



# The Economy of the Occupation

Part 1

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## Foreign Aid to Palestine/Israel

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Second Edition

Shir Hever



The Alternative Information Center (AIC)

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<http://www.alternativenews.org/>

**Jerusalem:**

4 Queen Shlomzion Street

PO Box 31417

Jerusalem, Israel 91313

Phone: 972-(0)2-624-1159; 624-1424

Fax: 972-(0)2-625-3151

**Beit Sahour:**

Building 111 Main Street

PO Box 201

Beit Sahour, Palestine

Phone: 972-(0)2-277-5444

Fax: 972-(0)2-277-5445

**Copy Editor:** Eppie Bat-Ilan

**Design & Illustrations:** Tal Hever

**Photograph (cover):** Hatem Omar, 2005

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# 1. Foreign Aid to the OPT Since 1993: A Brief History

Following the Oslo accords, the OPT received a significant flow of foreign money and commodities intended to help the Palestinians develop an independent economy. This aid has left a widespread imprint on the Palestinian and Israeli economies, and is one of the central factors influencing the economy of the occupation since Oslo.

After '93, foreign aid began pouring into the region as a boon offered by the international community, a 'prize' to the Palestinians and to Israel

for their willingness to make peace. The assumption was that Israel's eventual withdrawal from the OPT would leave the Palestinians unprepared to sustain themselves economically after decades of occupation; the financial aid was meant to smooth the transition from complete Israeli control to Palestinian autonomy and statehood.

The aid was intended to foster the development of an independent Palestinian economic sphere, without forcing the Israelis to compensate the Palestinians for damages inflicted during the

occupation. Consequently, the development portion of the funds was five times larger than the crisis management portion.<sup>1</sup>

The 1994 Protocol on Economic Relations, signed by representatives of Israel and the PLO on April 29<sup>th</sup> in Paris, was meant to resolve the economic issues raised by the Oslo Accords. The accords themselves offered a tradeoff: until a final status agreement is reached, Israel would control customs and trade while the Pal-

estinians would be allowed to enter Israel and work there. However, the latter agreement fell apart with the closures that Israel imposed on the OPT, and only the customs-union remained in effect.<sup>2</sup> The limitations imposed on Palestinian workers entering Israel created a serious decline in the Palestinian economy due to the loss of this central income source.<sup>3</sup>

Following the outbreak of the second Intifada in September 2000, the Israeli army escalated measures against the Palestinians. In addition to a steep

**Foreign aid to the OPT was designed to promote an independent Palestinian economy. For this reason, it was funneled into development and the creation of jobs. But has the Palestinian economy really achieved any more independence?**

increase in killings of Palestinians, measures such as house demolitions, closures, curfews and the uprooting of trees had profound economic consequences. The Palestinian economy was effectively devastated. In two short years between September 2000 and late 2002, the GDP per-capita (the annual domestic production per Palestinian) dropped by over 40%. This rate of reduction is almost unprecedented and surpasses the rate of decline during the Great Depression of 1929 in the United States and the recent financial collapse in Argentina.<sup>4</sup>

**In two years, GDP per-capita dropped by over 40%. This surpasses the decline during the Great Depression of 1929 in the United States or the recent financial collapse in Argentina**

**Following the destruction wrought on the Palestinian economy since the second Intifada, the ratio of funds was reversed from 5:1 in favor of development to 7:1 in favor of crisis management**

To help the Palestinians survive this onslaught, the amount of foreign aid funneled to the OPT was almost doubled in 2001. Simultaneously, the ratio of the funds was reversed from 5:1 in favor of development, to 7:1 in favor of crisis management.<sup>5</sup> While humani-

tarian aid grew, the Palestinians' own means for producing income diminished.

The number of jobs available to Palestinians plummeted for two central reasons. The first was the loss of jobs inside Israel. Between the third quarter of 2000 (just before the beginning of the second Intifada) and the end of 2003, the number of Palestinian workers from the West Bank permitted to enter and work in Israel diminished by 53.45%, and the number of workers from Gaza diminished by 86.66%. The second reason was the destruction of Palestinian infrastructure, leading to a loss of available jobs in the OPT. Unemployment increased from 16.9% in the West Bank and 26.9% in Gaza prior to the Second Intifada to 27.8% and 37.2% (respectively) at the end of 2003.<sup>6</sup>

*Table 1: Unemployment Increases in the OPT*

	Unemployment: 2002	Unemployment: 2003	Unemployment: Increased by...
<b>West Bank</b>	16.9%	27.8%	64.5%
<b>Gaza</b>	26.9%	37.2%	38.3%

## 2. Current Foreign Aid to the OPT

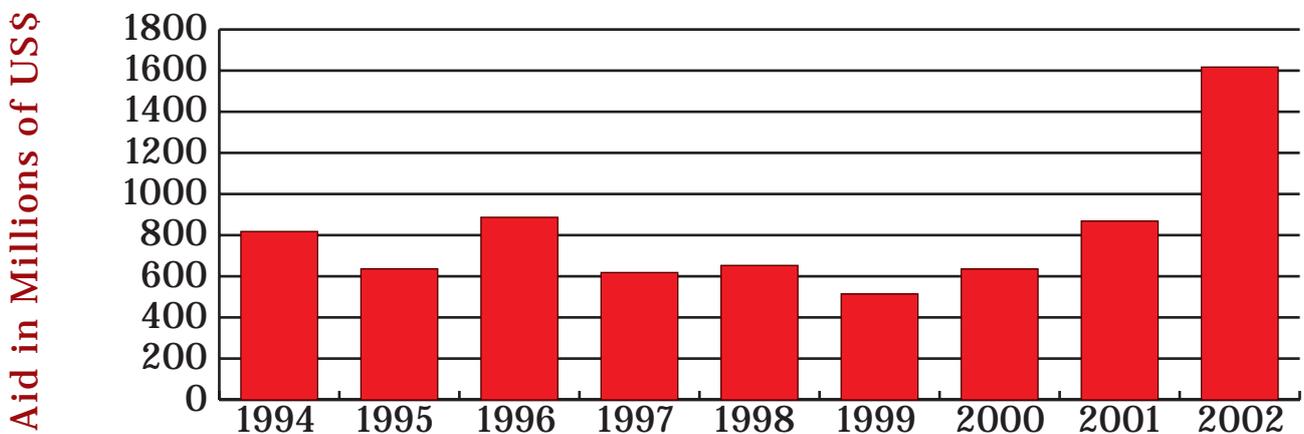
A widespread myth claims that foreign aid to the Palestinians is the highest per-capita in the world. A Jerusalem Post article in 2002 by Patrick Clawson, for one example, claims that, calculated per-capita, aid to the OPT is higher than the aid distributed during the Marshall Plan and that the OPT receives the highest aid in the world. The article was later distributed in pro-Zionist websites.<sup>7</sup>

**With the Palestinians' income deteriorating and foreign aid increasing, Palestinian dependence on aid reached a worrying peak of almost 50% in 2002**

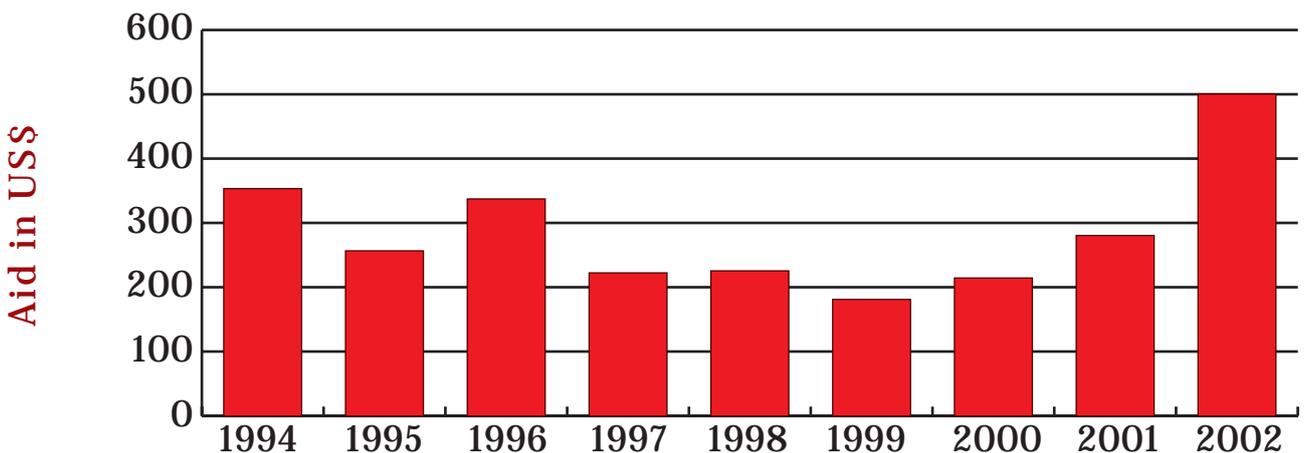
Although there is no denying that the OPT has received relatively high per-capita foreign aid in recent years, this statement must be put in the proper perspective and context. As the following figures demonstrate, the OPT is **not** the highest recipient of foreign aid in the world.

The following graphs shows the total foreign aid to the OPT since the signing of the Oslo accords, in totals and in per-capita terms.<sup>8</sup>

*Graph 1: Official Aid to the OPT*



*Graph 2: Official Aid to the OPT per Capita*



*Table 2: Total Aid (world rank)*

<i>Total humanitarian aid in billions of US\$, rounded to the closest US \$100 million (the relative global position is in parenthesis).<sup>9</sup></i>				
	1999	2000	2001	2002
<b>OPT</b>	0.5 (30)	0.6 (21)	0.9 (16)	1.6 (4)
<b>Israel</b>	0.9 (12)	0.8 (13)	0.2 (78)	0.8 (19)
<b>World Average</b>	0.3	0.3	0.3	0.4

Tables that compare recipient countries can give a better understanding of humanitarian foreign assistance. In addition to the actual numbers, the relative position of the OPT (not including Jerusalem\*) and Israel is highlighted.

It is interesting to note that before the outbreak of the second Intifada, the **humanitarian** aid to Israel (which is not an impoverished country) was higher than the aid to the OPT in terms of absolute amounts. Also, it is clear that since the outbreak of the Intifada total aid to the OPT rose sharply every year.

Israel is receiving humanitarian aid in large quantities (according to the World Bank), although Israel is too rich to qualify for humanitarian support from international humanitarian organizations.<sup>10</sup> The World Bank doesn't reveal the sources of humanitarian aid to Israel.

However, the absolute amount of foreign aid in and of itself is insufficient for a satisfactory comparison. A better comparison can be obtained by looking at per-capita aid, which provides more focus on the effects of the aid on the population.

*Table 3: Per-Capita (world rank)*

<i>Per-capita humanitarian aid in US\$, rounded to the closest dollar (the relative global position is in parenthesis).<sup>11</sup></i>				
	1999	2000	2001	2002
<b>OPT</b>	182 (16)	215 (13)	281 (7)	500 (8)
<b>Israel</b>	148 (21)	127 (23)	27 (85)	115 (24)
<b>World Average</b>	10	10	10	11

\* Due to choices made by the World Bank in reporting humanitarian aid, the figures above do not include East Jerusalem. A survey conducted in 2001 showed that out of the total humanitarian aid, less than 10% reached East Jerusalem. See Morli, Andrea, 2004, *Palestine; Economy, Development Aid and Higher Education in International Cooperation*, International University Master in Cooperation and Development, VII Edition, pp. 60-61.

When aid is considered in per-capita terms, Israel's position dropped by 5-10 places and the OPT went up by up to 14 places, except in 2002 when the per-capita calculation actually caused it to drop four places. Between 6 and 15 countries received more per-capita humanitarian aid than the OPT in any given year.

These figures imply that the Palestinians are receiving substantial aid in addition to their locally earned income. Despite the growing aid in cash and kind, poverty in the OPT is still spreading. Since 1994, conditions in the OPT have only grown worse. In 2003, children's malnutrition exceeded 80%, and food insecurity threatened over 70% of the Palestinians in the OPT. Chronic malnutrition that year ran between 6.7% and 17.5%.<sup>12</sup>

An additional comparison can be obtained by dividing the aid per-capita by income per-capita (GNI per-capita or Gross National Income per-capita). This comparison runs the risk of being distorted, because GNI is a controversial and problematic figure,<sup>13</sup> but it will be used here as an approximation. This

calculation roughly shows what proportion of the total economic income comes from aid, and therefore how dependent the recipient is on external support.

When we talk about the percentage of aid in the GNI, the OPT and Israel drop significantly in place. However, the OPT is continuously growing more dependent on aid, and by 2002, almost half of the entire Palestinian income came from foreign aid. Despite the substantial increase in humanitarian aid between 2001 and 2002, total income in the OPT kept falling. Only six countries were more dependent on humanitarian aid than the OPT in 2002. Israel's dependence on humanitarian aid, on the other hand, is very low.

In short, the OPT does not receive and has never received the highest share of aid in the world: not in absolute terms, not in per-capita terms and not in proportion to income. The OPT is, however, becoming more dependent on foreign aid – a sign that this aid is not succeeding in achieving its original goal of fostering an independent Palestinian economy.

*Table 4: Aid Dependency (world rank)*

<i>Dependency on humanitarian aid measured as percentage of aid per-capita out of GNI per-capita (the relative global position is in parenthesis).<sup>14</sup></i>				
	1999	2000	2001	2002
<b>OPT</b>	9.8% (41)	12.2% (31)	20.2% (16)	45.1% (7)
<b>Israel</b>	0.9% (114)	0.7% (113)	0.2% (113)	0.7% (117)
<b>World Average</b>	0.2%	0.2%	0.2%	0.2%

### 3. Sources of Foreign Aid

Foreign aid flows to the OPT from numerous sources, including, primarily:<sup>15</sup>

1. **Arab States**
2. **The European Union**
3. **Japan**
4. **The United Nations**
5. **The United States**

The World Bank (which is funded, in turn, by countries around the world) contributes substantial amounts and takes an active role in managing its various aid projects. About 5% of the total donations to the OPT since 1997 came through projects funded exclusively by the World Bank.<sup>16</sup>

The main source of donations to the OPT, however, is the United Nations, particularly the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). Between 1994 and 2002, the UN gave approximately US \$2.9 billion in aid, accounting for almost 40% of the total donations to the OPT during this period. UNRWA is responsible for managing about 61% of the total funds disbursed from the consolidated humanitarian appeal (CAP), which was organized by the UN in 2005 to alleviate the emergency in the OPT.<sup>17</sup> In 2004, UNRWA itself received 25.47% of its funds from the US, 26.08% from the European Commission and 3.17% from the UN.<sup>18</sup>

**HUMANITARIAN AID**



**THE AMERICAN WAY**



## 4. The Israeli Context

From its inception, Israel has been a state whose economy is based primarily on capital importation.

Despite the many difficulties it has experienced with absorbing massive immigration and conducting almost constant warfare with its neighbors, Israel continues to compare itself with high-income countries in western Europe and North America. Although Israel falls short of these countries when it comes to quality of life, it is financially very strong with significant per-capita income and a disproportionately large influence on international markets.

It is important to clarify that Israel's strong economic position does not mean that Israelis are necessarily rich. Israel suffers from one of the worst rates of inequality in the western world; much of its income is consumed by the military-industrial complex and never reaches the general population.<sup>19</sup>

This unique economic situation stems from Israel's reliance on a constant inflow of capital. This capital, which is usually donated rather than lent, finances Israel's imports, government deficits and military costs.

This capital comes from three main sources:

1. **Aid from Jewish** communities worldwide.
2. **Aid from the US** (mostly military aid).
3. **Compensation payments for the Holocaust**, a large proportion of which are appropriated by the state rather than disbursed to the actual victims and their families.

The data concerning the actual amount of aid Israel receives is inconsistent because about half of this aid comes in the form of military assistance, which is confidential.<sup>20</sup>

It is true that in per-capita terms, Israel has been receiving less humanitarian aid in recent years than the OPT, but in this context there are two important things to note:

1. Israel has been receiving aid since 1949; by January 2000 the aid it received from the US alone (not counting Holocaust compensation payments and donations from Jewish communities) reached the staggering amount of approximately US \$134 billion.

**In 2001, the aid Israel received from the US was 17 times the figure reported by the World Bank**

2. This amount is **not** included in the previous calculations of foreign aid (above). That data refers solely to humanitarian aid, whereas the sum cited here includes interest payments borne by the US on Israel's behalf, tax-free charity by US citizens and substantial American military aid since 1973. Because the definitions of types of aid are subject to interpretation, it is very difficult to draw the line between different forms of aid.

According to an issue brief to the US Congress on the total aid received by Israel, the US has been giving Israel approximately US \$3 billion every year since 1973, out of which US \$1.2 billion is economic aid and US \$1.8 is military aid.<sup>21</sup>

Let us take as an example the year 2001, for which the World Bank reported very low foreign aid to Israel. The to-

tal aid Israel received from the United States alone that year is 17 times the figure of the humanitarian assistance reported by the World Bank.

*The Washington Report on Middle Eastern Affairs* has given an even higher estimate, calculating that aid to Israel averaged US \$4 billion annually. *The Washington Report* took into consideration the cost to the US taxpayer and the interest rates borne by the US public on behalf of Israel. These figures added up to a total of US \$135 billion of cumulative aid from the US alone by the year 2000 (the extra US \$1 billion compared with the previous estimate includes costs to the US taxpayer that did not accrue to Israel directly). By this calculation, Israel is actually the largest recipient of total aid in the world, and one of the highest recipients of per-capita aid.<sup>22</sup> In addition, between 1999 and 2002, Israel received compensation payments from Germany to the sum of US \$2.8 billion.<sup>23</sup>



Taking foreign aid only from the US and Germany, we could recalculate the comparison between Israel, the OPT and other countries using the more conservative estimates proposed by the congressional issue brief.

We can see that Israel is the biggest recipient of total foreign aid (by far).

This is due to Israel's unique position and to special agreements it maintains with the US. In 1999 and 2000, Israel surpassed the OPT in per-capita aid by a wide margin.

Having looked at these figures, we can now examine the political implications of this aid.

**Israel is the biggest recipient of total foreign aid in the world**

*Table 5: Total Aid (world rank)*

*(Table 2 with foreign aid to Israel added)*

<i>Total aid [+foreign aid] in billions of US\$, rounded to the closest US \$100 million (the relative global position is in parenthesis).<sup>9</sup></i>				
	1999	2000	2001	2002
OPT	0.5 (30)	0.6 (21)	0.9 (16)	1.6 (4)
Israel	3.7 (1)	4.7 (1)	3.6 (1)	3.7 (1)

*Table 6: Per-Capita (world rank)*

*(Table 3 with foreign aid to Israel added)*

<i>Per-capita aid [+foreign aid] in US\$, rounded to closest dollar (the relative global position is in parenthesis).<sup>11</sup></i>				
	1999	2000	2001	2002
OPT	182 (16)	215 (13)	281 (7)	500 (8)
Israel	613 (7)	753 (7)	563 (6)	548 (8)

## 5. Benefits to Israel

In 2000, imports from and via Israel represented 73% of total imports into the OPT, while exports to Israel represented 92% of total exports from the OPT. This figure serves to clarify the meaning of the Economic Protocol, signed as the economic appendix to the Oslo agreements. Israel enforces a customs union on the OPT, and only goods moving between Israel and the OPT are exempt from customs while Israel alone has the right to collect customs. At the same time, Israel's promise to allow Palestinian workers to enter Israel freely and work there remains unfulfilled.<sup>24</sup>

The result of Israel's devastation of the Palestinian economy, accompanied by severe limitations on the movement of people and merchandise, is that the Palestinian economy has become hostage to the Israeli economy.

The Palestinians' ability to work, produce and earn income has been severely limited, and the only thing staving off massive hunger and disease is the emergency humanitarian assistance coming in the form of foreign money.

At first glance, it seems that this humanitarian assistance is a blessing to the Palestinians, as it supports a minimum standard of living and prevents further disaster. However, the aid is in fact co-opted by Israel as a source of income that helps fund the occupation.

Whenever Palestinians import goods using this foreign aid, they must either buy from Israeli companies or buy from international companies and pay customs to the Israeli government (as noted, 73% of all imports to the OPT come from Israel). Even when goods from Jordan or Egypt might be available at cheaper prices, administrative hurdles on the movement of goods and customs force Palestinians to buy the more expensive Israeli products.

Meanwhile, Israel still controls utilities (such as water, electricity and phone services) in the OPT and in 2004 alone, confiscated US \$15.8 million from aid sent to the OPT for utility bills owed by Palestinian municipalities. A recent report showed that Israel charges exor-

**By enforcing a customs-union on goods and allowing Israel to stop Palestinian workers from entering Israel on security pretexts, the Paris Accords effectively subject the Palestinian economy to Israeli control**

**73% of all imports to the OPT come from Israel**

bitant prices for these utilities; despite the low income of the Palestinians, they actually pay more for electricity than Israelis.<sup>25</sup>

Foreign aid to the OPT then effectively perpetuates the situation in which the Palestinians are a nation of consumers who are unable to produce and unable to compete with the Israeli economy. Israel's government and various Israeli companies reap the profits, while the international community pays the bill. The Palestinians' desperate need is turned into a lever to promote the prosperity of their occupiers.

Furthermore, the humanitarian foreign aid to the OPT relieves Israel of the need to face its responsibility for destroying the Palestinian economy, and allows Israel to continue its assault on the OPT without having to answer to the international community for creating a humanitarian disaster.

But despite the economic benefits it gains, Israel also interferes with the delivery of humanitarian aid to the Palestinians. The interference is so great that UN agents have complained that "we don't know of another conflict area in the world where we've had these problems - even in Ko-

**The Palestinians' involuntary passivity is made possible and perpetuated through foreign aid**

**Israel confiscated US \$16 million of aid to the OPT to pay for the Palestinians' utility debts**

**Israel's defense minister urged donors to keep contributing to the OPT**

sovo." UNSCO claims that while aid is currently indispensable, closures, which increase humanitarian deprivation and make aid more necessary, also reduces the effectiveness of aid by blocking access to those in need. The obstacles placed by Israeli authorities to the delivery of humanitarian assistance is evidence that international aid does indeed empower the Palestinians in certain ways, and that it does threaten Israel's continued control of the OPT, even as it perpetuates it.<sup>26</sup>

But while piling on barriers that block aid from Palestinians and Palestinians from aid, Israel is fervent in its support of humanitarian aid in face of the international community.

Early in 2004, Israel's defense minister held a meeting with representatives of the donor countries and international organizations working in the OPT, and asked them to pull together and increase their donations to prevent the complete collapse of the Palestin-

ian Authority. He asked them not to abandon the OPT now, because "we cannot shut our eyes to the deterioration of the Palestinian Authority, which could result in the disintegration of the Authority and its institutions, and will undermine the chances for peace."<sup>27</sup>

## Endnotes

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# The Alternative Information Center AIC

The Alternative Information Center (AIC) is a joint Palestinian-Israeli organization which prioritizes political advocacy, critical analyses and information sharing about Palestinian and Israeli societies, as well as on the Israeli-Palestinian conflict. In doing so, the AIC promotes responsible cooperation between Palestinians and Israelis based on the values of social and political justice, equality, solidarity, community involvement and respect for the full inalienable national rights of all Palestinian people.

The AIC believes that true social cooperation and communication between Palestinians and Israelis is possible. We have embodied this ideal for the past twenty years through our joint and collective structure. However, we acknowledge that this can only come to pass in the region if the root cause of the conflict is targeted and challenged – that being the long Occupation and dispossession of the Palestinian people. Based on these convictions, the AIC will continue to work towards the establishment of genuine and responsible grass-roots bridges between the two communities.

AIC activities and publications provide a critical discussion of the political realities that shape the current situation, with special attention given to radical democratic and feminist struggles, and critical perspectives on the colonial nature of Israel and the alarming authoritarian features of the Palestinian Authority.

Shir Hever

# The Economy of the Occupation

*The Economy of the Occupation*, published monthly by the Alternative Information Center (AIC), offers a new approach to the economic situation in the Occupied Palestinian Territories (OPT) and Israel. This bulletin will provide accessible and singular analyses of the socioeconomic interests behind the Israeli occupation of Palestine.

At the present time, the majorities amongst the otherwise politicized Palestinian and Israeli populations possess a limited understanding of their own socioeconomic situation. Available publications are sporadic, insufficient, often biased and fail to consistently link society, politics and the economy in the OPT and Israel. This disempowering state of affairs makes it all the more critical to offer alternative readings of the economic reality of the occupation.

The publication touches on various issues such as inflation, debt, trade, employment, poverty and capital, and demonstrates the influence of these issues on the daily lives of Palestinians and Israelis. The aim is to enhance awareness and to contribute to a more informed struggle for social justice and a just peace for Palestinians and Israelis.

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