest*, Winter 2001/02, pp. 14-21.

[2] Amos Harel, "Rightist Ex-generals Propose Massive Invasion of Territories," *Ha'aretz*, January 31, 2002.

[3] Edward W. Said, "Afterword: The Consequences of 1948," Eugene L. Rogan and Avi Shlaim, eds., *The War for Palestine: Rewriting the History of 1948* (Cambridge, UK: Cambridge University Press, 2001), p. 215.

[4] Lamis Andoni, "Deeds Speak Louder than Words," *The Washington Quarterly*, Spring 2002, p. 94.

[5] The World Bank, *Fifteen Months – Intifada, Closures and Palestinian Economic Crisis: An Assessment*, Final Report, March 18, 2002.

[6] Ibid., p. v.

[7] See U.N. Conference on Trade and Development (UNCTAD), *Report on UNCTAD's Assistance to the Palestinian People* (Geneva: UNCTAD, August 21, 2001).

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