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CENTRAL INTELLIGENCE AGENCY
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Economic Interdependence of the West Bank and Gaza Strip with Israel and Jordan

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ECONOMIC INTERDEPENDENCE OF THE WEST BANK AND GAZA STRIP WITH ISRAEL AND JORDAN

Conclusions

The economies of the Israeli-occupied West Bank and Gaza Strip have grown rapidly under Tel Aviv's tutelage since the 1967 war reduced the economic links with Jordan and cut those with Egypt. This growth is attributable mainly to increased trade with Israel and employment of commuting Arabs there. Both the Israeli and the Palestinian populations have benefited from the relationship. Growing economic ties, however, have made the territories increasingly dependent on Israel for their continued economic growth.

The future economic development of the area will depend mainly on political conditions. Economic growth would continue under Israeli occupation in the same general direction as in the past, even if some foreign funding were obtained. Although the Israelis might be willing to allow greater trade with third countries, the West Bank and the Gaza Strip would become increasingly integrated economically with Israel. Under these political conditions the United States probably would be the only major outside source of funds, and the Arabs would regard US investment in the territories as another indication of a pro-Israeli position.

If an autonomous Palestinian state consisting of the West Bank and Gaza were unable to retain close economic links with Israel, incomes could still be maintained, or even raised, but only with the help of subsidies from the oil rich Arab states. Some economic development would occur, perhaps aided by the return of some well-trained emigre Palestinians, although it would be neither efficient nor self-sustaining. US funds, however, would not be needed.

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Note: Comments and queries regarding this publication are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted] 25X1

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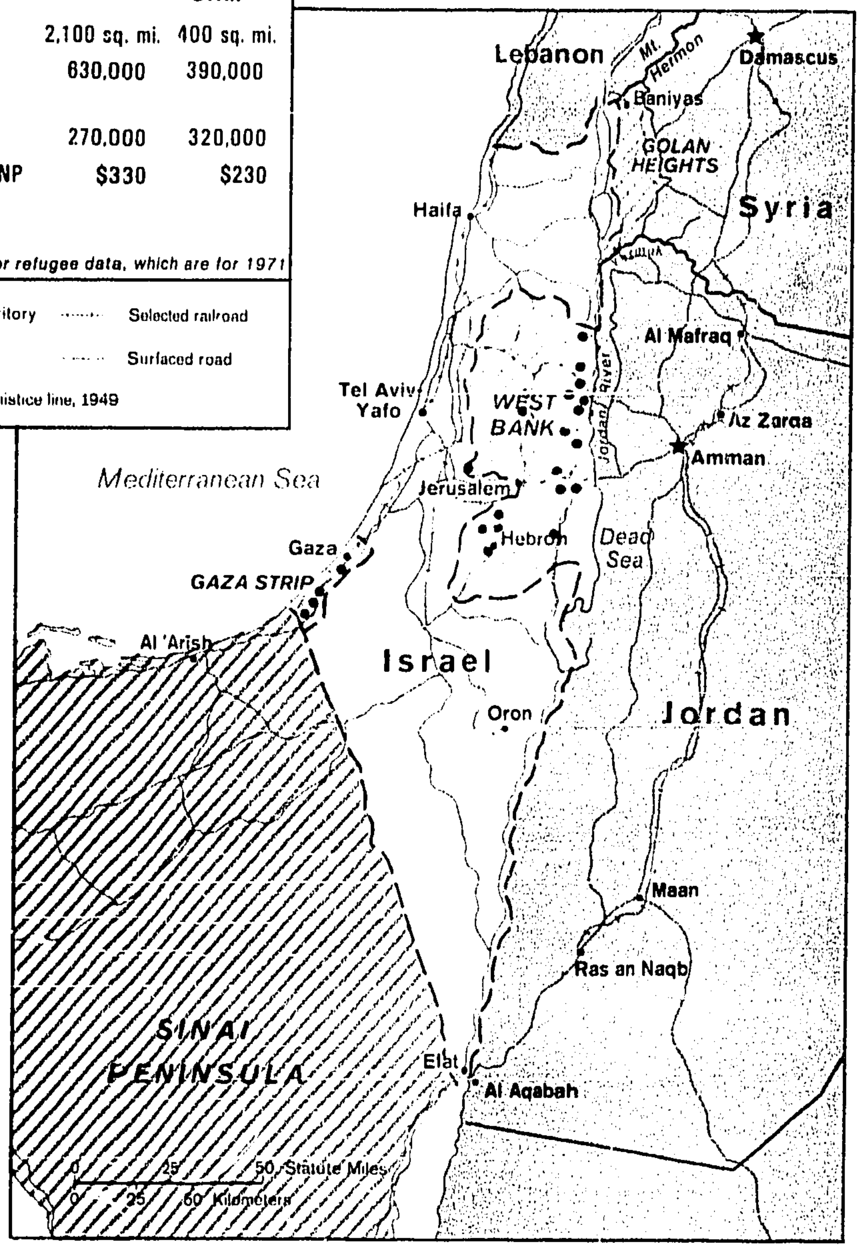
WEST BANK AND GAZA STRIP
Israeli Settlements, July 1973

	WEST BANK	GAZA STRIP
Land area	2,100 sq. mi.	400 sq. mi.
Population	630,000	390,000
Of which:		
Refugees	270,000	320,000
Estimated per capita GNP (in 1972 $)	$330	$230

Data are for 1972, except for refugee data, which are for 1971

Israeli-occupied territory · Selected railroad · Israeli settlement · Surfaced road · Armistice line, 1949



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The best situation for the territories would result from a political solution that allowed access both to Arab money and to Israeli markets and know-how. This would enable the Palestinians to finance infrastructure projects and also to benefit from the organizational skills required to produce labor-intensive goods for export and to market them abroad. US aid could then be limited to seed money and encouragement.

Discussion

Background

1. This publication appraises the prospects for reorienting the Israeli-occupied West Bank and Gaza Strip economies away from Israel.

2. The Jordanian West Bank and East Jersualem and the Egyptian Gaza Strip contain about 10% of the land area occupied by Israel in the Six-Day War and more than a million Palestinians, about 90% of the population in the occupied territories.*

3. On the West Bank before the 1967 war, agriculture contributed nearly 40% of gross national product (GNP) and employed 60% of the labor force, although the terrain is rugged and the climate semi-arid. Except for grain, the West Bank is generally self-sufficient in food. The area has no significant mineral resources, and industry consists almost entirely of handicrafts and of small plants processing simple consumer goods. The service sector, which made up nearly 50% of the West Bank GNP, catered to tourists, civil administrators, and soldiers.

4. Economic ties between the East and West Banks were never developed strongly. More than half of West Bank exports, mostly of vegetables, melons,

* East Jerusalem is not included in the following discussion because its economic development needs, administration, treatment by Israel, and probable disposition are distinct from those of the West Bank and the Gaza Strip.

and fruit, went through the East Bank to third countries. More than 80% of its imports of grains, fuel, cement, and manufactures came from Europe and the United States. Jordan's principal economic interests in the West Bank were earnings from the tourist sector, centered on Jerusalem, and markets for domestic products.

5. The Gaza Strip, under Egyptian military government, had little agriculture or industry. Most of the residents were refugees,* and the United Nations Relief and Works Agency (UNRWA) and the expenditures of the Egyptian administrators were the major sources of money income.

Economic Developments Under the Israeli Occupation**

General Trends

6. Under Israeli tutelage the West Bank and the Gaza Strip have achieved steady and at times rapid economic progress, despite dislocations from the change to Israeli rule. Production has gone

* Refugees were those residents who fled or were driven from the areas of Palestine that became Israel.

** An assessment of economic progress under the Israeli occupation of the West Bank is imprecise because of problems in reconciling recent data with base year data. Official Jordanian statistics cover the period through 1966. The information, however, is limited and generally does not separate the West Bank from the remainder of the Kingdom of Jordan, including East Jerusalem. Israeli statistics on the territories start in 1968, an unrepresentative year because output was still depressed as the result of the war. Moreover, because the West Bank area is small and output concentrated, overall economic data can be greatly influenced by unusual circumstances. In agriculture, yearly fluctuations in the olive crop impact greatly on overall agricultural output. Finally, we do not know the extent to which the data are influenced by the incorporation of East Jerusalem into the Israeli statistical base in contrast to its prewar treatment as part of the West Bank.

up and, because of the massive flight of people in 1967, the area's population has declined by about 25%. Since many had been unemployed or underemployed, the exodus helped raise per capita incomes. Preliminary estimates for 1972 place real income on the West Bank at US $330 per capita, more than twice the prewar level. Unemployment has been about 2% since 1971, compared with something over 7% in the prewar years. The level of participation in the work force also has increased. Industry on the West Bank has grown as Israeli firms, faced with labor shortages at home, have subcontracted their work to West Bank firms. Farm production has been increased by Israeli technical assistance and the coming into production of new citrus groves and vineyards. Trade (with Jordan, Israel, and the rest of the world) more than doubled between 1968 and 1971 and continued upward in 1972.

7. Access to the more buoyant, larger, and more advanced Israeli economy was the principal stimulant to postwar economic growth. An increasingly large number of Palestinians took work in Israel where rapid economic growth pushed demand for labor ahead of supply. At the beginning of 1973, more than 35,000 residents from the West Bank and 25,000 from the Gaza Strip, about a third of the labor force of each territory, were working in Israel. Earnings from employment in Israel totaled more than $50 million in 1972.

Agriculture

8. Despite a lack of water and limited arable land, agriculture under the Israelis has become fairly sophisticated and highly responsive to market demands. On the West Bank, wheat, barley, and other field crops occupy 53% of the arable land and contribute 17% of farm incomes from all crops. Citrus, olives, grapes, and other fruit are grown on 41% of arable land and make up 58% of crop income. The remaining 6% of arable land is allocated to vegetables, potatoes, and melons, contributing 25% of the value of crops. As in prewar years, most grain needs have to be imported, but there is an export surplus of most other crops. Favorable weather boosted output in 1972, with particularly good yields for olives and grapes. Total value of West Bank crops in 1972 of $62 million was 36% above the 1971 level (twice the 1968 level).

9. In the Gaza Strip, the range of crops is similar to that in the West Bank, although citrus, olives, and other fruit make up more than 80% of output, by value. Vegetables, potatoes, and melons account for 16% of the crop value and grains a mere 2%. Output levels in 1972 also were up because of the weather.

Industry

10. Industry on the West Bank produces a narrow range of consumer goods such as clothing, furniture, processed foods, soap, cigarettes, and matches. Raw materials for industry consist mainly of building materials from quarrying, salt, and agricultural products -- tobacco, olives, etc. The principal stimulus to industry has come from subcontracting by Israeli firms for finished clothing, leather products, plumbing supplies, and simple manufactures. Since 1967, more than 50 new plants have been established on the West Bank and an equal number of existing plants have been expanded. Industrial facilities for the most part are small, however, employing less than 100 workers. The value of industrial output in 1972 was up 11% over 1971 (double that of 1968), and employment in industry reached 8,000, about 7% of the West Bank labor force.

11. In the Gaza Strip, about 150 small workshops have been established or expanded since the war. Many of these shops were set up specifically to subcontract work for Israeli firms, making the same range of goods that are produced in the West Bank. Industry employs 5,000 Gaza workers, about 8% of the total labor force.

The Foreign Sector

12. The balance of payments of the West Bank has been consistently in surplus, a large trade deficit being more than offset by earnings from employment in Israel and assistance from the Israeli Government and UNRWA (see the table). The trade deficit has dropped since the prewar years primarily through a twofold increase in export earnings. Traditional exports to Jordan of citrus fruit, vegetables, potatoes, olive oil, and soap increased substantially while new trade with Israel was opened up. West Bank exports to Israel included grapes, some fresh

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West Bank: Basic Balance of Payments[1]

Million US $

	1966[2]			1971[3]			
	Total	East Bank	Rest of World	Total	Israel	East Bank	Rest of World
Merchandise trade	-56	-6	-50	-32	-36	14	-11
Exports	12	6	6	36	17	17	1
Imports	-68	-12	-56	-68	-53	-3	-12
Tourism and other services	28	3	25	-16	-16	...	...
Labor earnings	20	...	20	38	38	...	...
Unilateral transfers	34	18	16	28	12	...	16
Government	17	17	...	12	12	...	...
UNRWA and other agencies	17	1	16	16	...	...	16
Apparent surplus	26	15	11	18	-2	14	5

1. Because of rounding, components may not add to the totals shown.
2. Including East Jerusalem.
3. Excluding East Jerusalem.

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produce, nuts, tobacco, textiles, processed foods, construction materials, and plumbing supplies. As in the prewar trade with the East Bank, a substantial portion of exports to both the East Bank and Israel are reexported to third countries, although the amounts cannot be determined.

13. The value of West Bank imports has increased since prewar days, but the extent is unknown because imports by East Jerusalem cannot be broken out of prewar data. Current imports for the West Bank alone are at the same level as prewar imports for both the West Bank and East Jerusalem. Israel has replaced traditional suppliers as the West Bank's principal source of imports, an exception being grain, which continues to come primarily through UNRWA from the United States and Western Europe. West Bank imports from Israel consist of fuel, cement, raw cotton, chemical fertilizer, machinery and equipment, transport vehicles, pharmaceuticals, and other finished consumer goods. Imports from Jordan, which consist of processed oils, cereals, and pulses, were valued at $5 million in 1972, 10% of Jordan's exports.

14. The West Bank runs a deficit on services account, excluding labor earnings. Prewar data include East Jerusalem, with its large tourist earnings, and are not comparable with postwar data, which exclude that city. Relatively little of the tourist money has gone to West Bank residents either before or after the war because the area has few Western quality hotels and tours are arranged from outside.

15. Earnings of West Bank residents working in Israel have grown rapidly since 1968, reaching $38 million in 1971. Israeli Government transfers to the West Bank for direct administration are about a third less than what the Jordanian Government was spending on the West Bank in prewar years.* The change reflects the reduction in the refugee population as well as economic improvement on the West Bank. Contributions from UNRWA and other welfare organizations, however, have changed little even though the refugee population has dropped.

* The $12 million transfer figure is exclusive of expenditures by Israeli defense forces and border police and Israeli Government loans -- totaling a few million dollars a year.

16. The balance-of-payments surplus of the Gaza Strip has increased since the prewar period, currently reaching about $15 million annually. Shipments of citrus -- the principal export commodity -- to Israel for reexport to Western Europe have increased since 1968. The West Bank also has become an important secondary outlet for surplus Gaza citrus. The Gaza Strip imports twice as much as it exports, imports coming almost exclusively from Israel. The trade deficit in 1971 of $20 million was offset by earnings of Arab labor in Israel ($10 million), Israeli Government transfers ($15 million), and UNRWA aid ($11 million).

Israeli and Jordanian Policies

17. Israel's economic policy in the West Bank and the Gaza Strip has been to use Arab resources, labor, and organizations while remaining inconspicuous. This low profile encouraged a rapid return to normal conditions. The Israelis have sought to save money and to avoid the popular discontent that would have accompanied the installation of a large occupation force of civil and military administrators. Currently, 12,500 Arabs and only some 500 Israelis are employed in the West Bank and Gaza Strip administrative services. Israel's annual expenses for civil administration during 1968-71 ran at a level slightly more than $10 million in the West Bank and $15 million in the Gaza Strip.*

18. The West Bank and the Gaza Strip were brought within Israel's tariff borders. A punitive 200% tariff was imposed on all non-Israeli goods coming into the territories that were not for reexport. To encourage agriculture, which had been severely dislocated by the border closures, West Bank exporters

* Civilian and military spending for all the territories has run about $110 million a year since the war. A minor share of this total has been spent on the West Bank, where the security situation has been fairly stable. The Gaza Strip with its greater civil unrest has received more attention than the West Bank. For the occupied territories as a whole, the major share of Israeli funds has been invested in military posts and roads in the Golan Heights and Sinai.

were given a 30% premium for converting Jordanian dinars into Israeli pounds, which have been consistently overvalued. Shortly after the occupation began, Israeli officials drew up a list of selected farm goods that, because they were directly competitive with Israeli farm produce, were prohibited from being marketed in Israel. Israel monitored border crossings to insure that these goods did not cross the "green line." New outlets for West Bank produce in Western Europe were explored. Tel Aviv sponsored public works programs to provide roads, schools, and water resources and to help alleviate the immediate problems of unemployment. Economic investment, however, has been small, consisting of loans to local authorities of several million dollars annually. The government policy limiting purchases of land by Israelis in the territories has been a factor keeping down investment.

19. The situation is changing, however. As terrorist activities diminished, Israeli authorities have relaxed restrictions on travel within the West Bank, to Israel, and within Israel proper, facilitating trade, the movement of workers, and tourism. Tel Aviv recently announced approval of regular bus service between the occupied territories and Israel to carry Arab workers to and from their jobs in Israel; the Bank of Israel has liberalized credit in the West Bank, offering guarantees for short-term loans up to $2,400; and, as noted earlier, investment incentives are being given to businessmen to invest in the territories. Israeli military occupation authorities have established 19 settlements in the West Bank and four in the Gaza Strip, which house several thousand Israelis. Initially designed to satisfy security requirements, the settlements are growing in economic importance because of their agricultural and light industrial production.

20. The Jordanian Government has done nothing to stimulate economic intercourse with the West Bank, largely in response to the Israeli stand on East Jerusalem. To stem the drain of dinars and to protect Jordanian farmers from Israeli-subsidized West Bank produce, Amman levied a 12% duty on all West Bank goods entering Jordan; this was cut back in February 1973 to 10% on goods consumed in Jordan and 5% on goods intended for export to other Arab states.

The duty was rescinded on 1 August 1973 on political grounds -- the Jordanians were becoming increasingly sensitive to a loss of contact with the West Bank Palestinians. Stricter travel restrictions were also initiated to reduce spending by Jordanians visiting the West Bank.

21. The Jordanian Government's $500 million Three-Year Development Plan (1973-75) pays lip service to the notion of planning for the West Bank, but allocations in the plan go exclusively to the East Bank. Amman has not yet given approval to an agreement negotiated a year ago by West Bank Arabs and the Israelis for reopening Jordanian banks. The future of the West Bank University is jeopardized by lack of Jordanian backing, without which the project would lose its credibility as an Arab institution. Jordan stopped subsidizing civil service salaries on the West Bank because of the costs to the Jordanian Government.

Potential for Development

22. Economic progress in the West Bank and the Gaza Strip during the Israeli occupation has been due largely to an upsurge in Israeli-associated economic activities. There is a strong economic basis for these links with Israel -- including especially the exchange of low-cost labor and low-cost agricultural products for Israeli skills, technology, and capital. The dependence of the territories' economy on Israel, however, makes it vulnerable to adverse developments in that country. For example, a major slowdown in the Israeli economy would have a seriously adverse effect on the economies of the territories since their workers would be the first to be laid off. Moreover, the relationship with Israel in some respects is disadvantageous to the territories -- notably, the punitive duty on their imports from third countries forces them to buy high-cost Israeli goods and worsens their terms of trade. A program for economic assistance can be visualized that would increase the economic welfare of the territories, while reducing their relative dependence on Israel. A major step in this direction would be efforts to educate and involve the Palestinians directly in

the marketing, production, and governing processes from which they have been long excluded. Development would continue to depend heavily on Israeli links, but it could also draw on Palestinian resources and third-country assistance.

Agriculture

23. Despite a lack of water and limited arable land, agriculture offers prospects for further development. Cash crops, such as vegetables, melons, fruit, and olives, yield between $240 and $560 per acre, compared with $21 per acre for wheat, barley, and other grains. A number of projects could be tailored to increase output of these specialized crops for export. Expanded extension services and educational programs should continue to help improve yields. Low-cost credit programs could be set up to encourage more widespread use of farm machinery, fertilizer, and other inputs. Improvements in roads and storage facilities would facilitate the movement of goods from farm to market. Tel Aviv has talked from time to time of including West Bank production in its own sectoral development plans. Part of this planning includes the development of facilities for processing agricultural commodities for export.

24. Increased amounts of West Bank produce can still find markets in the East Bank, where production of fruits and vegetables is less highly developed. In the longer term, however, Jordanian vegetables and citrus from the Ghor Valley would be competing for markets. The European market is the largest potential outlet for West Bank produce. Access to this market would be more profitable through Israeli transport and marketing channels than through those of the East Bank.

Industry

25. The West Bank and Gaza Strip have little going for them to support industrial development other than a large, rather unskilled labor force. Raw materials for industry, besides agricultural produce, consist mainly of rock, sand, and salt.

The labor force is trainable and, for the time being, is low cost, compared with those of Israel and Western Europe. However, management skills are in short supply.

26. Small-scale industry and handicrafts in the territories can be further developed for the rising local consumer market. But, because this market is so small, industry must, by and large, be export oriented. To develop export industries will require some capital and technology but mainly management skills and marketing contacts. The most promising export industries appear to be food processing and textiles, although contract work in electronic components and other more sophisticated industries also are possible. Whether producing for the domestic or export market, industry would depend on imported raw materials and semifinished goods -- a dependence that would increase apace with industrialization. Except for infrastructure projects, such as electric power stations, most of the industry would require little capital and would be labor intensive.

27. With its concentrated population, the Gaza Strip has the potential to become a center for labor-intensive light industry, oriented for West European and Israeli markets. Development of Arab facilities might also lead to the establishment of a duty-free manufacturing zone and ancillary activities.

Services

28. The services sector offers the most potential for development in the short run. The training of a local administrative structure capable of governing in the territories will be critical in setting the correct climate for investment and longer term economic development. Local Arab administrators now provide only day-to-day basic services, such as sanitation, road maintenance, and in some instances electric utilities. Other activities, such as banking and credit, regional planning, and security, have been the exclusive domain of the Israelis.

29. The establishment of the West Bank University, proposed by Palestinians, would promote the education of Palestinian officials in all fields and help supply the expertise for carrying out the development program. Local governments could promote vocational training to upgrade the labor force. The Israeli Ministry of Labor already offers vocational training to West Bankers, some 12,000 having benefited from such training through 1972.

30. Gains in agriculture and reductions in unemployment have reduced the need for direct food assistance in refugee camps. The most pressing needs now are for vocational training, housing, and measures to further assimilate the refugees into the local economy. An assistance program is needed similar to that recently announced in Amman for the refugees who migrated from the West Bank immediately after the 1967 war. Local administration of remaining refugee programs would increase the contact with the refugees, increase knowledge of the local officials concerning needs of the refugees, and improve the accountability of refugees and make them more responsive to measures of self-help.

Sources of Inputs for Development

31. Future economic development in the West Bank and Gaza will require capital, skills, and organization. Obtaining the needed capital should be no problem, given appropriate political conditions. Annual needs are of the order of only $50 million to $100 million, and there are many potential sources, notably the oil-rich Arab states. Most of the capital would be for infrastructure projects -- irrigation, roads, electric power -- as little economic basis exists for large-scale, capital-intensive industry.

32. Needs for skilled personnel too are on such a small scale that they could easily be met -- from Israel, emigre Palestinians, or Western Europe. The greatest need, however, and the most difficult to fill, is the need for organization -- particularly the ability to organize the entire process from production to marketing abroad. Producing fruit, vegetables, and labor-intensive industrial goods

such as clothing and electronic components is not technically difficult. But to sell them abroad in any quantity requires reliability in supply, good quality controls, efficient transportation, and first-rate marketing contacts. No one could provide these services nearly as well as the Israelis. Other Arab countries are notably weak in this respect, although emigre Palestinians would be real assets to the area, and West Europeans, although obviously capable, might not be very interested in such a small-scale enterprise.

33. In any event, political conditions will be critical to the area's economic development. At one extreme the area could continue to develop under Israeli political and military control. Under these conditions, exports of agricultural products, labor-intensive industrial goods, and labor would increase. If security conditions remained favorable, moreover, Israeli investment in the West Bank and Gaza would probably grow substantially. It would probably be difficult, however, to lure substantial foreign private investment to the territories so long as they were under Israeli occupation. Therefore, with capital in short supply, construction of large-scale infrastructure in all likelihood would have to be financed by the US Government. This approach to development would probably be successful in raising incomes in the territory. But this route would not bring the territories any closer to political autonomy, and US assistance in this political framework would be taken by the Arab states as another indication of a pro-Israeli position.

34. If the territories were freed from Israeli occupation and their economic links with Israel were cut or greatly curtailed, they would become largely dependent economically on foreign subsidies. Undoubtedly, however, large subsidies would be available, especially if the territories were organized into an autonomous Palestinian state, rather than returned to Jordan. In the latter case, they would have to compete with the East Bank for funds. The oil-rich Arab states are now

very rich indeed and are increasingly well organized and disposed to provide foreign assistance. In this situation there could be no need for any US money. But, while their incomes could be maintained, or even raised, the areas would remain economically backward, and unemployment once again would reach large proportions. Arab money could pay for large infrastructure projects and could buy the skills needed to operate them. A large potential source of skilled labor is the Palestinian expatriate population, which is by far the most skilled and best educated group in the Arab world. Markets and sophisticated organizational skills would be hard to find, however, and there would probably be little progress toward self-sustained economic development.

35. The ideal solution would be some sort of autonomous position for the West Bank and Gaza, which would be acceptable to the Arab states and also allow retention of close economic ties with Israel. In such a case the territories could at the same time obtain a large inflow of capital and rapidly develop labor-intensive export industries. US seed money and encouragement would be useful, but large-scale US financing would not be needed.