The business end of Palestinian despair

Neri Zilber

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With the escalation in violence between Israelis and Palestinians now in its sixth month, the unrest that some have called a Third Intifada has in fact decreased in scale and relative lethality since its peak last fall. Yet Palestinian attacks continue on what seems like a daily basis, creating popular pressure on the Netanyahu government and Israeli security forces to find a solution – which has so far proven elusive. The ongoing wave of violence is unorganized, ad hoc and viral, with young Palestinians, often well under the age of twenty, spontaneously taking up any weapon near to hand – usually knives – and heading out to inflict harm.

Israeli intelligence studies indicate that there is no one profile to these attackers, no one motivating cause – it is an amalgam of rich and poor, religious and secular, male and female, usually unaffiliated with any of the Palestinian political factions. The religious or political justifications heard in the early months of the attacks (like Jerusalem's Al Aqsa mosque) have, according to Israeli military interrogations, given way to more personal motivations: revenge for a friend's death, a failing marriage, squabbles within a family. "Suicide via soldier" it is now being called, a senseless way for Palestinian teenagers to make amends and turn into national heroes. "The 'lone terrorist' in this case," one senior Israeli army officer responsible for the West Bank recently told me, "is really lonely."

Yet the youth-dominated nature of the violence shouldn't come as a surprise, if only by sheer force of numerical weight. The Palestinian Territories are in the midst of a youth bulge that even in Middle Eastern terms is severe. Approximately 3.2 million of the estimated 4.6 million Palestinians in the West Bank and Gaza Strip — 70 percent of the population — are under the age of 30. Under the age of 15, the demographic makeup stands at an eye-watering 40 percent. According to a 2010 U.N. report, the Palestinian Territories have the second-youngest population in the entire Middle East and North Africa. By 2040, the report states, the Palestinian Territories will experience the largest positive percent change in youth population regionally save for Iraq and Yemen (surpassing even revolutionary states like Syria, Egypt and Libya).

U.S. Secretary of State John Kerry gave voice to this clear and growing danger in a speech in December at the Brookings Institution's Saban Forum. "Right now, you've got a lot of young people growing up in the West Bank who don't have jobs, who…don't see a future," he said. "And the question is: What choices are they going to make?"

Such feelings of economic despair are a recurring theme in most analyses of the ongoing unrest – not as the prime cause but as both a contributing factor and, more importantly perhaps, a moderating one. Lt. Gen. Gadi Eisenkot, chief of staff of the Israel Defense Forces (IDF), stated recently that "there is an ongoing effort…to separate between the [Palestinian] population and the terror, to allow livelihoods and hope." None other than Israeli Prime Minister Benjamin Netanyahu noted at the Davos World Economic Forum in January that Israel "has been careful to enable the [Palestinian] economy to continue even as we've had this wave of stabbings because we don't want the overall population to fall into that trap."

What is needed, you hear often from Israeli security professionals, is to effect a "change in atmosphere" inside Palestinian society. Such a change, however, is difficult given the lack of a political horizon but even more immediate, the fact that young Palestinians are entering an economy that has effectively stalled.

Where will the jobs come from?

The numbers make for grim reading. Youth unemployment overall for Palestinians between the ages of 15 and 24 hovers around 40 percent; according to the World Bank, in the Gaza Strip alone youth unemployment stands at 60 percent, the highest rate regionally. In the West Bank last year a grand total of 600 new jobs were created, per the latest report by the Portland Trust, an economics nonprofit. Every year over 35,000 Palestinians graduate from university, many of whom cannot find work. Even in the (relatively) more affluent West Bank, economic growth has been unable to keep pace with population growth, leading to a decline in real per capita GDP. Palestinians, as a World Bank report highlighted last year, have been getting poorer on average for three years in a row.

To be sure, over the past decade the West Bank-based Palestinian Authority (PA) did experience years of healthy economic growth, averaging nearly 9 percent annually between 2006 and 2011. Yet much of this growth was due to increased levels of donor aid, an expansion of the Palestinian public sector, as well as reforms undertaken by the PA government (such as improved tax collection and financial transparency).

Today, the situation is markedly different. International aid has decreased by forty percent since 2013, due both to “donor fatigue” as well as outsized commitments for more troubled hotspots like Syria. As a result, the PA, the largest single employer, has effectively stopped hiring, in an effort to curtail what was an already bloated and expensive government bureaucracy.

According to one senior Palestinian economic official, the Palestinian market requires the creation of 600,000 jobs over the next decade simply to keep the rate of employment steady. So where are the jobs supposed to come from?

Illustratively, the slight decrease in unemployment rates in the West Bank in the first half of last year are attributed to Israel significantly increasing the number of work permits issued to Palestinians – which usually require the applicant to be older than 22-years old and married due to security concerns (lowered late last year from a 24-year-old cutoff). Already, some 120,000 Palestinians are dependent on work in either Israel proper or West Bank settlements. It’s not a surprise that the IDF is now pushing to increase the legal quota by 30,000 more. There are simply not enough jobs to be had in the PA.

Israel-PA economic ties need an urgent upgrade

In an ideal world, Palestinians would not be dependent on foreign aid, public sector benefaction, or Israeli largess. Rather, private sector-led growth is usually held up as the answer to the Palestinian economic impasse. While robust and, for certain well-connected players, lucrative, the Palestinian private sector at this point is still in its early stages. The obstacles to anything beyond “social investment” on the part of major international businesses are immense – due primarily, but not exclusively, to the political risk inherent in investing in an unstable conflict zone.

Nevertheless, detailed plans do exist for improving the investment climate and unlocking Palestinian economic potential. But as Secretary Kerry stated laconically in his Brookings speech, “Some of [these plans] were fully implemented. Many were not fully implemented.”

Improvements in access and movement for people and goods in the West Bank are constantly mooted. Perhaps not coincidentally, amidst the ongoing violence, the IDF did announce a deal allowing 3G mobile access in the PA, and the Allenby crossing into Jordan is reportedly almost set to begin exporting greater volumes of Palestinian goods directly via containers.

More importantly, updating the Paris Protocol, an arrangement negotiated in the 1990s governing economic relations between Israel and the PA, would be crucial, Palestinian and international officials maintain, in increasing PA revenues. Yet this too has been long in the works and short on implementation. Indeed, a former PA finance minister once told me that the Palestinians had successfully renegotiated the Paris Protocol with their Israeli counterpart – in 2012. The new terms were never moved forward.

The current Israeli finance minister, Moshe Kahlon, has met repeatedly with two of his Palestinian ministerial opposites, Shukri Bishara and Hussein al-Sheikh, to discuss further economic steps. Kahlon hailed one such meeting earlier this year, likely prematurely, as "historic"; a recent $500 million transfer by Israel to the Palestinians was simply the release of older tax revenue owed to the PA. To be fair, Kahlon seems genuine in his desire to push forward a larger economic package of incentives, and what has so far been floated in the press – greater cross-border Palestinian involvement in the construction, medical and hi-tech fields – would constitute a good start.

The price of the diplomatic freeze

The question remains whether there is political will on the part of the Israeli government to accede to more far-reaching steps as violence continues, and by Palestinian leaders to accept them short of an overall political agreement.

Given the scale of the challenge, though, both sides may not have a choice. Major structural changes in the Palestinian economy are likely essential, beyond the modest ones now being floated by Kahlon. In this regard the major prize remains the 60 percent of the West Bank ("Area C") that is still under full Israeli civil and military control. Allowing Palestinian economic activity in Area C would, according to several international studies, increase Palestinian GDP by at least a third. In practical terms, such economic activities could include freeing land for Palestinian agricultural work, new industrial zones and, crucially for a young population, new residential construction projects (which would go a long way in alleviating the high housing costs in the cramped Palestinian cities).

For Israel, ceding additional West Bank land to the PA, if only for economic development, would be an extremely contentious matter. According to press reports, however, it was a decidedly diplomatic "quid" – the recognition by the international community of the large West Bank settlement blocs – that Netanyahu demanded for this Area C "quo" when meeting with Kerry last November.

The lack of a genuine political process seeps down into everything. As one veteran international official based in Jerusalem once told me, it's exactly during a diplomatic freeze when "the value of every chip on the table, on every issue, is inflated, no matter how large or small." It's a recipe for zero-sum thinking, and inaction.

And yet as IDF chief of staff Eisenkot put it, "There is a clear Israeli interest, beyond the issue of values, to develop [the Palestinian economy]." Israel's security professionals have been emphasizing this point for months, since the wave of violence began – not as a reward for good or bad Palestinian behavior, but as a necessity for both parties.

PA officials for their part have to work, clearly, to end the incitement and dampen this wave of violence – there can be no economic development, let alone hope, without stability and security. But the PA has to also do its part in creating an enabling environment for private investment and international development projects, namely by upholding financial transparency, the rule of law, and the bottom-up institution-building program that has been left to atrophy. With nearly half the PA's annual budget still being poured into a Hamas-ruled (and blockaded) Gaza Strip, at some point too a policy proposal will be required to bridge the divide between the two territorial halves of Palestine.

"My position is: Let one thousand economies bloom," Netanyahu said in an appearance at the Center for American Progress in Washington last November, referring to the Palestinians. "Not in lieu of a political settlement, but it helps. It helps that people in the West Bank and…Gaza see that they're not living at the edge of a precipice."

In demographic and economic terms, the Palestinians are already perched on the edge of the precipice. It's at least part of the reason for the violence of recent months, which itself is probably a foreshadowing of a bigger future eruption. Major political decisions, even if ultimately short of a political settlement, are likely required if the youth of Palestine don't take both Israel and the PA over the edge along with them.

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