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The Economic Impact of Israel's Wars

Economic Warfare and Israel's Goals for the West Bank

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The Economic Studies Unit

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Introduction

A full year of the most brutal Israeli aggression in the history of the conflict has starkly highlighted the degree of dependency the Oslo Accords imposed on the Palestinian economy. The 1993 agreement – officially known as the Declaration of Principles on Interim Self-Government Arrangements – and its associated protocols positioned Israel as the life support machine for the economy of the West Bank and Gaza Strip.

The Oslo system has not only prevented these territories from developing industries and services in order to meet the needs of their populations and deploy their human resources, but has also kept them hostage to the mechanisms, institutions, and arrangements created under the Accords. For example, an annex on financial transfers stipulates that all such operations, whether to pay for imports, receive payment for exports, or even to pay the Palestinian Authority the funds that Israel collects on its behalf, must pass through the Israeli banking system and be settled in Israeli shekels. Thus, the Oslo agreements have become not only a tool for threats and intimidation, but a weapon to oppress West Bank residents, laying the groundwork for more deadly aggression and a new wave of forced displacement, towards which the current, extremist Israeli government appears to be working in a deliberate and systematic manner.

1. Escalating Military Aggression and Economic Warfare

The West Bank has not been insulated from Israel's savage aggression against the Gaza Strip, nor from its deep, long-lasting repercussions. Since the "Al-Aqsa Flood" attack of 7 October 2023, hundreds of Palestinians have been killed in the West Bank, more than a quarter of them children, women, and the elderly; a further 7,000 have been wounded. While this grim toll and the nature of the violence in the West Bank and its repercussions pale in comparison with the suffering in Gaza, the two differ in scope and in Israel's objectives.

The clearest link between the situation in the West Bank and that facing Gaza is the suffocation of the economy, which has resulted in harsh conditions and bleak prospects. This has pushed residents to make difficult choices to confront the injustice and repression they face, while increasing their determination to demand their rights and wrest their lands from the occupier's grasp.

From the beginning of its war against the Gaza Strip, which quickly extended to ramped up aggression in the West Bank, the Israeli government rolled out new measures and extended its use of existing arbitrary practices. These actions served to tighten the noose around the Palestinians and further weaken their crisis-hit economy, which is organically linked to the whims of Israeli occupation authorities, in terms of finance, trade, services, and logistics. For example, more than two-thirds of the PA's public revenues come from taxes, which are collected by the Israeli authorities.¹

1 IMF, "West Bank and Gaza: Report to the Ad Hoc Liaison Committee," 8/9/2023, accessed on 17/11/2024, at: <https://acr.ps/1L9zPVh>.



Furthermore, the West Bank is highly dependent on trade with Israel, which accounts for about 77 per cent of the territory's total commodities exports and nearly 52 per cent of its total imports.² The Palestinian labour market is also subject to the will of Israel, which used to employ more than a fifth of the West Bank's labour force besides being the source of most of its fuel and energy.³

2. West Bank Workers and Palestinian Labourers in Israel

Following the events of 7 October, the Israeli authorities suspended the permits that had allowed some 160,000 Palestinians to work in its West Bank settlements and in various productive and service sectors, imposing severe restrictions on the entry of Palestinians into both the settlements and Israeli territory. This has also prevented some 50,000 Palestinian workers, who don't hold permits, from reaching their workplaces.

Naturally, these restrictions cost many Palestinian workers their jobs and incomes, which amount to an estimated 50 per cent of the total wages of the Palestinian labour force, as the Palestinian workers on Israeli projects earn double or even triple what they can earn in the West Bank. The new restrictions have also impacted the Palestinian workers inside the West Bank, as the demand for the services they provide has markedly declined. The loss of more than \$100 million per week previously earned by Palestinians working for Israeli firms and injected into the Palestinian economy has significantly reduced overall economic demand in the West Bank.

These restrictions have had severe repercussions for some sectors of the Israeli economy, especially the construction sector, which soon forced Israel to allow about 10,000 West Bank workers to return to work in the settlements.⁴ Despite this, the restrictions to continue to have severe implications for the West Bank's economy.

Israel's restrictions and retaliatory measures have delivered a savage blow to the economy of the West Bank and Gaza Strip, one of the most dependent economies on personal remittances in the world. The wages of West Bank workers in Israel and the settlements account for the bulk of this sum, which explains why the total received in remittances declined by 29.6 per cent in 2023 compared to the previous year, owing to their sharp decline in the final quarter of the year. The sum is expected to decline further in 2024.

Moreover, Israeli employers and authorities continue to ignore the issue of wages owed to Palestinian workers for work prior to 7 October, failing to take any measures to collect and transfer them. This constitutes a clear violation of the International Labour Organization's Protection of Wages Convention, which Israel ratified in 1959.⁵

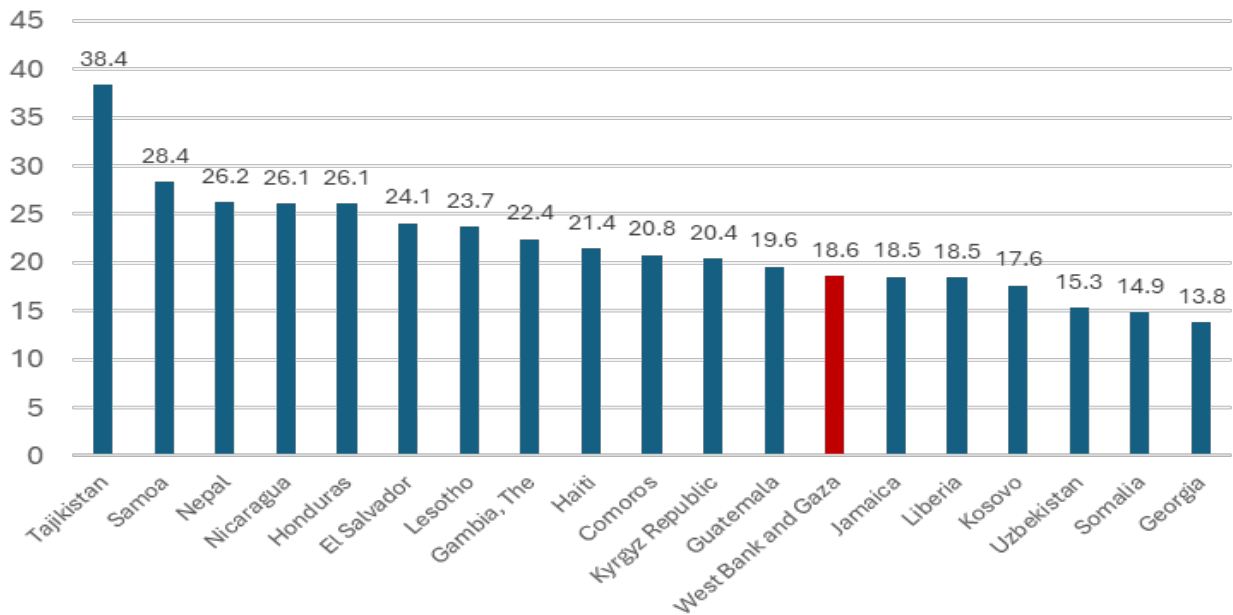
² Palestinian Central Bureau of Statistics, "Detailed Indicators of Foreign Trade in Palestine 2021-2022," 20/11/2023, accessed on 17/11/2024, at: <https://acr.ps/1L9zQbb>.

³ "Meltdown Looms for the West Bank's Financial Lifelines," *International Crisis Group*, 27/6/2024, accessed on 17/11/2024, at: <https://acr.ps/1L9zPqR>.

⁴ Jaclynn Ashly, "Investigation: The Palestinian Struggle for Labor Rights in Israel," *Jacobin*, 4/2/2024, accessed on 17/11/2024, at: <https://acr.ps/1L9zPu7>.

⁵ "Israel Accused of Breaking Global Labor Law by Withholding Palestinian Worker Pay," *The Guardian*, 27/9/2024, accessed on 17/11/2024, at: <https://acr.ps/1L9zPYH>

Chart 1: Personal remittances as a per centage of GDP for the top 20 countries worldwide (2023)

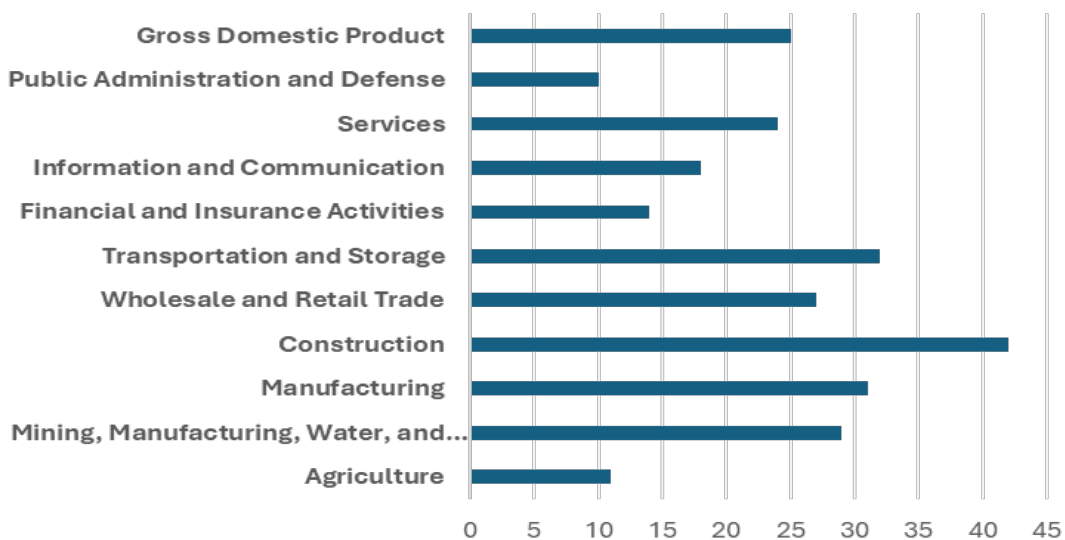


Source: World Bank, “World Development Indicators Database: Personal Remittances,” accessed on 17/11/2024, at: <https://acr.ps/1L9zPzl>.

3. The Recession in the West Bank since 7 October

Israel’s war on Gaza delivered an immediate and violent shock to the West Bank’s economy, represented by a sharp decline in demand for goods and services. This led to a slump in real output in the first quarter of 2024 compared to the same quarter of 2023, varying by sector from 11 per cent in the agricultural sector to as much as 42 per cent in construction.

Chart 2: Per centage Decline in Real Output Per Sector, Q1 2024 compared to Q1 2023



Source: The World Bank, “Impacts of the Conflict in the Middle East on the Palestinian Economy,” World Bank Economic Monitoring Report (September 2024), accessed on 17/11/2024, at: <https://acr.ps/1L9zOky>



As a result of this sharp decline in demand for most products and services, 97 per cent of firms in the West Bank saw the volume of their business contract, while 42 per cent were forced to lay off employees. This resulted in about 144,000 private sector employees losing their jobs, about 25 per cent of the total. Overall, more than 300,000 people lost their jobs in the early months of 2024, amounting to total daily wages of about \$25 million, leaving around a third of the territory's potential workforce jobless, compared to about 12.9 per cent before 7 October.⁶

The economic shock to workers in the West Bank and beyond has had grave implications for the living standards of its residents. Poverty has risen rapidly, from 12 per cent in 2023 to around 28 per cent by mid-2024. This is estimated to have pushed the West Bank's Human Development Index (HDI) back by 16 years.⁷ These and other indicators are expected to decline over the long term given Israel's continued suffocating measures and restrictions on the West Bank and its people.

4. Clearance Revenues: Undermining the PA's Ability to Provide Services

As they attempt to tighten the noose on Palestinians in the West Bank, the Israeli authorities are continuing to withhold funds due to the Palestinian Authority under the Oslo Accords. These funds, known as clearance revenues, are the PA's primary financial resource. They include the taxes Israel collects on goods and services imported into the West Bank and Gaza, whether from Israel or through border crossings.

The current Israeli government has given its Ministry of Finance free rein to deduct from clearance revenues sums it claims it is owed for providing services such as electricity, water, sewage, and treatment of Palestinians in Israeli hospitals – in addition to allowances the PA pays to the families of prisoners, the dead, and the wounded. Since 7 October, these deductions have also covered the PA's monthly payments to the Gaza Strip, estimated at \$765 million up until September 2024,⁸ in addition to other deductions, under various pretexts.

This has slashed the value of the clearance funds that do get transferred to the Authority to around \$50 million per month, compared to approximately \$270 million the month before the war.⁹ Naturally, the PA's only available alternative is foreign aid, which used to make up around 30 per cent of the PA's budget of some \$6 billion, but has now declined to next to nothing, making up less than one per cent of the total.¹⁰

⁶ UNCTAD, "Developments in the Economy of the Occupied Palestinian Territory, Report on UNCTAD Assistance to the Palestinian People, Trade and Development Board," 23/7/2024, accessed on 17/11/2024, at: <https://acr.ps/1L9zPMq>.

⁷ ESCWA & UNDP, "Gaza War: Expected Socioeconomic Impacts on the State of Palestine," Policy Brief No. 2 (2024), accessed on 17/11/2024, at: <https://acr.ps/1L9zPDv>.

⁸ "Palestinian Finance Ministry: Clearance Revenues Held Back by Israel hit \$2 billion," *Anadolu*, 11/9/2024, accessed 17/11/2024 (in Arabic), at: <https://acr.ps/1L9zPs9>.

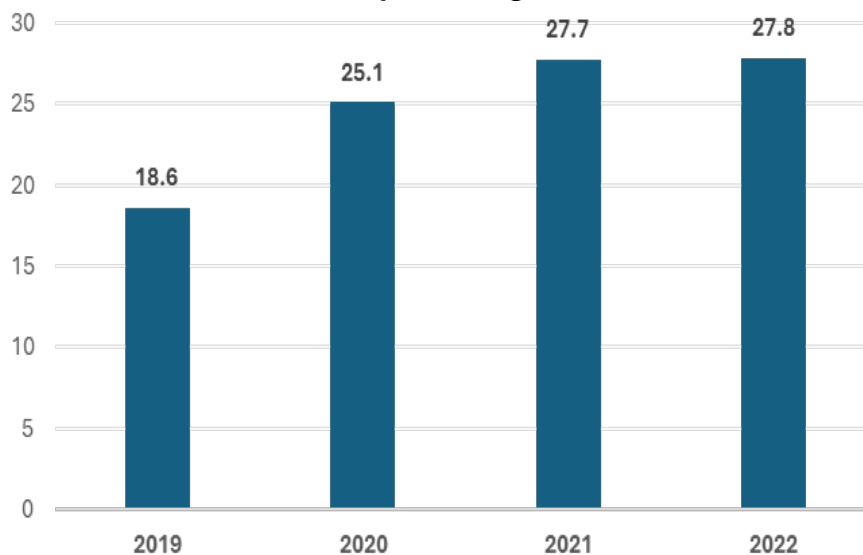
⁹ Jaafar Sidqa, "Report: On Top of Killing and Crimes, Israel Steals Palestinian Land, Money and Resources," *Jordan News Agency*, 21/8/2024, accessed 17/11/2024 (in Arabic), at: <https://acr.ps/1L9zQae>.

¹⁰ "Palestinian President Calls on Arab Countries for Financial Support," 16/5/2024, accessed on 17/11/2024, at: <https://acr.ps/1L9zPAP>.

If Israel continues to impose these financial restrictions, with donors reluctant to continue sending the aid they have traditionally provided, the PA will find itself not only unable to provide basic services to the population, but also be incapable of paying the salaries of its employees and affiliated agencies.

By stubbornly withholding of the PA's financial dues, Israel will do further economic and social damage to the West Bank, with profound repercussions. The bulk of Palestinian companies and institutions that supply goods and services to the authority will not be able to continue operating or meeting basic needs. This impact will also extend to public sector employees, who are not being paid their salaries on time or in full,¹¹ spelling grave economic and social problems for thousands of people. It is worth noting here that the amount owed to the PA is growing; it already amounted to about 27.8 per cent of GDP in 2022, a vast sum by global standards, and one that means enormous problems for both the PA and its beneficiaries.

Chart 3: Revenue owed to the PA as a per centage of GDP (West Bank and Gaza Strip)



IMF, "West Bank and Gaza: Report to the Ad Hoc Liaison Committee," 8/9/2023, accessed on 17/11/2024, at: <https://acr.ps/1L9zPVh>.

5. How the Oslo Accords Made Israel the Life Support Machine for the Palestinian Economy

Israel's extreme right wing Finance Minister, Bezalel Smotrich, has threatened yet more restrictive measures, including suspending the financial transfer agreement that currently allows two Israeli banks to act as intermediaries for payments to and from Palestinian banks. These transfers are used to settle financial obligations arising from foreign trade, basic services, and the salaries of PA employees, as well as to receive clearance revenues from Israel, without the Israeli banks facing

¹¹ "The PA pays 70 per cent of staff salaries in August," *AsharqNews*, 8/10/2024, accessed on 17/11/2024 (in Arabic), at: <https://acr.ps/1L9zPAB>.



prosecution related to money laundering or financing terrorism. This mechanism, which emerged from the Paris Protocol between the PLO and Israel in 1994 and was later incorporated into the second Oslo Accord, was created in order to keep the Palestinian economy in the West Bank and Gaza subject to the will of Israel, which thus positioned itself as that economy's life support machine.

In this context, the current extremist Israeli government – and particularly Smotrich, who exerts far-reaching control over the West Bank's financial and economic arrangements – continues to brandish the agreement as a weapon against the West Bank, as a deterrent or a mechanism for strangling it. This is evident in the fact that Israel has repeatedly shortened the time frame during which the agreement stands before coming up for renewal, from a year to a quarter, and recently to once a month.

6. The Banking System at Stake

Banks operating in the West Bank face major risks if the Israeli authorities continue to restrict the movement of workers and block the transfer of clearance revenues, and if foreign aid to the PA continues to decline. The Palestinian banking system is intricately linked to the PA's financial situation; bank loans to the authority and its staff constitute about 40 per cent of the capital held by Palestinian banks. If the PA's revenues continue their current rate of decline, this will pose a major threat to its financial position. The outlook would be even bleaker were Smotrich to follow through on his threats to suspend the financial transfer agreement and stop the Israeli banks acting as intermediaries for Palestinian banks. This could easily cause the latter to collapse.

7. Where is the Palestinian Economy Headed?

It is clear that Israel is not content to limit its aggression against the Palestinians to military means alone. Rather, it has also adopted a comprehensive economic strategy aimed at weakening their economy and deepening its dependence. Economic weapons are therefore a central tool for imposing Israeli hegemony and blocking any step towards Palestinian self-reliance.

The West Bank is already suffering due to deep economic challenges stemming from the many restrictive measures Israel wields against it, suffering that has exacerbated since 7 October. The prospect of additional measures could foreshadow disastrous results, especially if Smotrich is able to follow through on his threats to suspend the financial transfer agreement. This would inevitably and rapidly expose the West Bank to the same economic conditions the Gaza Strip experienced before October 2023. This would lead to a deep recession across the board, record rates of unemployment and poverty, the paralysis of basic services, the possible collapse of the banking system, and other economic and social impacts that will be difficult to contain – even if Israel subsequently walks back the measures. This is clear from the fact that just a year of less severe restrictive measures than those Smotrich is currently threatening has already dragged the human development index of the West Bank's population back 16 years.



References:

ESCWA & UNDP, "Gaza War: Expected Socioeconomic Impacts on the State of Palestine," Policy Brief No. 2 (2024), accessed on 17/11/2024, at: <https://acr.ps/1L9zPDv>.

IMF, "West Bank and Gaza: Report to the Ad Hoc Liaison Committee," 8/9/2023, accessed on 17/11/2024, at: <https://acr.ps/1L9zPVh>.

Palestinian Central Bureau of Statistics, "Detailed Indicators of Foreign Trade in Palestine 2021-2022," 20/11/2023, accessed on 17/11/2024, at: <https://acr.ps/1L9zQbb>.

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