

INSS Insight No. 1164, April 30, 2019

The Economic Crisis in the Palestinian Authority:

Time for a Strategic Alert

Michael Milstein

The developing economic crisis in the Palestinian Authority warrants a heightened alert in Israel as to a possible strategic shift in the Palestinian system. The crisis, should it prove protracted, and all the more so should it worsen, is liable to ignite several threats concerning Israel: an expansion of the circle of Palestinians involved in violent acts, specifically civil disturbances and terrorist attacks; difficulties for the PA to provide services in the civilian realm, which could deepen the Palestinian public's dependence on Israel; Hamas's intensified presence and tactics in face of the PA's weakness; and compromises in the security cooperation. The Israeli government would do well to recognize that it faces two choices - bad and worse - and it should demonstrate the same flexibility and pragmatism toward the PA that it now shows when it comes to the (still fragile) accommodation in the Gaza Strip. As with the Gaza Strip, in the West Bank this would entail compromising in return for ensuring strategic stability and a prevention of escalation that would include grave consequences for security and statecraft. Time wields decisive weight in this context. The more swiftly a solution is found, so too is the likelihood that escalation would lessen, and the more any accommodation is delayed, the more poignant is the threat of uncontrolled confrontation.

For more than a decade, the Israeli approach to preservation of security stability and calm in the West Bank has been predicated on steady improvement to the Palestinians' economic situation and quality of life alongside close security cooperation with the Palestinian Authority (PA). Many in Israel have seen in this approach a means of maintaining "economic peace," or in other words, ensuring security stability even in the absence of negotiations or political agreements.

But at the same time, for roughly the past decade, various officials in Israel have warned of a negative strategic shift be expected within the Palestinian arena in general and the West Bank in particular. This warning has focused on nightmare scenarios of a third intifada, waves of terrorism, and dissolution of the PA. The main contention is that the longstanding political stalemate and the Palestinians' increased distance from the goal of independent statehood are liable to encourage them to forsake the self-governance enterprise, and ultimately return to the path of violent struggle. In fact, despite a host of

challenges and shockwaves, this strategic shift has not materialized. Both the Palestinian government and public in the West Bank have exercised restraint and recoiled from escalation, even after junctures that might have easily have been catalysts, chiefly: three intensive military campaigns between Israel and Hamas in the Gaza Strip; the chronic crisis in relations with Israel; the lethal attack in Duma against a Palestinian family (July 2015); the terror wave the began in October 2015 (the "lone wolf intifada"); the relocation of the US Embassy to Jerusalem (May 2018); and many prisoner strikes.

The relative quiet in the West Bank does not attest to a dissipation of the Palestinians' national identity and aspirations, but rather, reflects a redrawing of collective goals and their realignment with changes in the geo-strategic sphere as well as changes in the Palestinian social profile. The relative calm stems from five interfacing elements:

- a. The traumatic collective memory among most of the Palestinian public of the conflict years with Israel (beginning in 2000), and the fear of any possible return to this type of unrest.
- b. Awareness of the deep hardship prevalent in most of the Arab world (including the Gaza Strip), which has spawned a collective understanding among Palestinians in the West Bank that despite the not-insignificant difficulties that they face, mainly due to Israeli rule, their situation is still relatively good.
- c. A relatively stable quality of life - mainly thanks to Israel's policy in the civilian sphere - which raises the inherent cost of any recourse to conflict.
- d. The rise of a younger generation that attaches great importance to self-realization and personal professional advancement, and evinces alienation from the national leadership and fatigue with the ideological slogans that rallied the Palestinian arena in the past. One manifestation of this trend is in the reduction over the years in the scale of participation in events marking national memorial days, in contrast to the broad-based participation in protests with an economic focus - for example, the mass demonstrations against the Palestinian Authority's social security law.
- e. Efforts by senior Palestinian Authority figures to prevent deterioration on the ground, driven by the desire to preserve their political standing and fear that the precedent of the Hamas takeover of the Gaza Strip (2007) might recur in the West Bank. Critical in this context is the Palestinians' insistence on preserving security cooperation, which both sides view as a core foundation of continued stability in the region.

Nevertheless, the formula for stability in the West Bank has faced a powerful challenge in recent months in the form of a worsening economic crisis. Its main cause is the decision by the PA to stop accepting tax monies that constitute half of its budget - NIS 9 billion of NIS 18 billion in 2018. This was done in defiance of Israel's decision to deduct from the money collected the amount that the Palestinians pay to the families of

Palestinian prisoners who committed terror attacks. The drastic budgetary shortfall has prompted the PA to announce a crisis-economy policy, which includes a 40-50 percent slashing of wages for some 160,000 civil servants (including 65,000 members of the security forces). The Palestinian Authority has also lodged appeals for aid with the Arab world, which has pledged \$100 million annually (to date, without delivering). Israel has halted the transfer of tax monies on several occasions in the past, notably during the second intifada, a move that had a dramatic impact on the economic situation in the territories. In other instances, Israel reconsidered such measures after apprehending the potential for deterioration in the situation - for example, in early 2015, after the PA became a member of several international organizations.

The most recent World Bank report on the fiscal-economic state of the Palestinian Authority ahead of the conference of donor nations provides far-reaching observations on the economic crisis. The report found ongoing decline in growth in the PA in 2018, reaching 0.9 percent in the West Bank (a negative growth when the 3 percent population growth is factored in). The report also noted the ongoing reduction in Western aid to the Palestinians (witnessed over approximately the last decade), which contrasts with the expansion of aid from Arab countries (which is nonetheless significantly lower than Western aid). Thus overall aid to the PA that stood at around NIS 4 billion in 2010 shrank to some NIS 2 billion in 2018. Compounding this has been the reduction in the UNRWA budget, which is a mainstay of the refugee sector in the territories and the diaspora, as well as the cutbacks in American aid to the Palestinians following the past year's harsh rift between Washington and Ramallah.

The developing economic crisis warrants a heightened alert as to a possible strategic shift in the Palestinian system. The crisis, should it prove protracted, and all the more so should it worsen, is liable to ignite several threats concerning Israel: an expansion of the circle of Palestinians involved in violent acts, specifically civil disturbances and terrorist attacks, in light of increased frustration and a change in the current cost-benefit considerations prevailing in the Palestinian public; difficulties for the PA to provide services in the civilian realm, for example in the area of civil infrastructures (a scenario liable to deepen the Palestinian public's dependence on Israel and gradually render the Palestinian government irrelevant); and compromises in the security cooperation, *inter alia* should individual members of the security forces - who themselves are hurt by the economic crisis - draw their own conclusions from the threats by senior Fatah and PA officials to cease the contacts with Israel (a development in this direction is liable to be manifested in reduced cooperation with Israeli security forces, or even a new wave of terrorism). Beyond that, the crisis in the West Bank will be translated into a more severe rollback of the PA's economic support for the Gaza Strip, which would likely exacerbate

the (already precarious) civilian situation in Gaza and eventually undermine the regional security situation.

The current economic crisis is linked to the "deal of the century," expected to be made public in the coming weeks, and this could prove to be a volatile coincidence. In Palestinian eyes, both the economic pressure and Trump's initiative stem from a coordinated "Israeli-American conspiracy" whose bottom line is to impose an arrangement that serves the interests of Israel and the United States while not meeting those of the Palestinians. For the time being, the approach of most of the Palestinian public to the "deal of the century" ranges from indifference to hostility, and in any event the public agenda is focused on the economic and not the political situation. Still, presenting the plan at a time when the entire Palestinian system is mired in an economic crisis is liable to aggravate overall tensions and unite the public and the leadership against a perceived common threat. The PA is even liable to incite public sentiments when the proposal is published, in order to play up the domestic challenges that confront it.

The Palestinian leadership continues in principle to display opposition to violence and the idea of dismantling the PA. It appears to be trying to manage a severe but containable crisis, whose bottom line is to bring about an end to the sanctions that Israel and the United States have imposed on the Palestinians and, in parallel, to foil the "deal of the century." Yet the emerging dynamic, centered on the public rancor that can be expected to gather strength as the economic crisis persists, is liable to outstrip the Palestinian Authority's capacity for planning and control, and to steer the entire system toward an unmanageable confrontation. There is no significant expression of the rancor on the street at this time, and it seems that the Palestinian public is still in shock or a state of bewilderment over the new reality. Still, the gathering frustration and fury are liable to erupt in blatant advance signals. Such an eruption could find expression in a range of ways, whether simultaneously or in a staggered fashion: broad-based, grassroots friction against Israel; spiraling "spontaneous" or officially organized terror; and public protests against the Palestinian Authority. The common assumption is that the West Bank differs from the Gaza Strip: while Gazans demonstrate an ongoing ability to "roll with the punches" and weather an existential distress dating back many years, a downturn in the West Bank of the kind now underway would be intolerable and likely to unleash a widespread and quick eruption.

Israel and the PA have not yet reached the point of no return. Compromise on the matter of the stipends to terrorists' families could provide a solution to the current crisis in a manner that would allow a renewed flow of tax monies to the Palestinian coffers. The Israeli government would do well to recognize that it faces two choices - bad and worse - and it should demonstrate the same flexibility and pragmatism toward the PA that

it now shows when it comes to the (still fragile) accommodation in the Gaza Strip. As with the Gaza Strip, so too in the West Bank this would entail compromising in return for ensuring strategic stability and a prevention of escalation that would generate grave consequences for security and statecraft. Time yields decisive weight in this context. The more swiftly a solution is found, so too is the likelihood that escalation would lessen, and the more accommodation carries, the more poignant is the threat of uncontrolled confrontation.

**Col. (ret.) Michael Milstein, formerly advisor on Palestinian affairs to the Coordinator of Government Activities in the Territories and senior officer in IDF intelligence, is head of the Palestinian Studies Forum at the Moshe Dayan Center for Middle Eastern and African Studies.*