

An Israel-Palestine Economic Assessment

Introduction

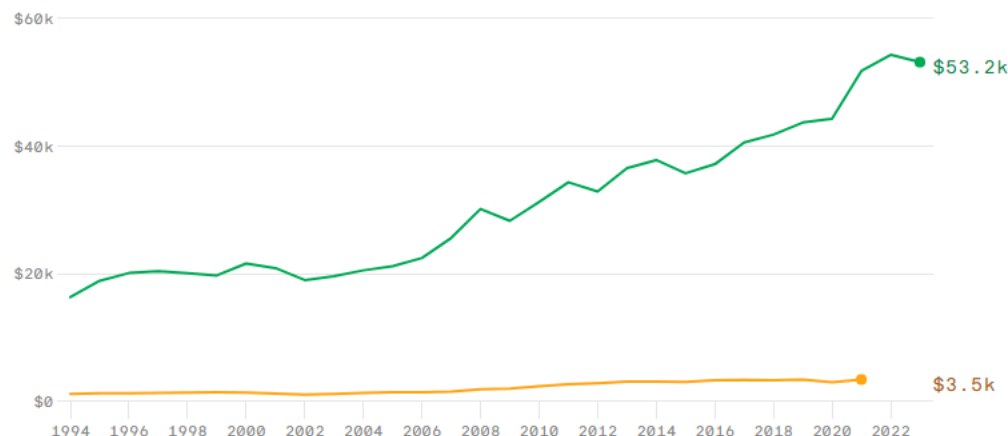
Israel and Palestine are often thought of as two separate economies. However, in many ways, they function as a single economy. Israel has militarily occupied the Palestinian territories since 1967 and has not recognized Palestine as a separate and independent state. There is a single currency in Israel and Palestine, the New Israeli Shekel. Israel controls the population registry and produces ID cards for Palestinian civilians.

Israel controls imports and exports from the Palestinian territories as well as the movement of people to and from the territory, except for the border between Gaza and Egypt. Before the outbreak of war between Israel and Hamas on October 7th, around 15% of Palestinians were employed in Israel. Israel is Palestine's largest trading partner.

However this 'single economy' is not highly functional. While Israel is one of the top-performing economies in the world with strong economic growth statistics for the last 30 years, Palestine is one of the poorest economies, around 15 times smaller than Israel in terms of GDP per Capita.

GDP per capita in Israel and the West Bank and Gaza

Annually; 1994–2023



Note: West Bank and Gaza GDP data is unavailable for 2022 and 2023; Data: IMF; Chart: Axios Visuals

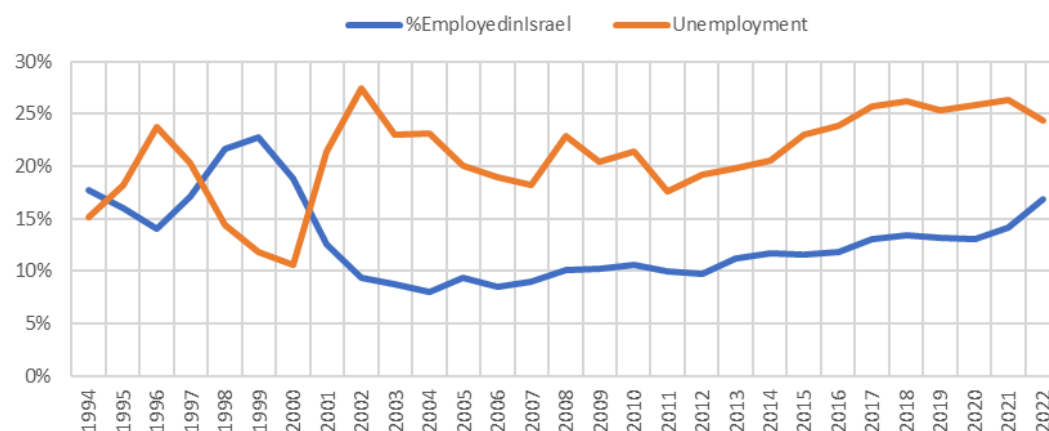
Fig.1

The conflict has severely restricted economic activity and job creation in Palestine. Israeli closures, restrictions on movement, and security measures have disrupted supply chains, limited access to markets, and discouraged foreign investment.

Additionally, The Palestinian economy is heavily reliant on the Israeli market for goods, services, and job opportunities. The welfare of many Palestinians is heavily dependent on their ability to work in Israel. According to the World Bank, around 200,000 Palestinians hold work permits to work in Israel, representing approximately 15% of the Palestinian workforce. Over recent years, there has been a negative correlation (-0.49) observed between the proportion of Palestinians employed in Israel and Palestinian unemployment

rates. These workers earn significantly higher wages in Israel than they could in Palestine, contributing substantially to their families' incomes.

Share of Palestinians Employed in Israel of all employed Palestinians and Unemployment Rate in Palestine

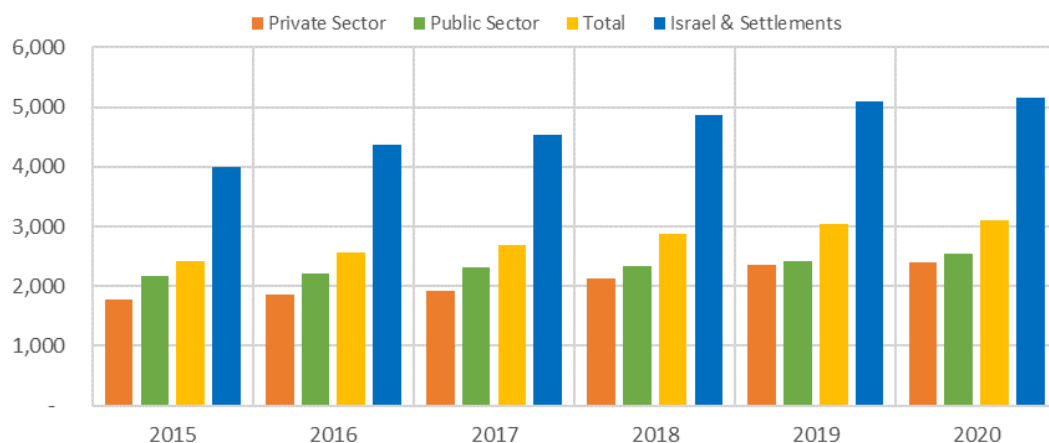


Source: PCBS

Fig 2

Because of the large income gap between the territories, Palestinians employed in Israel receive significantly higher wages than their counterparts working in the public or private sector within Palestine. In 2020, the average monthly wage for Palestinians in the West Bank working in Israel was 5,158 shekels, compared to 2,546 shekels for those working in the public sector and 2,396 shekels for those working in the private sector.

Monthly Wages in the West Bank by Sector



Source: PCBS, Daily wages multiplied by 20

Fig. 3

The Gini of Israel-Palestine

The Gini Index is a common equation to calculate inequality in a country or region. The Gini Index measures the extent to which the distribution of income among individuals within an economy deviates from a perfectly equal distribution. A Gini Index of 0 represents perfect equality, while an Index of 100 implies complete inequality. The Gini Index is often correlated with an increase in instability and violence.

The Gini Index is calculated by dividing the population into 10 deciles and comparing the average post-tax income of each decile relative to the even distribution of the total post-tax income at each decile.

Israel's Gini Index in 2016 was 46.5, which is among the highest of the OCED Countries. For example, the USA is considered to have relatively high income inequality with a Gini Index of 39.8 in 2021. Palestine on the other hand in 2016 had a Gini Index of 58.8 which is considered very high. One of the interesting statistics that we noticed is that the annual income of the lowest decile of Israel is higher than the highest decile of Palestine.

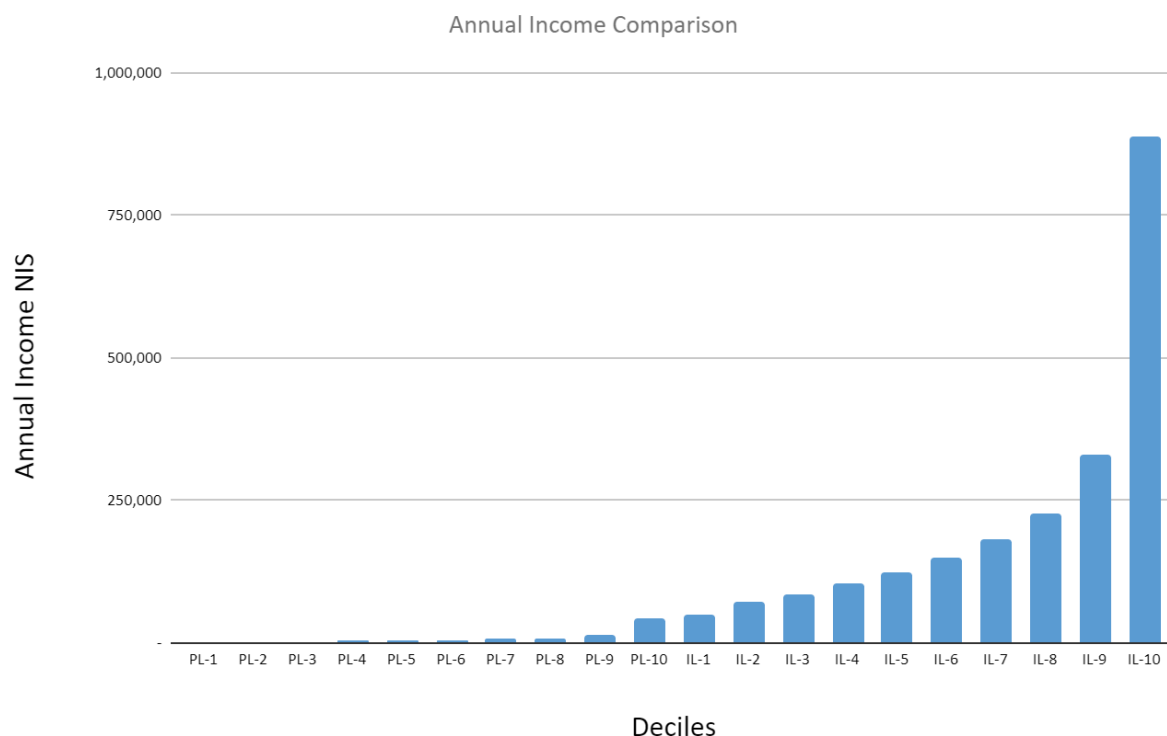


Fig 4. Comparison of Palestine (PL) to Israel (IL) Deciles

We then calculated the Gini Index for a combined Israel-Palestine, as if it were a single economy since in many ways it behaves like one. We wanted to see how the Gini of Israel-Palestine would compare to other countries. We calculated the Gini of Israel-Palestine by combining the two sets of deciles from the 2016 data and making adjustments relative to the population size, considering that Israel with its 9.5 Million people is roughly 66% of the total population of 14.5 million of Israel-Palestine. We calculated the Gini Index of Israel-Palestine to be 60.4, which would make it the second highest in the world following South Africa.

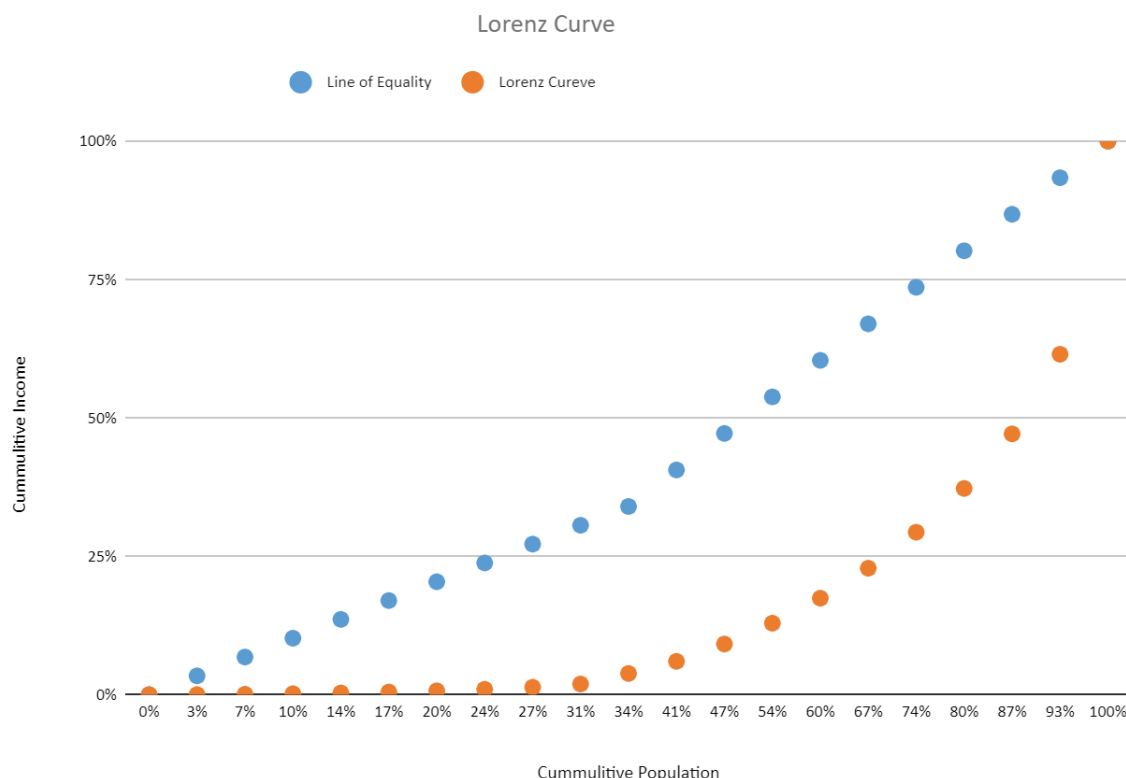


Fig 5. The Lorenz Curve used to calculate the Gini Index for Israel-Palestine

A high Gini Index is often correlated with instability and violent crime, particularly a high homicide rate. For example, in countries such as Colombia, South Africa, and El Salvador you have a strong correlation with a high Gini Index, near or above 50, and a very high homicide rate, near or above 40 persons per 100,000. Numerous studies looking at dozens of countries across decades have shown that the Gini Index was the best predictor of an increase in homicide rates.

The Homicide rate for Israel in 2023 was 3.04 per every 100,000 people, in Palestine, it stood at 1.4. These separately are considered relatively low numbers similar to countries in Europe. However, between 1994 and 2024, approximately 45,284 were killed in Israel-Palestine as a result of the conflict. That is an average of 1509 people per year or a homicide rate of 15.1 per 100,000 persons (accounting for an average population of 10 million over the 30 years). This combined with the total internal homicide rates gives an Israel-Palestine Homicide Rate of 17.6 per 100,000.

This is a similar number to the homicide rate in Ecuador which in 2021 had a homicide rate of 13.7 per 100,000 and a Gini Index of 45.5 until in recent years the homicide rate has climbed significantly to make Ecuador one of the most violent countries in Latin America. The Current Homicide Rate in Ecuador stands at around 45.5 per 100,000, demonstrating the danger of such a high level of inequality.

Palestinian Labor an underutilized Resource

The human capital in the West Bank and Gaza is underutilized, even though Palestine has a high Human Capital Index (HCI) compared to other low-middle-income countries. The HCI for Palestine is 0.58, higher than

the average for low-middle-income countries (0.48). A relatively high HCI score indicates the educational and health level, is higher than other populations with similar income levels. In recent years, the proportion of West Bank Palestinians with a BA or higher education attainment is steadily increasing, particularly for women.

Education Attainment of BA and above, West Bank [%]

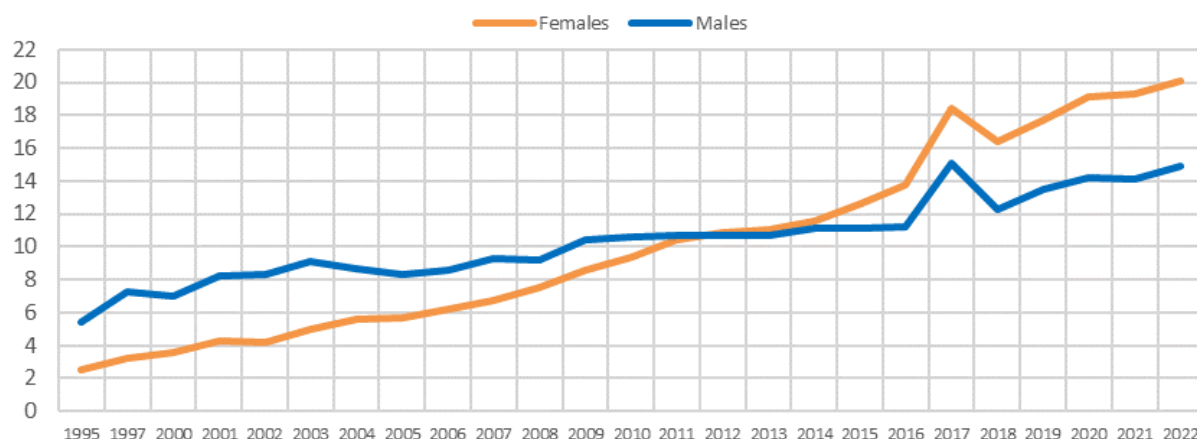


Fig. 8

Palestinian Central Bureau of Statistics (PCBS)

Considering that the Palestinian population in the West Bank and Gaza rank high on the World Bank's Human Capital Index, and proximity to major economic centers in Israel, we expect to see the easing of restrictions and economic cooperation to result in significant income growth in the Palestinian households. Within a few years, they should be able to attain a significant level of economic prosperity as we move towards economic equity among all the people of Israel-Palestine.

Human Capital Index in Israel and Palestine (West Bank and Gaza)

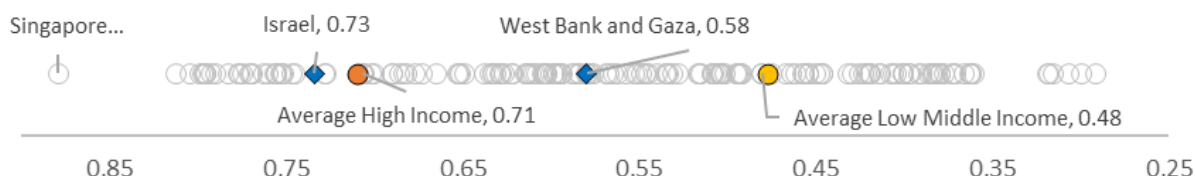


Fig. 6 - The World Bank, Human Capital Project, "Human Capital Brief on West Bank and Gaza", October 2022

Educational Disparities

In Israel, an average of 24% of students graduate with a degree from a higher education institution. However, if you break this down into subgroups you can see that around 40% of non-Haredi Jewish Israelis have a university degree (45% for women and 37% for men). Whereas for Arab citizens of Israel, the numbers are closer to 20% (20% for women and 18% for men) which is more similar to the numbers for Palestinians which are around 17% (20% for women and 15% for men). As of 2014, among those aged 25-35, just 2% of Haredi men and 8% of women had a college degree.

Education Levels by Population Group Ages 25-64, 2016

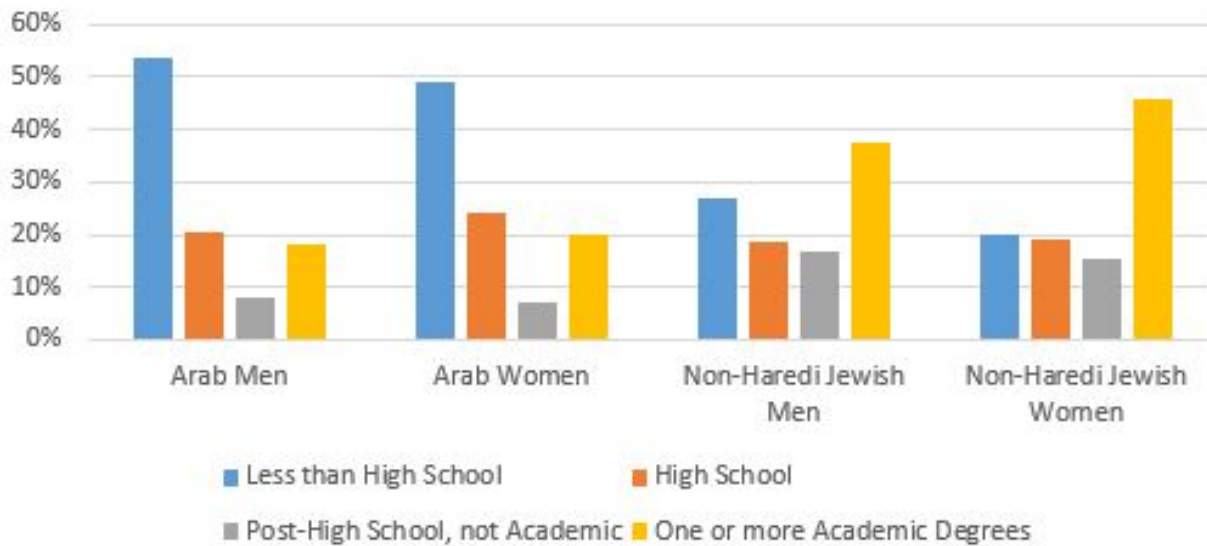


Fig. 9

Education level is the State of Israel - Israel Central Bureau of Statistics (CBS)

Israel is already a Dual-Economy

The Israeli economy is dominated by high-tech Start-Ups with the world's highest number of start-ups per capita with over 6,000 active start-ups and the second-highest R&D expenditure per capita. However, the majority of startups are closed within 5 years, 70% are closed within 10 years, and only 40% of them ever turn a profit. Israel has had an average of 1020 new start-ups each year between 2011 and 2022. The number of new start-ups has been declining in recent years.

While Israel has a reputation as the 'Start-up Nation', in many ways it is also the 'Exit Nation' with an average of around 150 Exits per year. Most of these Exits tend to move their production of the developed product(s) out of the country. This means that the most profitable start-ups tend to leave the country in the long run. Therefore job stability in the Israeli employment market is low with employees often choosing between a high-paying start-up opportunity or a lower-paying job at an established company.

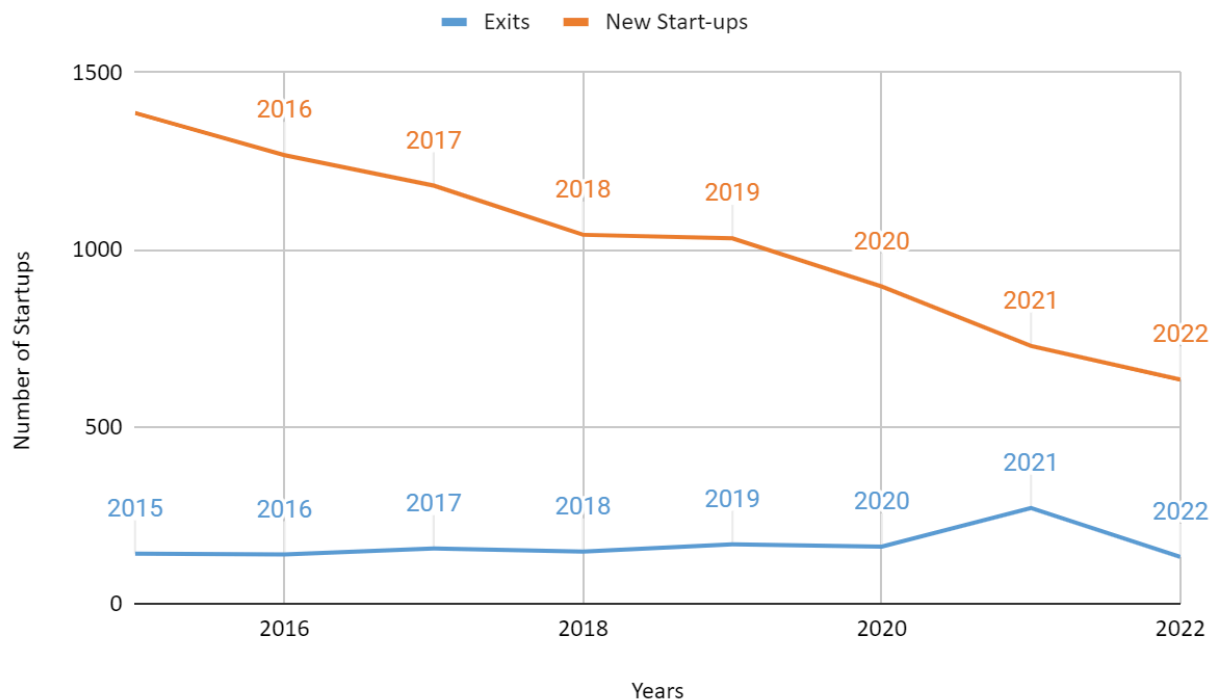


Fig. 10

Number of New and Exiting Start-ups in Israel 2015-2022

Israel exhibits characteristics of a "dual economy", while the high-tech sector in the greater Tel Aviv region of Israel is very impressive making Israel one of the strongest economies per capita in Asia, their manufacturing industrial sector is relatively weak leaving the periphery areas of Israel relatively underdeveloped. This has a lot to do with the cost of labor in Israel being relatively high in Israel. While the level of innovation is very high and many new products are invented in Israel, these ideas tend to get sold off to international companies who offshore manufacturing to developing economies such as in South Asia or Latin America.

Offshoring to Palestine

Right next to Israel, there is a small country with an educated population with a high Human Capital Index. That country also has a significantly lower labor cost than in Israel. Palestine would be an ideal location for Israeli companies to use for outsourcing the manufacturing of goods that are developed in Israel. With easy access only an hour or so drive from the major economic centers of Israel at a 50% reduced cost in labor, "Developed in Israel and Made in Palestine" would not only make good business sense but would also be an attractive marketing slogan in a world that both supports Israel and is equally concerned for the development and well being of Palestine.

What if we could do even better? What if there was a way to make it in the interest of Israel to manufacture in Palestine, where Israel could see financial benefit directly from 'offshoring' to Palestine? What if it were in Palestine's interest to prioritize the manufacture of Israeli products because they were also seeing direct benefits?

An Economic Union

“THE STATE OF ISRAEL is prepared to cooperate with the agencies and representatives of the United Nations in implementing the resolution of the General Assembly of the 29th November 1947, and will take steps to bring about the **economic union** of the whole of Eretz-Israel (Palestine).”

Israel Declaration of Independence, May 1948

Unifying the economies and establishing a single labor market presents an opportunity for Palestinians to access more Israeli jobs, enabling them to harness their economic capabilities and elevate their quality of life. The utilization of the economic potential will be beneficial to both Palestinians and Israelis.

Recognizing the importance of providing equal opportunities for human development and contributing to the development of the land for all of its inhabitants, we base the economic policies on the principle of Economic Federalism.

1 Economic Federalism will serve as the guiding principle of the Economic Union, incorporating a multi-tiered Union Fiscal System. Tier one will operate at the federal level, tier two will function at the State level, comprising two equal and parallel systems – one of Israel and one of Palestine.

Union Fiscal System		
Union - Tier 1	Union Fiscal System (Tax + Spending)	
State - Tier 2	Israel State Fiscal System (Tax + Spending)	Palestine State Fiscal System (Tax + Spending)

The federal fiscal system (tier one) will levy taxes on all individuals and legal entities within the Economic Union. The spending of these tax revenues will be conducted under the law of the federal budget, as legislatively determined by the Union's governing body.

Each State's fiscal system will levy taxes on individuals and legal entities residing within Israel or Palestine. The spending of these tax revenues will be conducted under the law of the local government and based on spending limits set by the Union's governing body.

Based on the principle of economic federalism, the Union's governing body will see equitable economic development as its main priority. To meet this end, the Union's governing body will strive to fulfill the full potential of its states as well as promote federal-wide policy. The Union's governing body will be open to all economic cooperation with other states and international organizations. Economic development is not a panacea, but we firmly believe it has a pivotal role in fostering a life of dignity, and prosperity as a crucial element in the path to peace.

2 The economy of the Union will be a common market economy with a common external tariff. In this common market, the States of Israel and Palestine will allow free trade and free movement of labor and capital between them. There already is a single currency and interest rate managed by the Bank of Israel. This can be renamed the Bank of Israel-Palestine with the New Israel-Palestine Shekel as its official currency.

3 Each of the two states may have different tax rates and regulatory policies, though the goal will be to harmonize regulations as much as possible to allow for the free movement of goods between the two states. There will be Federal Taxes in addition to State Taxes. Tax rates will vary from region to region to enable the developing areas in the State of Palestine to compete with more economically developed regions in Israel.

4 The Creation of the Special Economic Districts will welcome foreign investment into Israel-Palestine that aims to contribute to support this union in various ways, with low-tax regions that will be federally managed.

5 The National Security programs of Israel and Palestine, which are equivalent to the 'Social Security program in the US, as well as the national public health programs of both states, will be merged and federally managed so that residents of either state will receive the same quality of healthcare and social services.

6 The Union's governing body will create a Union Development Agency to fund Unionwide projects fostering economic convergence between the two economies. This agency will help streamline foreign aid coordination to finance projects aimed at industrialization, job creation, economic development, and investment in human capital.

7 A great deal of investment also needs to be made in the Palestinian Educational system to increase the educational quality to that of Israel such that they can reach similar outcomes as in Israel. Allowing Palestinians to access Israeli universities, combined with significant investment in the Palestinian education system, will allow the Palestinians to fully reap the benefits of proximity and integration into the Israeli high-tech economy.

8 There is a great need for industrial development in Palestine and the Israeli periphery. Israel has one of the highest income inequalities of any OECD country due to this socio-economic disparity between the greater Tel Aviv region and the periphery of the country, both in the North and South. This will create a challenge in the context of the Union as lower-cost Palestinian labor will be able to outcompete Israeli labor in the already weak Israeli industrial sector. Therefore there will also need to be a significant development in education and industrialization in the Israeli periphery as well.

9 What we suggest will be needed is the following:

9.1 An increase in foreign aid and investment that will help develop the manufacturing industrial sector in Palestine and the periphery regions of Israel would be coordinated by the Union Development Agency.

9.2 Investment in education and human capital will allow the inclusion of new populations into the high-tech sector thus diffusing the current Israeli high-tech industry to new populations.

9.3 Long-term social program addressing inequality and elimination of poverty.

9.4 To foster convergence in terms of economic development and allow for labor and goods mobility, the Union's governing body will commit to improving the infrastructure of the Union.

10 In the long run we expect to see significant economic growth among all sectors of the Israel-Palestine economy along with the increase in standard of living and life expectancy particularly among the Palestinian population. The language barrier is one of the Major challenges to this economic development we foresee. This is why in the context of developing this Israel-Palestine Common Market it is strongly recommended that Israelis learn Arabic and that Palestinians learn Hebrew.

Conclusion

The Union will be open for trade and economic cooperation with all world nations. Positioned at the crossroads of three continents and embodying both Eastern and Western attributes, we aspire to serve as a 'bridge' uniting East and West, fostering prosperity for its citizens and catalyzing positive transformations across the region.

We call to all nations worldwide, urging cooperation, trade, and recognition of the economic prosperity crucial to this sacred land, revered by three major religions, as well as to aid in creating a positive future for people who have suffered through 100 years of conflict. A prosperous Israel-Palestine will lead to significant positive changes throughout the region and be an inspiring demonstration of the goodness of human nature to overcome a conflict and transform it into a situation of deep cooperation and mutual respect.