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Israeli- Palestinian Trade: In-Depth Analysis

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MIDDLE EAST

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ISRAELI-PALESTINIAN ECONOMIC RELATIONS

The Palestinian economy is overwhelmingly dependent on Israel. At the same time, the ongoing conflict with Israel has a huge economic cost on the Palestinian economy—in both the West Bank and Gaza. This cost is particularly stark when compared with the considerable economic benefits that Egypt and Jordan achieved after signing peace treaties with Israel.

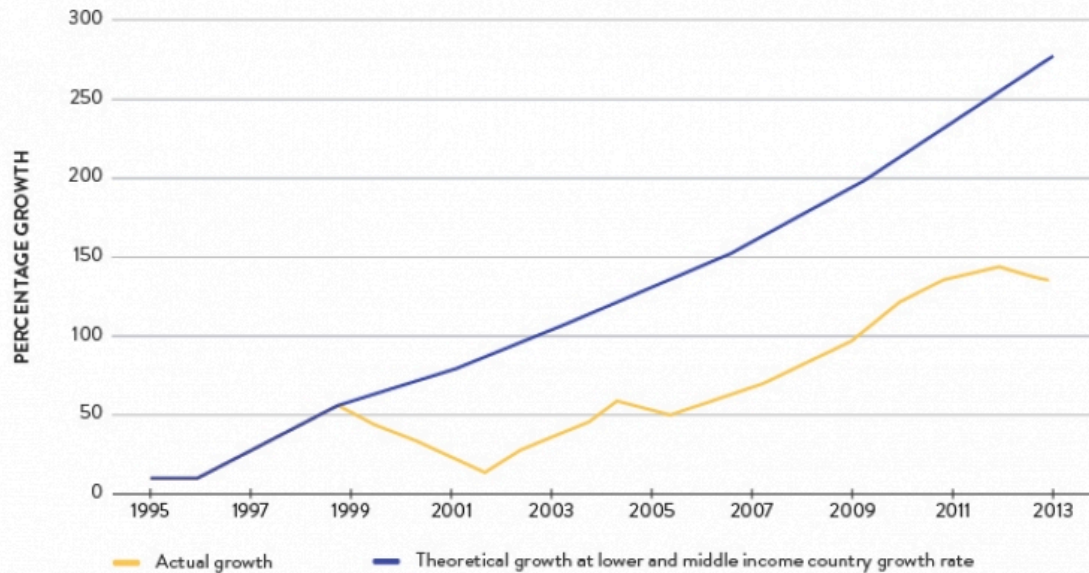
Israel continues to be the Palestinian Authority's largest trading partner, and this in-depth study finds considerable potential for greater economic cooperation.

This is one of three papers detailing Israel's trading relationships, alongside others looking at relations with Jordan (<https://institute.global/insight/middle-east/israeli-jordanian-trade-depth-analysis>) and Egypt (<https://institute.global/insight/middle-east/israeli-egyptian-trade-depth-analysis>).

Since the First Intifada in 1987–1993, the Palestinian economy has experienced three decades of economic losses, with little chance of recovery now in sight. An in-depth study in 2015 estimated lost

Palestinian gross domestic product (GDP) growth over the two preceding decades at around half of the potential growth under non-conflict conditions (see figure 1).¹ Other studies, using various research methodologies, indicate economic losses of a similarly large magnitude.²

Figure 1: Lost Palestinian GDP Growth, 1995–2013



Source: Palestinian Central Bureau of Statistics, World Bank

Israel, too, has incurred considerable economic costs as a result of the conflict with the Palestinians. These include direct and additional defence costs. Additionally, there are risks and costs related to Israel’s conflicts with non-Palestinian parties as well as various degrees of explicit and covert economic boycotts.

1 Karim Nashashibi, Yitzhak Gal and Bader Rock, “Palestinian-Israeli Economic Relations: Trade and Economic Regime”, Office of the Quartet Representative, June 2015, <http://www.quartetoffice.org/files/image/report.pdf>.

2 See World Bank estimates in “Economic Monitoring Report to the Ad Hoc Liaison Committee”, 18 September 2017. See also detailed analyses in RAND Corporation, “The costs of the Israeli – Palestinian Conflict” (2015); Sami Abdel-Shafi, “Realigning EU Policy in PA: Towards a Viable State Economy and Restored Dignity”, Chatham House, October 2015; Yossi Zeira et al., “Palestinian Economic Development: The Destructive Effect of Occupation”, in *Economics and Politics in the Israeli Palestinian Conflict*, ed. Arie Arnon and Saeb Bamyia (AIX Group, February 2015), 39–68; and Peres Center for Peace and PalTrade, “The Untapped Potential”, December 2006.

According to a detailed study conducted in 2014–2015, direct and indirect associated defence and related costs amount to 15 per cent of Israeli GDP. Based on the detailed analysis of defence costs, and the precedent of the decline in defence costs after Israel’s peace treaty with Egypt, the overall cost of approximately 15 per cent of GDP can be expected to decline (gradually) by about half once the conflict is settled. That is to say, an end to the conflict would lead to a 7 per cent rise in Israeli GDP.³

The cost of lost economic potential is also considerable for Israel, though less than for the Palestinian side.

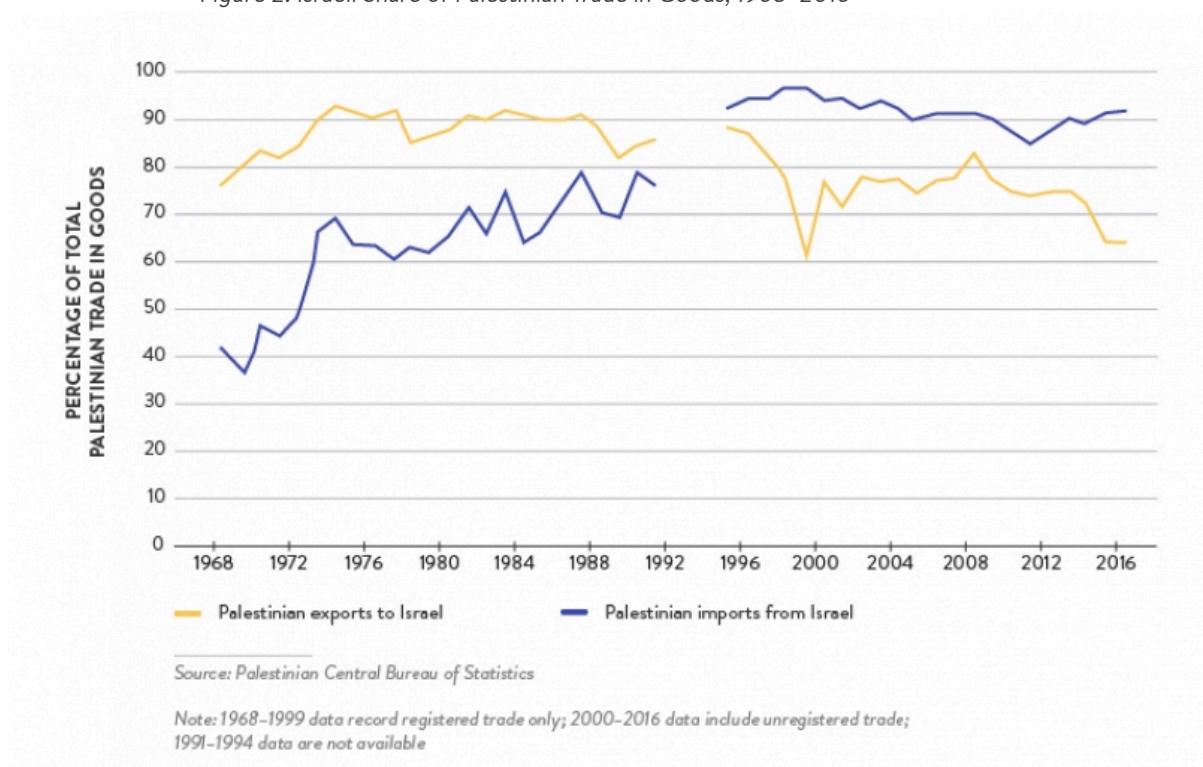
3 Yossi Zeira et al., “The Economic Costs of the Conflict to Israel: The Burden and Potential Risks”, in *Economics and Politics in the Israeli Palestinian Conflict*, ed. Arie Arnon and Saeb Bamyia (AIX Group, February 2015), 83–89.

ISRAELI-PALESTINIAN TRADE

THE TRADE IMBALANCE

Israel is the Palestinians' largest trade partner, although there has been a significant increase in Palestinian trade with other markets in recent years. Since the mid-1990s, Israel has been an almost exclusive destination for Palestinian exports, taking on average more than 90 per cent of total Palestinian exports of goods, including unregistered exports (see figure 2).⁴

Figure 2: Israeli Share of Palestinian Trade in Goods, 1968–2016



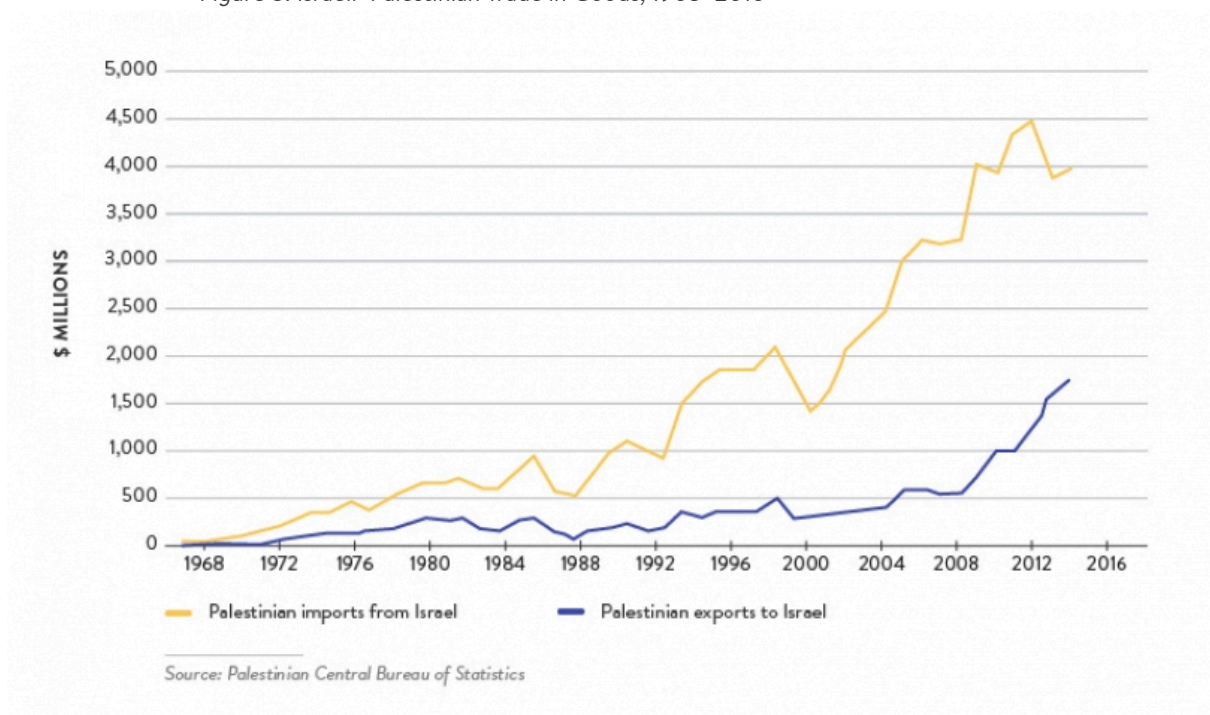
Exports to other markets—mainly Arab markets, including Jordan—have increased in recent years. However, in the years 2014–2016 Israel still accounted for about 90 per cent of Palestinian exports of goods. Israel is also the source of most imports, though its share in Palestinian imports of goods significantly decreased from 75–80 per cent in 2000–2013 to

⁴ See below for an explanation and comparison of the different sources of Israeli and Palestinian trade data, balance-of-payment vs. external-trade data and the issue of unregistered trade data.

65–70 per cent in 2014–2016. Nevertheless, almost all Palestinian imports from non-Israeli markets still come through Israel, and a large part through Israeli importers.⁵

Israeli-Palestinian trade in goods is radically imbalanced in favour of Israel. Despite a significant increase in Palestinian imports from other markets in recent years, Palestinian imports of goods from Israel are still 2.5–3 times higher than Palestinian exports to Israel (see figure 3).

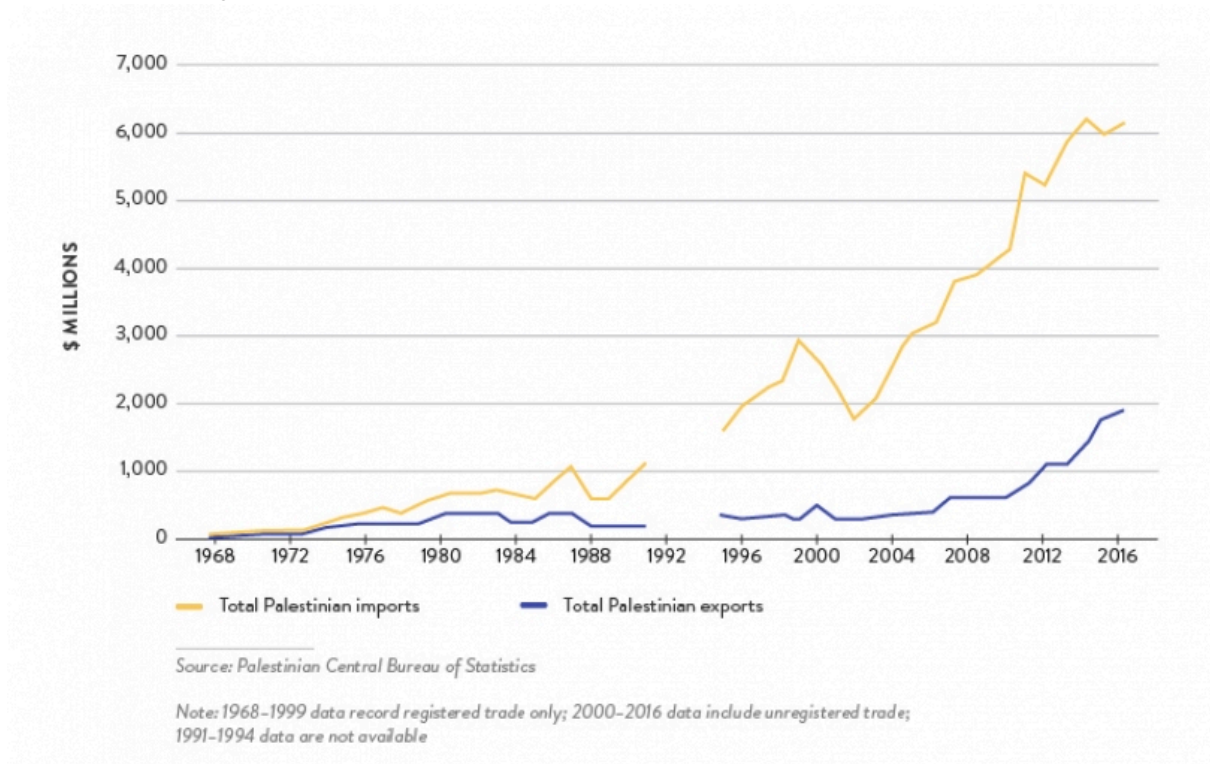
Figure 3: Israeli–Palestinian Trade in Goods, 1968–2016



The imbalance in trade in goods is even more extreme in relation to non-Israeli markets. Although Palestinian exports to these markets have doubled since 2010, the total volume is still very small—about \$150 million in 2015–2016. Palestinian imports of goods from non-Israeli markets also doubled between 2010 and 2016, but the absolute size of these imports grew considerably, from \$1.1 billion to \$2.2 billion. As a result, the deficit in Palestinian trade with non-Israeli markets jumped from \$1 billion to \$2 billion. The overall Palestinian trade deficit trade in goods—with Israeli and non-Israeli markets—increased from around \$3.5 billion in the late 2000s to around \$4.5 billion in 2014–2016 (see figure 4).

5 Foreign-trade statistics, Palestinian Central Bureau of Statistics.

Figure 4: Total Palestinian External Trade in Goods, 1968–2016



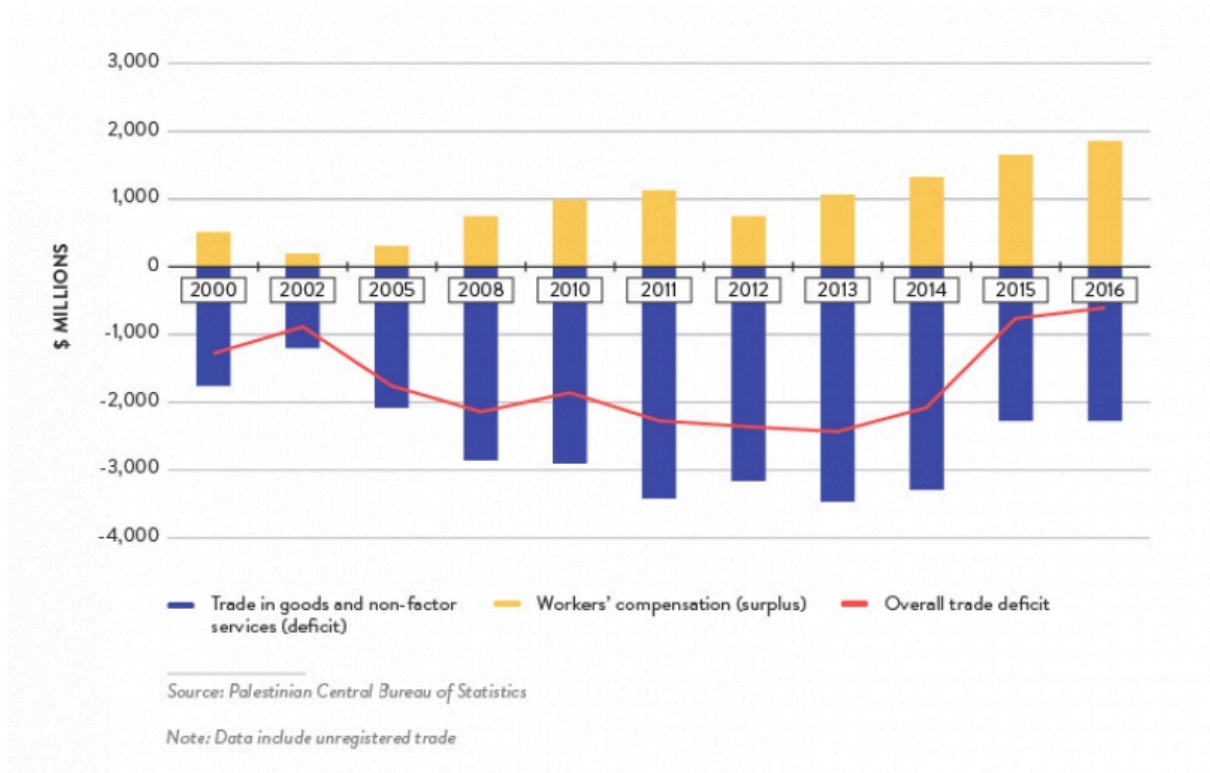
The large Palestinian deficit in its balance of trade in goods (about 35 per cent of GDP), and its continuous increase, reflects the pattern of economic growth in the past two decades: fast growth in consumption and investment in residential buildings, fed by external aid and income from work in Israel. At the same time, the productive and exporting sectors of the Palestinian economy are stagnating.

Part of the huge deficit in Palestinian trade in goods is covered by a significant and fast-increasing income from exports of so-called work services to Israel.⁶ That source of export income doubled from around \$500 million in the mid-2000s to \$1 billion in 2010, and again to almost \$2 billion in 2016 (see figure 5). By 2016, Palestinian workers' compensation covered about 85 per cent of the deficit in the trade-in-goods account with Israel. The total deficit in Palestinian trade with Israel decreased from around \$2 billion in 2008–2010, and \$2.5 billion in 2013, to only \$500 million in 2016.⁷

6 Workers' compensation in the Palestinian balance of payments.

7 Trade in goods, regular non-factor services and workers' compensation, combined.

Figure 5: Israeli-Palestinian Trade Deficit by Component, 2000–2016

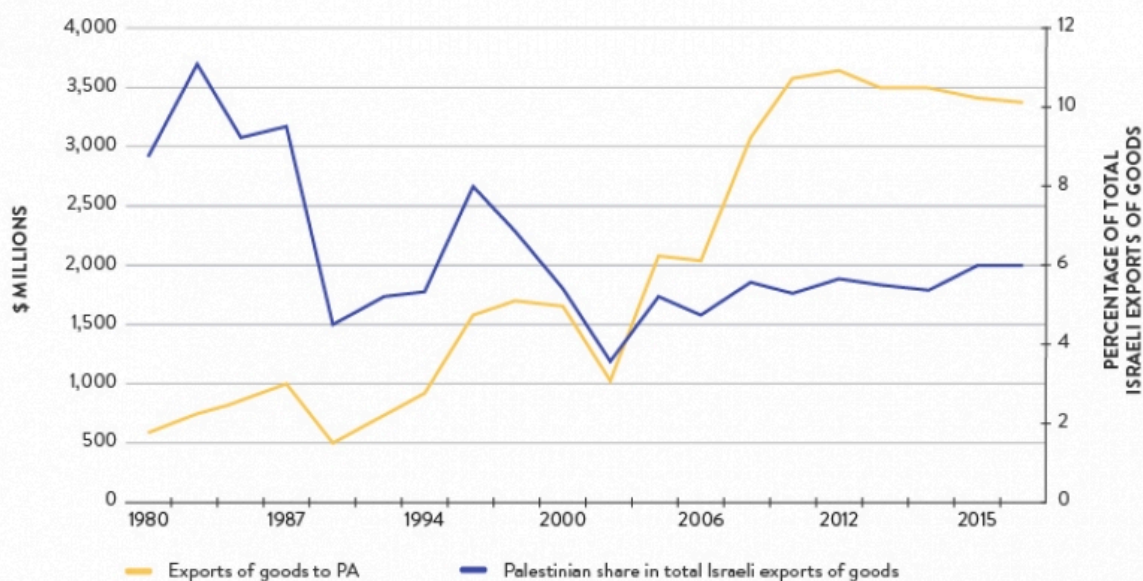


ISRAELI EXPORTS OF GOODS TO THE PALESTINIAN AUTHORITY

The Palestinian Authority (PA) is still among the most important export markets for Israel. With a total of close to \$3.5 billion in goods exports a year between 2014 and 2016, the Palestinian market ranks fourth among Israel’s top export markets—after the United States (US), China and Hong Kong, and the United Kingdom (UK)—and accounts for 6 per cent of total Israeli exports of goods (see figure 6).⁸

⁸ Trade database, Israel Central Bureau of Statistics, November 2017.

Figure 6: Israeli Exports of Goods to the Palestinian Authority, 1980–2016



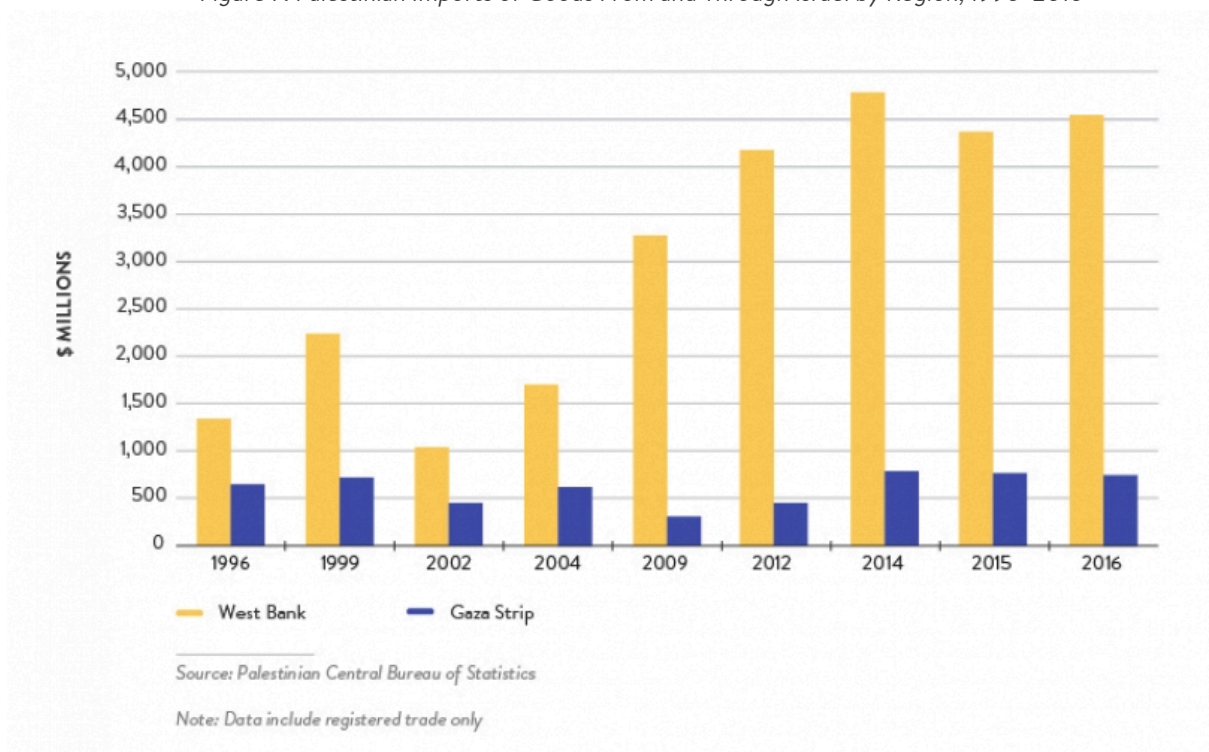
Source: Israel Central Bureau of Statistics

Nevertheless, long-term analysis indicates steep fluctuations and a significant decline over time in the share of the Palestinian market in total Israeli exports of goods. The Palestinian share fell from around 10 per cent in the first half of the 1980s to 4–5 per cent in 1988–1993, the time of the First Intifada and its aftermath. Then, a partial recovery was recorded, to around 7–8 per cent in 1995–1999 (the period before the Second Intifada), followed by another sharp decline to around 4 per cent during the Second Intifada in the early 2000s. A slow recovery has taken place since the mid-2000s, to around 5.5 per cent in the second half of the 2000s and 5.5–6 per cent in 2010–2016.

Israeli-Palestinian trade is greatly influenced by security and political developments. That can be seen by comparing the development of Israeli exports to the Gaza Strip with those to the West Bank. In the early years of the Second Intifada (2001–2002), exports from Israel to the Gaza Strip were hit less than those to the West Bank. Exports also recovered faster in Gaza in 2003–2004, reflecting the relatively calmer security situation in Gaza in these years. That trend was reversed in the second half of the 2000s. The Israeli blockade on Gaza since Hamas’s takeover of Gaza in 2007 was mirrored by a steep decline of Israeli exports to this area.

In the West Bank, meanwhile, an improvement in the security situation under then PA Prime Minister Salam Fayyad was reflected in a very fast growth of exports from Israel to the West Bank. In 2009, Israeli exports to Gaza were 60 per cent lower than in 1999, while Israeli exports to the West Bank were 150 per cent higher than in 1999. By 2012, Israeli exports to the West Bank had jumped fourfold since 2002, the lowest level of the intifada. In Gaza, the partial relaxation of Israeli restrictions on exports to Gaza in the second half of 2010 was accompanied by a close to 200 per cent jump in Israeli exports to Gaza between 2009 and 2014 (see figure 7).⁹

Figure 7: Palestinian Imports of Goods From and Through Israel by Region, 1996–2016

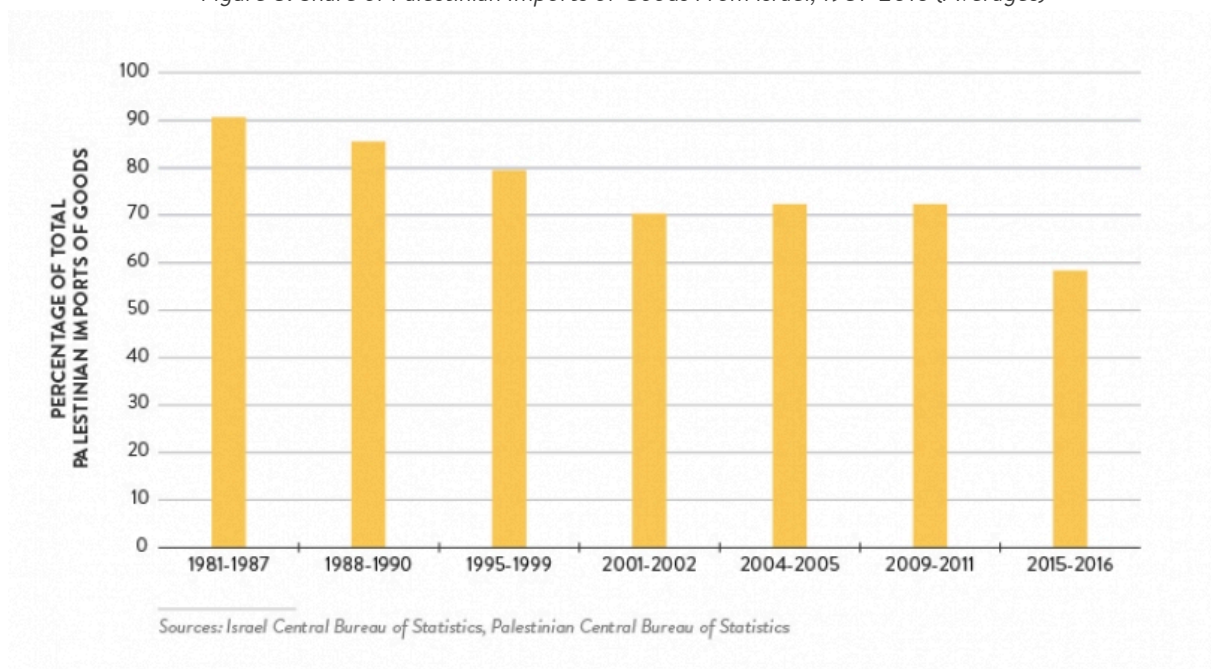


In 2014–2016, Israeli exports to both areas showed a moderate decline. This trend reflects stagnation in economic activity in the West Bank and the limited extent of reconstruction and regeneration of economic activity in Gaza after the initial recovery in the early 2010s.

⁹ Palestinian Central Bureau of Statistics import statistics from Israel do not distinguish between Palestinian imports from Israel itself and those coming through Israel. Therefore, these data also include Israeli re-exports to the Palestinian Authority (PA) as well as direct imports of the PA from abroad arriving through Israel ports.

Israel's share in Palestinian imports of goods has declined consistently in recent years (see figure 8). This trend is the combined result of two processes that have taken place since the Second Intifada. The first is a decrease in Palestinian purchasing power, compared with previous periods, reflecting a decline in the income of Palestinian households. This has resulted in reduced consumption per capita of non-basic finished consumer products, which are imported mainly from Israel. The second process is the dramatically reduced purchase of production inputs, equipment and semi-finished products (which are also imported mainly from Israel) by the Palestinian industrial and agricultural sectors. That trend stems from the decline of the Palestinian agricultural sector and stagnation of the industrial sector. At the same time, imports of basic foodstuffs and other basic products, which are purchased mainly from non-Israeli markets, are less sensitive to a decrease in purchasing power. Imports of these categories of products have continued to grow.¹⁰

Figure 8: Share of Palestinian Imports of Goods From Israel, 1981–2016 (Averages)



Part of Israeli exports to the PA is composed of fuel products, energy (mainly electricity) and re-exports, where Israeli added value

¹⁰ Analysis of detailed Palestinian Central Bureau of Statistics foreign trade statistics; Yitzhak Gal, “Survey of Palestinian - Israeli Trade”, unpublished paper, 2013, 17; Peres Center for Peace and PalTrade, “The Untapped Potential”, December 2006, 34–37.

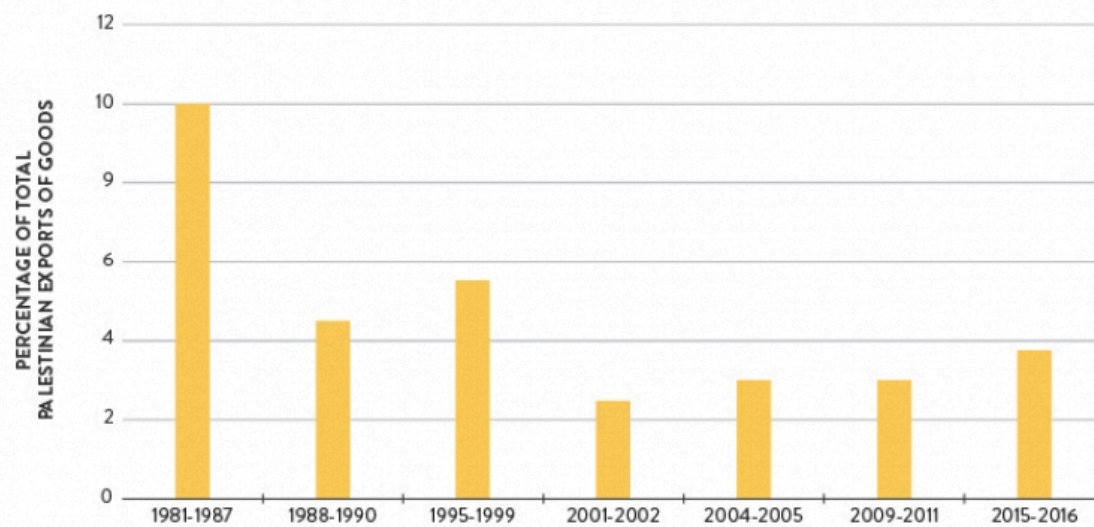
is relatively low.¹¹ If these categories of products are deducted, Israeli net exports to the PA totalled slightly more than \$2 billion between 2014 and 2016, meaning the PA ranked seventh in Israel's export markets—higher than France, Germany, India and other important markets. At that volume, net Israeli exports to the PA amounted to 3.5–4 per cent of overall Israeli exports of goods.¹²

Over the long term, however, net Israeli exports to the PA fell from about 10 per cent before the First Intifada to 5 per cent in 1995–1999. Then they fell further to around 3 per cent in the 2000s and rose slightly to 3.5–4 per cent in 2014–2016 (see figure 9).

11 The added value is the total value of Israeli-produced components in the exported product as well as direct Israeli labour and other inputs that were used in production and related processes. The added value of the various categories of products was calculated using Israeli input-output tables and the Organisation for Economic Cooperation and Development database. According to these calculations, the Israeli added value in exports of oil products is only 11 per cent of the total value of the exported product, compared with an average of 69 per cent in other Israeli exports to the PA, and 68 per cent on average for overall Israeli exports to the world. See Hagai Etkes, "Trade between Israel and the Palestinian Authority", Israel Bank, Research Department, 2013.

12 Palestinian imports of oil products and energy from Israel were approximately \$1.1 billion per year in 2015–2016 (see Palestinian Central Bureau of Statistics foreign-trade statistics). Total imports of goods from Israel to the PA were about \$3.1 billion per year as per the PCBS or \$3.4 billion according to the ICBS; the gap is due to differences in definitions, registration and calculation methodologies.

Figure 9: Share of Israeli Exports of Goods to the Palestinian Authority, 1981–2016 (Averages)



Sources: Israel Central Bureau of Statistics, Palestinian Central Bureau of Statistics

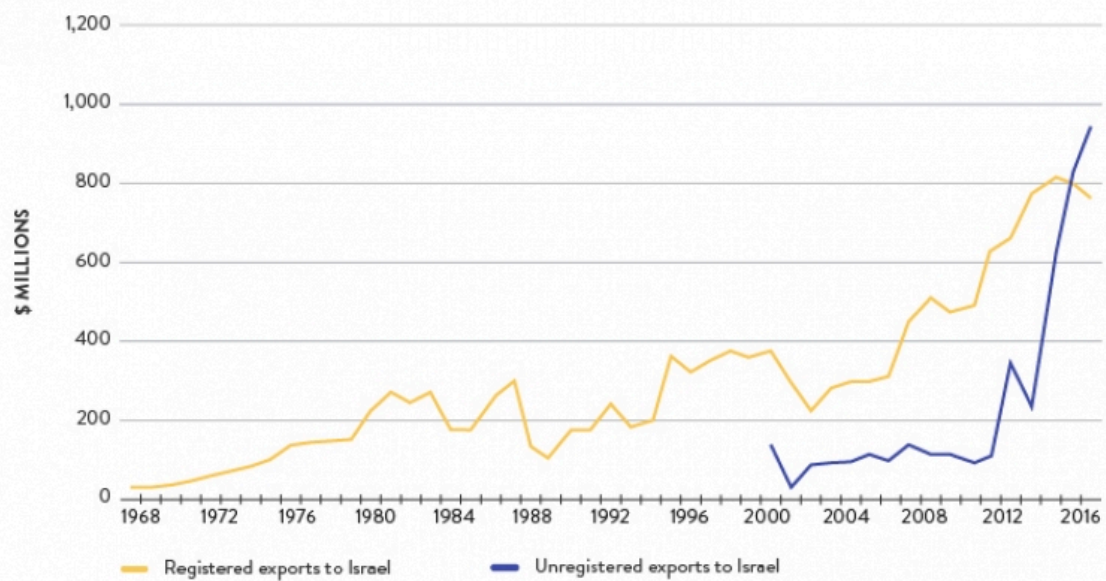
ISRAELI IMPORTS OF GOODS FROM THE PALESTINIAN AUTHORITY

In the first 15 years of Israeli rule in the West Bank and Gaza Strip, a significant leap was recorded in Palestinian exports. Total Palestinian exports of goods increased tenfold, from about \$40 million a year in the 1960s to approximately \$400 million a year in 1982–1983. Exports to Israel jumped from \$15–20 million a year in 1968–1970 to over \$250 million a year in 1981–1983. Exports to non-Israeli markets (mainly Arab markets through Jordan) increased too, though at a slower pace—from \$20–25 a year in 1968–1970 to around \$120 million a year in 1981–1983. Israel’s share in Palestinian exports increased over this period from 40–50 per cent in 1968–1970 to 65–70 per cent in the early 1980s.

The trend of fast export growth ended in the first half of the 1980s, against the background of high inflation and economic crisis in Israel. Then, with the outbreak of the First Intifada in 1987, Palestinian exports declined sharply. Exports to Israel decreased by about one-third to around \$150–200 million in 1988–1994. Exports to non-Israeli markets (mainly to and through Jordan) fell by about two-thirds to around \$50 million a year.

With the establishment of the PA in the mid-1990s under the Oslo Accords, exports recovered, but only to Israel. Exports to non-Israeli markets declined over the second half of the 1990s, and by 1998–1999 they were as low as \$10–15 million a year. With the start of the Second Intifada in 2000, exports to Israel plummeted again. Since the mid-2000s, exports to Israel have shown constant healthy growth, although a large part of that growth has been in unregistered exports. Approximately half of Palestinian exports of goods to Israel in recent years have been unregistered (see figure 10).

Figure 10: Palestinian Exports of Goods to Israel, 1968–2016



Sources: Israel Central Bureau of Statistics, Palestinian Central Bureau of Statistics

Palestinian exports of goods to non-Israeli markets (mainly to Arab markets through Jordan) recovered slightly after the Second Intifada to an annual level of around \$50 million. These exports have shown strong growth since the end of the 2000s, reaching about \$150 million a year in 2014–2016. Nevertheless, Israel’s share in Palestinian exports of goods has remained around 90 per cent.

The leading Palestinian export sectors before the Second Intifada were agricultural produce, stone and other products for the construction industry, and textiles and clothing. These three categories accounted for 50–60 per cent of Palestinian exports to

Israel at that time. Other noticeable export sectors were wood and furniture, metal products, plastic products and footwear. The total contribution of these export sectors was around 20 per cent of all exports of goods.

The intifada affected all categories of exports, but some sectors were hit harder than others, especially sectors that were more dependent on subcontracting to Israeli companies, such as textile and clothing. As a result, other sectors, such as processed food, plastics and metal, became more important in the Palestinian export mix.¹³

These trends continued and even intensified in the second half of the 2000s and the 2010s. Palestinian exports of goods to Israel and non-Israeli markets have become more diverse, with an increase in the share of sectors such as processed food, metal, plastics and chemical products.¹⁴

Although Israel is virtually an exclusive market for Palestinian exports, the huge size of the Israeli market, compared with the Palestinian economy, is mirrored in the PA's relatively low share in Israeli imports. Even at the highest point of Israeli-Palestinian trade, in the early 1980s, the Palestinian share was no more than 3 per cent (see figure 11).¹⁵

13 For detailed analysis of the sectorial structure of Palestinian exports of goods between the First and Second Intifada, see Peres Center for Peace and PalTrade, "The Untapped Potential".

14 Author's analysis, based on detailed PCBS foreign-trade data.

15 The difference between Israeli and Palestinian statistics reflects mainly unregistered trade, which is taken into account more fully in Palestinian balance-of-payment statistics.

Figure 11: Israeli Imports of Goods From the Palestinian Authority, 1980–2016

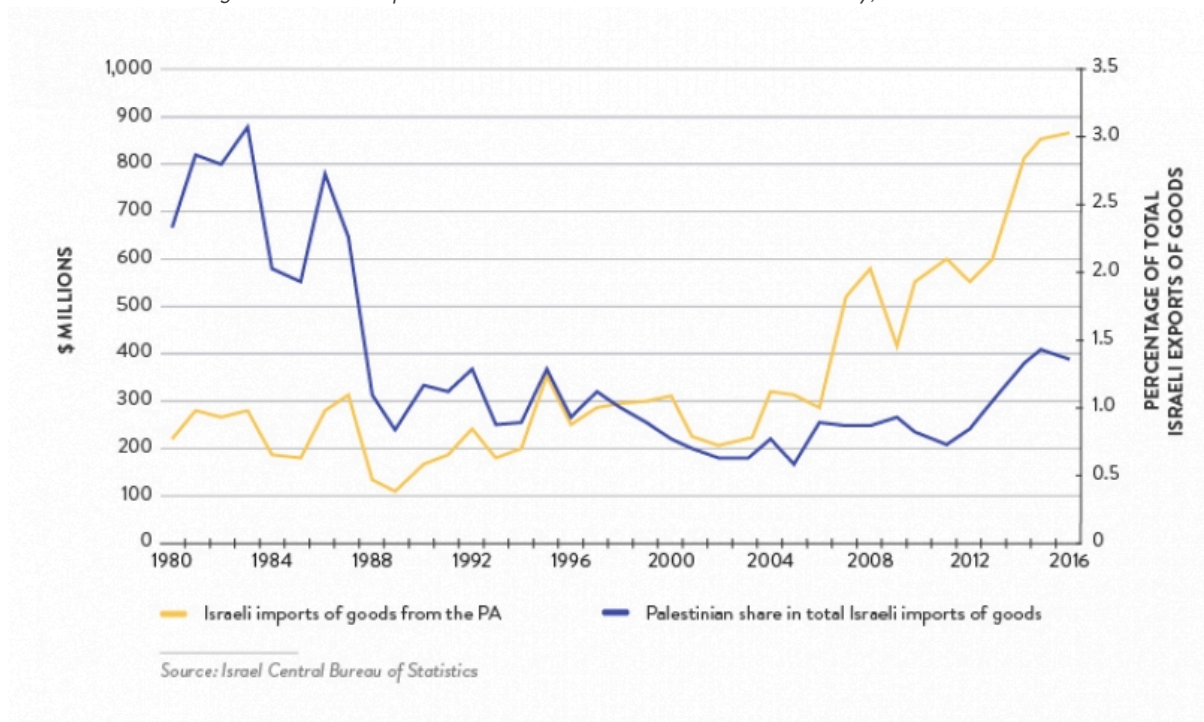
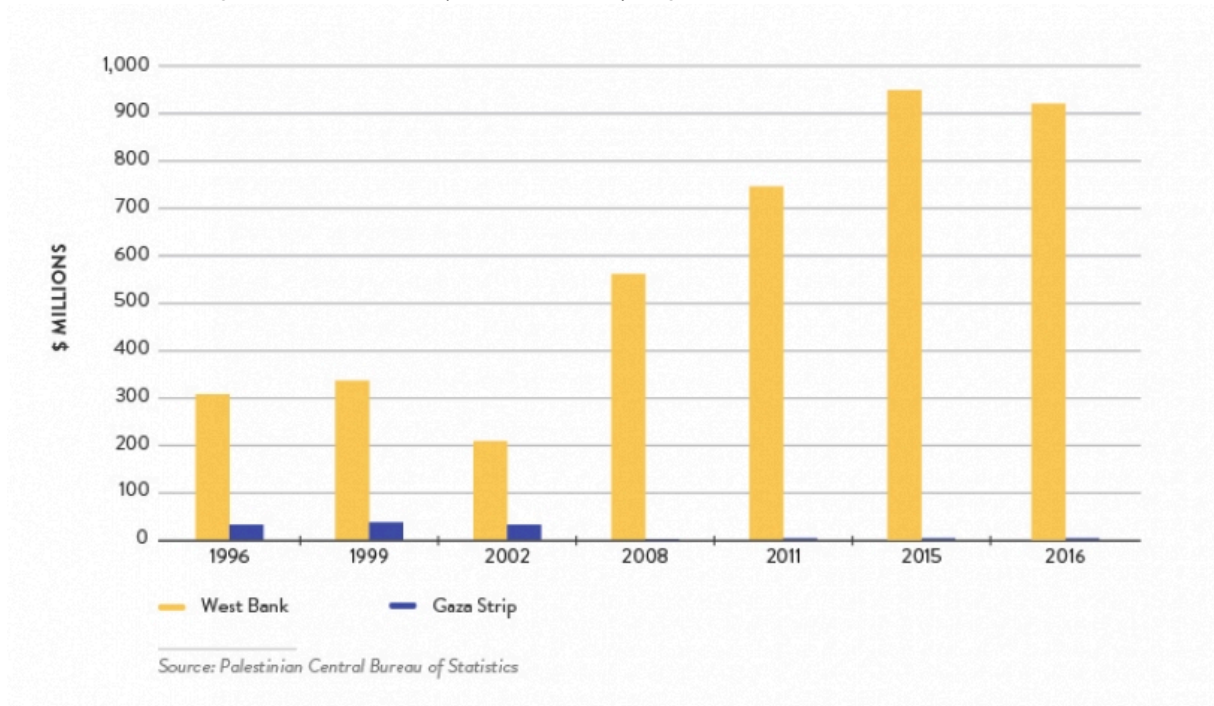


Figure 11 shows the intense impact of the conflict and political developments on Israeli-Palestinian trade. The Palestinian share of total Israeli imports of goods declined by about 60 per cent after the outbreak of the First Intifada, to around 1 per cent. Then, after some recovery, it fell to below 1 per cent for almost a decade after the Second Intifada. The new trend of fast-growing Palestinian exports to Israel in recent years has been reflected in a rise of this share, up to 1.5 per cent in 2015–2016.

The impact of the conflict is best demonstrated by comparing developments in the West Bank and in Gaza. Exports from Gaza, which were around \$30–40 million in 1996–2006, halted almost entirely in 2008–2009. Since 2010, despite a partial relaxation of trade restrictions on Gaza, exports remained insignificant, at an annual level of around \$4 million. In the West Bank, meanwhile, an improvement in the security situation enabled an almost fivefold increase in exports, from about \$200 million in 2002 (the lowest point of the Second Intifada) to almost \$1 billion a year in 2015–2016 (see figure 12).

Figure 12: Palestinian Exports of Goods by Region, 1996–2016



ISRAELI-PALESTINIAN TRADE IN SERVICES

In contrast to the enormous imbalance in Israeli-Palestinian trade in goods (in favour of Israel), trade in non-factor (not employment-related) services is much more balanced. The deficit of Palestinian trade in services with Israel did not exceed \$200–250 million a year in the 2000s. It has narrowed to \$100–150 million in recent years as a result of a large increase in exports of services to Israel, from around \$200 million a year in the second half of the 2000s to \$400–450 million a year in 2014–2016.¹⁶

The most important component of Palestinian trade in services is travel. This item accounted for about 70 per cent of all Palestinian exports, as well as imports, in 2015–2016.¹⁷

¹⁶ Israel Central Bureau of Statistics, balance-of-payments statistics, registered trade in services. PCBS balance-of-payments statistics do not provide separate figures for service exports and imports with Israel. Analysis of total Palestinian trade in services figures in the balance of payments (in comparison with Israeli statistics), however, indicates significant unregistered Palestinian import of services from Israel. Palestinian exports of services to Israel seem to be almost fully registered.

¹⁷ Palestinian Central Bureau of Statistics balance-of-payments statistics.

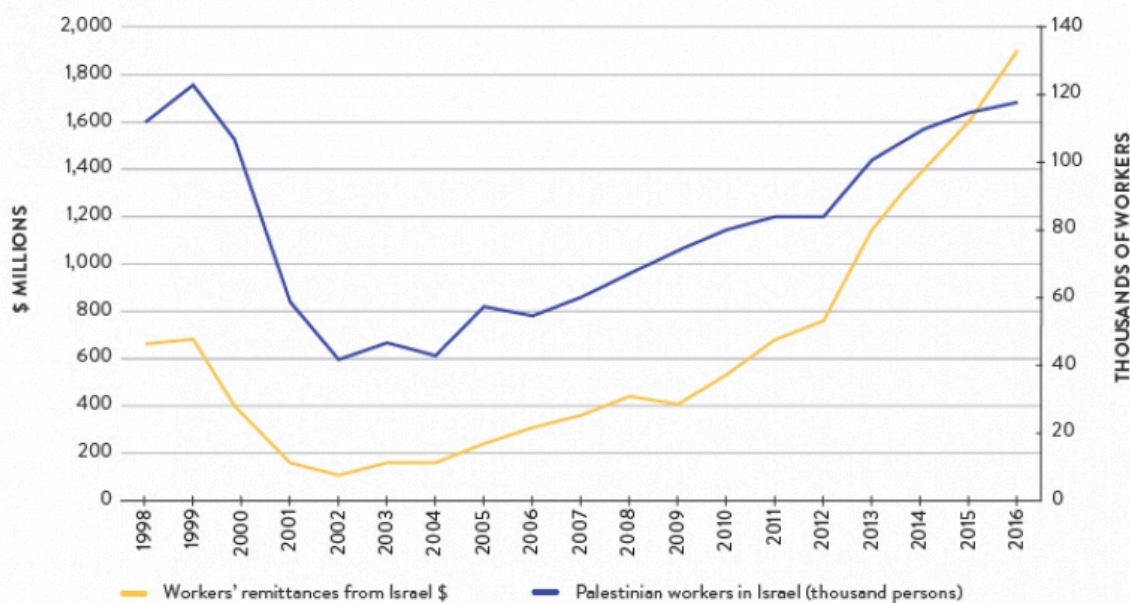
The fast increase in Palestinian exports of labour services to Israel in recent years resulted in a jump of the total Palestinian service-account surplus. This surplus increased from around \$200 million a year at the lowest point of the intifada in 2002–2004 to around \$500 million a year in 2008–2009. Then, it grew to around \$700–800 million a year in 2010–2013 and leaped to \$1.6 billion in 2015 and \$1.7 billion in 2016.

Moreover, in recent years, the large volume of Palestinian exports of labour services to Israel has covered much of the huge deficit in Palestinian trade in goods with Israel. As of 2015–2016, the service-account surplus covered 70–80 per cent of the deficit in Palestinian trade in goods with Israel, compared with around 15–20 per cent in the first half of the 2000s and 20–30 per cent in 2009–2013.

The fast increase in Palestinian exports of labour services to Israel is probably the most important development for the Palestinian economy in recent years. The number of Palestinian workers in Israel (including Israeli settlements) grew from 40,000–50,000 in 2002–2004 to 70,000–80,000 in 2008–2010 and above 120,000–130,000 in 2016–2017.¹⁸ Workers' compensation grew accordingly, from \$100–200 million a year in 2002–2005 to \$400–500 million in 2008–2010, and jumped to \$1.9 billion in 2016 (see figure 13).

¹⁸ Palestinian labour surveys, including workers without permits, as well as Palestinians with Israeli or foreign citizenship. See, for example, the breakdown in the 2017 Q3 survey, table 27: 70,000 with permits, 44,000 without permits, and 15,000 Palestinians with Israeli or foreign citizenship.

Figure 13: PA Exports of Labour Services to Israel and Palestinian Workers in Israel, 1998–2016



Sources: Palestinian Central Bureau of Statistics, Israel Central Bureau of Statistics

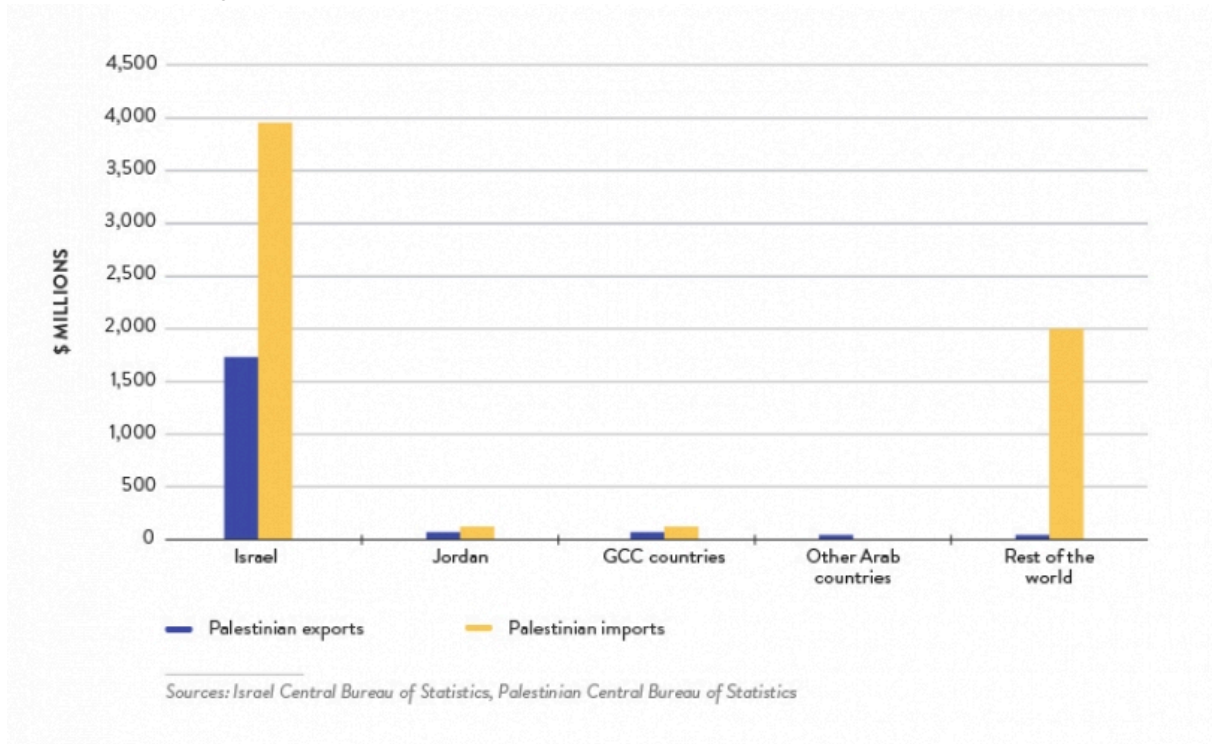
Note: Workers in Israel include people with and without permits as well as Palestinians with Israeli or foreign citizenship

The large increase in the number of Palestinians employed in Israel has been an important stabilising factor in the West Bank, neutralising many of the negative effects of the political stalemate and other negative political developments.

ISRAELI-PALESTINIAN TRADE IN A REGIONAL CONTEXT

Israel has a central role as a trading partner of the PA, compared with other regional partners (see figure 14). The share of all Arab countries combined in Palestinian exports of goods in 2016 was 6 per cent, against an Israeli share of 92 per cent. All other world markets combined accounted for just 2 per cent. In terms of Palestinian imports of goods, the share of all Arab countries in 2016 was 4 per cent, against Israel's 64 per cent. All other world markets represented 32 per cent.

Figure 14: Palestinian External Trade With Selected Partners, 2016



TAPPING ISRAELI-PALESTINIAN TRADE POTENTIAL

The analysis of Israeli-Palestinian trade in this paper shows a significant decline in Israeli exports to the PA—and a corresponding decline in Israeli imports from the PA—as a share in Israel’s total exports and imports. Some of this relative decline reflects structural changes in Israeli external trade, but most of it mirrors lost trade potential.

Lost net Israeli exports to the PA (excluding low-value-added exports and re-exports) are estimated at more than \$4 billion a year; and lost Palestinian exports to Israel at \$2–2.5 billion a year. The main elements in the quantitative estimate of lost Israeli export potential were:

- a decline in the monetary value of net Israeli exports of consumer goods since the mid-1980s (reflecting a decline in Palestinian purchasing power);
- lost growth in exports of consumer products that could be expected as a result of Palestinian population growth and a natural rise in living standards under normal conditions; and
- lost exports of agricultural and industrial inputs as a result of a decline of Palestinian agricultural and industrial sectors.¹⁹

Revitalising trade between Israel and the PA will require lifting or further relaxing restrictions on the Palestinian economy. Priority steps could include improving dual use and land access, developing water and energy infrastructure, and upgrading Annex V of the 1995 Interim Agreement (also known as the Paris Protocol), which governs economic and trade relations between Israel and the PA, to reflect the current needs of the Palestinian economy. Additionally, projects should seek to facilitate Palestinian export growth to and

¹⁹ Detailed analysis by the author, using detailed PCBS trade files for 1996–2011, compared with ICBS data for previous periods in Nashashibi, Gal and Rock, “Palestinian-Israeli Economic Relations”, 37–40, 73–74; and Peres Center for Peace and PalTrade, “The Untapped Potential”, 34–37. See also World Bank, “Economic Monitoring Report to the Ad Hoc Liaison Committee”, 18 September 2017, 17–26.

through Israel, as well as Arab and other markets; and there should be greater cooperation in fields such as tourism and IT.

Free-trade industrial zones could be part of such a solution. These zones have been developed as mainstays of trade and export-oriented economic development in the United Arab Emirates and Jordan and have been developed in other Arab countries as well. The main free-trade industrial zones in these countries are located near main ports and commercial land crossings.

A large free-trade industrial zone near the King Hussein Crossing (Allenby Bridge) can serve as the main Palestinian gateway to Arab markets. That project can include an extension on the Jordanian side, with a direct connection between the two parts, as per the model of the Israeli-Jordanian Jordan Gateway Industrial Park. Likewise, that project can be designed to create an enabling ecosystem and become a focal point of industrial and agricultural development, for the Palestinian Jordan valley and the central parts of the West Bank.

Being confined to a relatively small, easily controlled geographical area, this solution would enable administrative and security arrangements that both satisfy the security concerns of Israel (and foreign investors) and are politically acceptable to the Palestinian and other concerned parties.

Inside its designated area, this project would enable unconstrained export-oriented activity of the Palestinian private sector and attract Israeli, Arab and international investors. This way, the project would serve as a springboard for strong, sustainable export-oriented growth of the Palestinian economy. Additionally, it would serve as a platform for Israeli exports to Arab markets, in cooperation with Palestinian and Jordanian partners.

According to certain analyses, such a large and strategically located project could generate new Palestinian exports (both direct and indirect) of more than \$1 billion in five years, and additional Israeli exports of a similar magnitude. These figures represent tenfold growth of current Palestinian exports to Arab markets and even higher growth of current Israeli exports to and through Jordan.

TOURISM

There is also vast room to develop bilateral trade in services. Tourism is already a top export sector for Jordan and Egypt and, to a lesser degree, for Israel and the PA. Israeli-Palestinian cooperation can make it an important growth engine for both.

Certain fields have been identified as the most promising, each offering the potential of millions of new tourists a year. One field is cooperation in the development and marketing of a joint Israeli-Palestinian Holy Land tourism brand for Christian religious tourism. Another is Muslim religious tourism to Al-Aqsa through Jordan, in combination with tours of Israel, Jordan and the PA.

Christian Religious Tourism

Many studies over the last two decades have identified the Holy Land as a powerful world-class tourism brand. A well-planned and marketed joint brand could appeal to hundreds of millions of potential Christian tourists worldwide.

Israel has made some efforts to develop this brand as its own, and the Palestinians have made some attempts as well. However, all these efforts were partial and for short periods, and the huge potential of this brand has remained untapped.

The potential growth in the number of Christian tourists to Israel as a result of effective use of the Holy Land brand is enormous. Conservative estimates put the total number of Christian tourists to Israel at around 5–6 million in ten years. That is three or four times the present number.

If those additional tourists generate a similar average revenue to the current ones, of \$1,500 per tourist, they will contribute \$6 billion to Israel's tourism export revenues, or 6.6 per cent of total Israeli exports of goods and services, which have amounted to \$90–95 billion a year in recent years.

Tourist activity generates considerable demand for a wide range of products and supporting activities. Macro-economic studies have shown that the overall effect on Israeli GDP of direct expenditure

of \$1 by tourists is an increase of \$2–3. Hence, the contribution of the rise in the number of tourists to Israeli GDP is expected to be more than \$15 billion a year in ten years, or 5 per cent of total Israeli GDP (which was about \$320 billion in 2016).

The contribution to employment would be in the order of 250,000–300,000 new jobs (based on the present ratio of one job per \$55,000 of added value), or 7–8 per cent of the total number of employed people in 2016.

The expected contribution for the Palestinian economy is expected to be dramatic. In conjunction with Muslim religious tourism, it would turn tourism into a major economic growth engine.

Joint marketing of Holy Land tourism would direct most of the Christian tourists who visit Israel to include Palestinian sites in their tour and spend at least one night in a Palestinian hotel. Assuming that two-thirds of the 4–5 million additional Christian tourists to Israel would visit the PA too, Christian tourism to the PA would jump from the present negligible number to 3.5–4 million in ten years. Assuming also the present average expenditure of \$750 per overnight tourist, Palestinian income from Christian tourism would rise from less than \$200 million a year in 2016 to \$2.5–3 billion. That increase is larger than total current Palestinian exports of goods and services.

The jump in tourism revenues would be mirrored by an equally dramatic leap in the contribution of tourism to Palestinian GDP. Assuming a multiplier of two (so that each \$1 of tourism revenue generates \$2 of overall GDP growth), an additional \$2.5 billion in tourism revenues would mean \$5 billion extra growth in total Palestinian GDP. That would add 35 per cent to the present Palestinian GDP of just below \$14 billion.

The contribution to employment would be in the order of 100,000 new jobs, or one job per \$50,000 of added value, which is slightly lower than the Israeli ratio. That is close to 10 per cent of the present number of employed persons.

Muslim Religious Tourism

Al-Aqsa Mosque is a most attractive tourist destination for hundreds of millions of Muslims; and for many of them, pilgrimage to Al-Aqsa is a strong religious aspiration.

Joint Israeli-Palestinian-Jordanian work in this field can start with non-Arab Muslim tourists, from countries such as India, Indonesia, Malaysia and Turkey, as political and security constraints would not block such a project. The immediate target market segment consists of the approximately 2 million pilgrims from these countries who come to Mecca on hajj or umrah every year. The emphasis in this field should be less on those pilgrims who visit during the hajj period than on those who go for umrah, because their number is ten times the number of pilgrims during hajj.

Many pilgrims would consider a visit to Al-Aqsa a valuable addition to their once-in-a-lifetime pilgrimage. While in Jerusalem, they could enjoy a more comprehensive tour to both the PA and Israel.

As a second stage, marketing efforts would expand to groups of Arab tourists: Jordanians, Egyptians and those from selected other Arab countries, such as the Gulf countries and Morocco. The 2–3 million tourists who come every year from the Gulf for long family holidays to Jordan and Egypt would be an important market segment for such tours to Al-Aqsa, the PA and Israel.

At present, the level of Muslim tourism to Israel or the PA is low, and the figures are almost insignificant. Given the large latent demand, that number of Muslim tourists to Israel and the PA could reach a magnitude of around 2 million tourists a year in ten years.

As this is a unique opportunity for most Muslim tourists, they would be offered programmes comprising three to four days in Israel and two to three days in the PA. These tours would generate average revenue similar to that expected from Christian tourists: \$1,500 per person in Israel, and \$750 in the PA.

The economic contribution of these additional 2 million tourists could be expected to be at the following levels, based on the same calculations as for Christian tourists:

- For Israel: additional tourism revenue of \$3 billion, an additional

\$6 billion of GDP (2 per cent of Israel's total GDP in 2016) and 100,000 new jobs.

- For the PA: additional tourism revenue of \$1.5 billion, an additional \$3 billion of GDP (more than 20 per cent of the PA's total GDP in 2016) and 60,000 new jobs.

Israel continues to be the Palestinian Authority's largest trading partner, and this in-depth study finds considerable potential for greater economic cooperation. This is one of three papers detailing Israel's trading relationships, alongside others looking at relations with Jordan and Egypt.

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