

Research paper

Forum: 2nd Committee - Economic & Financial

Issue: Financial Development for the Palestinian Sovereignty

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Financial Development for the Palestinian Sovereignty

Overview

Palestine, officially recognized as the State of Palestine is a de jure sovereign state, which is officially governed by the Palestine Liberation Organization (PLO). The Palestine area is covering 167 remote 'islands' in the West Bank and Gaza, which is under the control of Hamas - the rival government of Palestine. The population of Palestine is estimated to be 4,803,000 and its GDP is valued at 15.56 billion USD. Among many other aspects, such as security, political stability, or agriculture, its long-term issues with Israel are mainly reflected in Palestine's economy. With striving for independence and sovereignty, a strong financial background is vital, as economic desperation and dependence are driving the Palestinian authority's political decisions.

Background information

After World War II, in 1947, as sectarian violence between Arabs and Jews grew, the United Nations adopted a plan for a two-state solution; Jewish state - Israel, and an Arab state - Palestine, with Jerusalem as the designated capital. The plan was meant to provide Jews state, establish Palestinian independence and end sectarian violence. Although the plan was accepted by Jewish authorities, Arab leadership rejected it. This escalated to a war conflict, with Israel controlling the majority of the land. The non-Israel areas - Gaza was controlled by Egypt, and West-Bank, which was under control by Jordans. In 1967, however, another weaponized conflict escalated, leading to a known, six-day war between Israel and the Palestine Liberation Organization. Israel defeated Palestine and extended its border by Golan Heights in Syria, West Bank, and both Gaza and Sinai, formerly controlled by Egypt.

The resolution after the six-day war was accomplished in 1974, where Egypt and other Arab states leaders at the Arab League Summit reaffirmed Palestine's right to establish an independent state of urgency. The United Nations reacted by granting the PLO non-observer status and non-state entity rights at the UN. Four years later, in 1978, Camp David Accords were signed, leading to Israel handing over the Sinai area back to Egyptian authorities. Israel's military, however, still occupied Palestine's territories - West Bank and Gaza. The PLO seeking an independent Palestinian state fought against Israel including through acts of terrorism. The PLO later said that it would accept dividing the land between Palestine and Israel, but the conflict continued. On the other side, Israelis settlers occupied the Palestinian territory by moving to houses in West Bank and Gaza. The formal reasons were mainly based on religion, political situation, or low prices of housing.

By the late 1980s, Palestinians responded with aggressive Intifada. This led to hundreds of casualties on the Israeli side and thousands of casualties on the Palestinian side. At that time, Palestinians in the Gaza area created radical and extremist group Hamas, strongly against Israel-controlled state and fighting against Israel forces. By the early 1990s, in 1993, leaders of Palestine and Israel signed Oslo Accords in Washington, DC., USA, and Taba, Egypt. The aim was to withdraw the Israeli military from Palestine territory and allowing independent Palestine. This was accomplished by establishing the Palestinian Authority, which allows Palestinians more freedom and independence.

Based on the Accords, Palestinian's territory West Bank, occupied by Israel, was divided into three sectors - Area A, Area B, and Area C;

- Area A, being fully under the Palestinian administrative and police control
- Area B, being under the Palestinian administrative control and sharing police control with Israeli authorities
- Area C, being under the Israeli administrative and police control

The majority of Palestinians live in Areas A or B. Area C covers over 60 percent of the West Bank. In 2005, Israel authorities withdraw completely from Gaza, meaning it is fully under Hamas control and splits from the Palestinian Authority in the West Bank. Israel builds a sophisticated border wall around Gaza, causing unemployment to rise to 40 percent. Since 2012, The State of Palestine has been recognized by 138 of the 193 UN members and gained a status of a non-state observer state in the UN.

Nowadays, Israel takes the land by planting Jewish settlements on it, and keeping the Palestinians unenfranchised under military occupation, denied either their own state or political equality within Israel. In reaction, the State of Palestine calls for consensus to end the occupation and achieve a two-state solution on the 1967-lines in accordance with international law and UN resolutions to realize Palestinians fundamental rights, including self-determination, and adjust solutions for refugees, in accordance with the 194 resolution.

Economy

Palestinian financial situation is vital, as the economic desperation and dependence are driving the Palestinian authority's political decisions. The Palestinian economy is mainly influenced by external factors since Oslo Accords in 1993. Between 1994 and 2018, the State of Palestine received approximately 38 billion USD in financial aid, where 48 percent was absorbed by the Palestine Authority's budget. In 2020, the Finance Minister of the Palestinian Authority revealed a 760 million USD budget deficit and unemployment rising to 29 percent. Arab donors have fallen by 76 percent and overall budgetary support has fallen by 67 percent. That is caused by the COVID-19 pandemic, declining international financial aid levels, and disrupted flows of clearance revenues. With PA spending accounting for 27 percent of GDP, the viability and health of the Palestinian economy are contingent on the health of the PA as the single largest employer and consumer. For this reason, the PA's stringent fiscal measures, including cutting spending by 50 percent since May, have effectively put the Palestinian economy on hold.

Other reasons causing the poor economic performance are closures, withholding of tax revenues, labor flow reductions to Israel, and dependency. The most detrimental effect of closures, both within the Palestinian territories and with the rest of the world, is that it increases transaction costs. This makes operating a local business quite challenging. Almost 90 percent of the Palestinian exports are destined to Israel, and 70 percent of imports are from Israel. This generates annual export revenues of about 600 million USD prior to September 2000. Today, this figure is drastically reduced and Palestinian authorities are forced to import primarily from Israel, through intermediaries, at highly uncompetitive prices.

In addition, in West Bank Section C, most of the energy resources are under the control of Israeli forces and Israeli agricultural companies. In Jerusalem's Old City, public schools, houses, parks, and public spaces are lacking a source of finance. On the other hand, Israel transfers over 1 billion USD in tax revenues to Palestinians, which are aiming not to accept these tax revenues, because of their future independent country.

The Palestine economy should be stabilized, since economic factors may have been the driving force behind PA's decision to restore civil and security cooperation with Israel. In the short-term, a resumption of clearance revenue transfers will extend a temporary financial lifeline to the PA, allowing it to cover public wages and reduce domestic borrowing.

Key terms

PLO - Palestine Liberation Organization

PA - Palestine Authorities

de jure sovereign state - legally recognized state, regardless of whether the practice exists in reality

Intifada - an Arab term for a civil uprising

194 resolution - adopted by the UN allowing refugees to return to their homes and live at peace with their neighbors.

liquidity - the ease with which asset, or security, can be converted into ready cash without affecting its market price

transaction costs - expenses incurred when buying or selling goods or services

tax revenue withhold - income tax paid to the government by the payer of the income

Useful links and sources

The Palestine Economy and Prospects for Regional Cooperation, UN: <https://www.un.org/unispal/document/auto-insert-186101/>

Economy, Embassy of Palestine: <https://www.ambasciatapalestina.com/en/palestine/economy/>

PA's Economic Desperation and Dependence, MEI: <https://www.mei.edu/publications/economic-desperation-and-dependence-are-driving-palestinian-authoritys-political>

Palestinian socio-economic crisis now at breaking point, UNCTAD: <https://unctad.org/news/palestinian-socioeconomic-crisis-now-breaking-point>

Responsible and Serious General Assembly Action to End Occupation, UN: <https://www.un.org/press/en/2021/gapal1440.doc.htm>