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Becoming Part of Jordan and Egypt: A Palestinian Economic Imperative

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EXECUTIVE SUMMARY: Reintegrating into the Jordanian state is an economic imperative for the Arab inhabitants of the Palestinian Authority. Only by once again becoming citizens of Jordan will they be able to challenge the economic stone wall imposed by domestic Jordanian economic lobby groups barring West Bank exports. A two-state solution would lead, not to an economy of peace, but to an economy of violence as lobby groups in both Israel and Jordan shut out the Palestinian state's exports. The Palestinian state would inevitably react by threatening and committing violence to extract the international aid to which the PA has become accustomed.

By world standards, the economic welfare level of the inhabitants of the Palestinian Authority and Gaza is relatively sound (with a GDP per capita of US$2,867 for the PA and Gaza combined). West Bankers enjoy a GDP per capita level and life expectancy similar to those of neighboring Jordan. In Gaza, though GDP per capita is appreciably lower than in the Palestinian Authority, life expectancy is much the same (74 years) and higher than that of Egypt (72). According to the standards of the World Bank, West Bankers are middle class and Gaza residents lower middle class.

Despite the propaganda surrounding Gaza's economic plight, billions live shorter and economically equivalent if not poorer lives in South Asia (GDP per capita of US$1,542), including India (US$1,598 GDP per capita) and large swathes of Africa, especially east Africa. For example, the GDP per capita of Ethiopia, which has a population of 95 million, stands at a paltry US$500 compared to at least triple that amount in Gaza.

The difference is simply that poverty in Gaza makes the news while poverty in Ethiopia doesn't.

While the Palestinians' economic welfare is ostensibly fairly good, it is a matter of serious concern that neither in Gaza nor in the PA is that status determined by a functioning domestic economy. By far the most important element propping up Palestinian economic welfare levels is financial aid.

What is wrong, one might ask, with living a highly subsidized life as long as international donors such as USAID, the EU, and church-related NGOs are ready to foot the bills? Those bills include underwriting roughly one-third of GNP in the West Bank and considerably more in Gaza, the residents of which do not enjoy the substantial dividends derived by the 100,000-150,000 West Bankers who work in Israel at far higher wage levels than can be earned in the PA itself. After all, isn't this like the offspring of rich parents who enjoy a higher standard of living thanks to their parents' generosity?

Not quite. Economic aid in conflict situations often feeds violence directly and indirectly. One can safely assume that the highly sophisticated underwater equipment and arms Hamas recently attempted to smuggle in through Israeli ports was financed by Iran.

More significantly and certainly more subtly, the substantial economic aid the PA receives from the EU, USAID, and individual EU member states enables it to reward incarcerated terrorists, terrorists released from prison, and the families of terrorists both living and dead with generous stipends and financial support, as former IDF head of research intelligence Yossi Kuperwasser recently detailed. Such support acts as an incentive to commit acts of terrorism and lowers deterrence against those who would commit such acts even without incentives.

Yet the problem is even broader. The most important group actors on the Arab side – the PA, its militia Fatah, and Hamas – have perfected a deadly political economy rather than built a functioning one. It is the use of force, or the threat of the use of force, that assures the flow of aid from international actors, many of whom want to pacify the situation. The EU, USAID, and NGOs thus become accessories to a form of protection racket that demands, "Support me or I'll attack Israel and its Jewish citizens." The EU, anxious that Israel might retaliate and create a refugee problem whose imprint will be felt in Europe, plays the game and pays up.

Unfortunately, this state of affairs will only worsen if a Palestinian state comes into being.

Why is this? Because manufacturers in the PA and Gaza are shut out from their most important markets: Jordan and Egypt. Ironically, it is Palestinian business groups – Jordan's major entrepreneurs – who lobby to shut out West Bank industrialists from Jordan's commercial market. In Egypt, lobby groups act the same way. This is why the import-export trade volume between the PA and Jordan is miniscule and has hardly changed in twenty years.

In 2015, total trade between the PA and Jordan stood at a paltry US$167 million. PA exports to Jordan amounted to US$60 million against US$107 million in imports from Jordan. PA exports to Jordan comprise less than 7% of total PA exports. In contrast, Canada, which neighbors the US, buys 18% of US exports and Mexico 16%.

Graver still is the influence of the Jordanian shutout of PA imports on the possibility of exporting West Bank goods to the markets of Arab states beyond Jordan, mainly the wealthy Gulf states. The PA exports only US$61 million to the Arab world, whereas Jordan exports over US$2 billion to Saudi Arabia and Iraq alone. The shutout effect is best exemplified by the pharmaceutical industry. The West Bank exports only US$20 million worth of drugs compared to the almost half a billion dollars' worth of pharmaceuticals Jordan sells, mostly to the Arab world. One can assume that much the same occurs in the advanced service industries, such as software programming.

The inhabitants of the PA clearly have to be reintegrated into the Jordanian state. (The imperative for reintegration into Egypt is even more dire for Gaza, though far less realistic at present). Only as citizens of the Kingdom do West Bankers have any chance of fighting the shutout and creating a functioning economy geared towards peaceful pursuits. Only the Jordanian option, embedded in a wider regional cooperative setting – for example, one that would commit Israel to allow West Bankers to continue enjoying access to the Israel labor market – can ensure an economy of peace.

The alternative, the so-called two-state solution, runs the risk of violence and instability as lobby groups in the neighboring "giant" states, Israel and Jordan ("giant" compared to the Palestinian West Bank state), effectively shut out their landlocked competitor. The Palestinian state would inevitably react with violence, either threatened or manifest, to extract the international aid to which the PA has become accustomed.

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