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A Palestinian State
The Implications for Israel

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(foreign legations) would not detract from the essential unity of the city or from its stature as Israel's capital. Indeed, a mutually acceptable regulation of this sort, symbolized by the location in Jerusalem of Arab embassies to Israel, would end the legal ambiguity of the corpus separatum status assigned to Jerusalem in the 1947 UN partition scheme and permit other states to locate their embassies to Israel in Jerusalem as well. Thus, the international legitimation of Israel's claim to Jerusalem, though not unconditional, would finally be achieved.

Without provisions to safeguard its essential objectives in Jerusalem, Israel will undoubtedly reject any political settlement, and the threat of a Palestinian state to these objectives is really moot. Even the guidelines suggested here, though they do promise to preserve all of Israel's essential rights and interests in the city, probably represent the very limit of Israeli flexibility.

There is no assurance that an agreement of this sort can be secured; or, if attainable, that it would guarantee the city a future free of all tension and discontent. It is virtually certain, however, that exclusive Israeli sovereignty over the whole of Jerusalem will not be a mutually acceptable basis for peace, and the only apparent alternatives are a repartition of the city, which is abhorrent to almost all Israelis, or some sort of international regime in which Israel's status even in West Jerusalem would be undermined. If a Palestine-state (or any other) settlement implies some symbolic diminution of unilateral Israeli control of Jerusalem, that would not appear to be an intolerable cost to bear.

Economic implications for Israel

Just as the economic prospects of a Palestinian state are not as forbidding as is often supposed, so, too, do the negative economic implications for Israel of Palestinian independence appear to be frequently exaggerated. Even in the worst (and highly improbable) case, in which West Bank/Gaza markets, manpower, and resources were completely and suddenly closed to Israel, the overall damage to Israel's economy would be quickly reparable – except for the loss of water.

As a result of growing economic integration since 1967, the West Bank and Gaza have emerged as important markets for Israeli goods. By 1980, Israeli "exports" to the West Bank and Gaza amounted to I.S.3032.4 million of industrial and agricultural products, while "imports" were only I.S.1162.9 million.[32] The difference, which is registered for accounting purposes as a $344.7 million surplus in the merchandise category of Israel's foreign trade statistics, appears to be significant, especially in view of Israel's overall merchandise deficit of $3,379 million.[33] From an economic point of view, however, this trade is really internal. Since it is carried out in Israeli currency, its effect on Israel's foreign trade balance is negligible, and the argument that restricted Israeli access to West Bank/Gaza markets would cause a further deterioration in Israel's balance of payments is therefore misplaced.

Even as a "domestic" market, the territories fail to live up to their theoretical potential. The population of the West Bank/Gaza was approximately 30 percent of Israel's in 1980, but because of lower per capita income levels, the total purchasing power of the territories was only 7.5 percent of Israel's.[34] Furthermore, the sectors of the Israeli economy that have the greatest potential for dynamic future growth (science-based industry, aviation, electronics, off-season agriculture, and general research and development) are precisely those likely to find the West Bank/Gaza markets unpromising under any circumstances.

It is true that less sophisticated industries—agricultural products and processed foods, textiles and clothing, housewares and appliances—benefit from the accessibility of the West Bank/Gaza, because a larger market permits greater production efficiency (economies of scale) and higher profitability. In these industries, Israeli producers would probably feel some loss from administrative exclusion or competition with Palestinian producers operating under preferential conditions.

Furthermore, the elimination of the de facto customs union between Israel and the territories might have an unsavory noneconomic side effect. On goods currently imported into Israel (and the territories), Israel applies extremely high duties. If, as seems likely, a Palestinian state lowered the duties on these items, there would be a great temptation for criminal elements in Israel and the Palestinian state to join hands and organize the smuggling of such goods across the Israeli border.[35]

Nevertheless, it is quite possible that these potential costs would be compensated by new opportunities. A Palestinian state committed to national economic development would confront a wide range of planning problems, some of which might require the involvement of foreign consultants or contractors. In some fields – land reclamation, water planning, energy production (especially solar) and conservation, rural development, even immigrant absorption – Israel's proximity, its familiarity with the area, and its own analogous circumstances and experiences would leave it well placed to compete for such projects, at least on a commercial basis. Furthermore, a regional peace might open up much more significant markets in other Arab countries, hitherto closed to Israeli exporters. It is even possible that some Arab states might come to view a healthy Israeli economy as vital to Palestinian, and regional, stability.

Political sensitivities, of course, could work to Israel's disadvantage and Israeli opportunities might therefore be limited, especially in the first few years. But even if none of these potential opportunities ever materialized, the worst (and least likely) outcome would be a total loss of West Bank/Gaza markets to Israeli producers, and since the imports of the territories represented less than 12 percent of Israel's agricultural and industrial output in 1980, and only 3 percent of its GNP,[36] that loss would not be an intolerable cost to the Israeli economy as a whole.

The same general conclusion applies to the question of manpower. Because of the different scale and character of the Israeli and West Bank/Gaza economies, the benefits of labor mobility have been asymmetrical, as would be the costs of its termination. For while West Bank/Gaza workers in Israel constitute almost 35 percent of the labor force of the territories, they make up less than 6 percent of the total Israeli civilian labor force.[37] Thus, the imbalance of interest in continuing labor mobility is so clearly on the Palestinian side that a unilateral Palestinian decision to stop it is quite unlikely. Indeed, the threat to halt the flow of workers would be a much more potent political lever in Israeli hands than in Palestinian hands.

It is true, however, that the concentration of West Bank/Gaza workers in a few branches of the economy distorts this overall picture. By 1980, these workers—mostly unskilled and semiskilled—comprised over 30 percent of agricultural employees in Israel and about 35 percent of construction workers.[38] Their sudden withdrawal would undoubtedly create manpower shortages for some Israeli employers. Short-term production schedules, especially in the packing and canning industries, would be disrupted and profitability would be affected by the ensuing rise in wage levels (just as wage levels in the West Bank/Gaza would be depressed). Still, the adverse consequences of a worst-case labor scenario might not be wholly unmitigated. Higher wages might attract some of those Israelis who now refuse to engage in certain types of labor, thereby reducing unemployment and welfare expenditures of the central government.[39] *Gastarbeiter* (foreign workers) could be brought from more distant labor-exporting countries—even Egypt—although the social problems could be considerable. And in some branches, such as construction, the result might even be a long overdue modernization of production techniques, delayed since 1967 by the availability of relatively low-priced manpower. In short, the abrupt withdrawal of West Bank/Gaza workers, however improbable, would cause short-term difficulties for Israel which, while certainly disruptive, would hardly be catastrophic. And in the longer term, after some inevitable problems of adjustment, the overall consequences might actually be beneficial.

Finally, there is a potential risk that Israeli access to West Bank/Gaza resources other than labor might be curtailed. Israeli dependence on raw materials from these areas is low, precisely because they are so poorly endowed. The one commodity for which a substantial Israeli demand has developed is building stone. When quarries in Judaea were struck in September of 1980, Israeli construction projects in the Jerusalem area fell behind schedule.[40] But aside from building stone, the only West Bank/Gaza resource upon which Israel is dependent is water.

Israel currently draws about 300 million cubic meters of water per year — 18 percent of its total consumption — from the subterranean aquifer (the Yarkon-Taninim basin) that straddles the Israel-West Bank border.[41] It is possible for Israel to use this water without impinging on West Bank needs or overexploiting reserves and risking excessive salination, primarily because West Bank demands are now moderate — about 113–120 million cubic meters a year.[42] Of this total, approximately 100 million is used to water the 85,200 dunams of citrus and vegetables under irrigation. Much of the West Bank is not suitable for irrigation because of topography and soil conditions. Still an independent state committed to agricultural development would be able to locate at least 100,000 additional dunams worth irrigating, most of it west of the mountain ridge, requiring an increase of as much as 100 million cubic meters per year over current supply (based on current use rates). However, a capital-intensive program to install storage and distribution facilities for a sprinkler or drip system could eliminate most of the evaporation losses attributable to the open-ditch flood method that now characterizes much of West Bank farming, thus reducing the use rate by half and allowing the remaining supply to be diverted to new irrigation projects.[43] Theoretically at least, the area under irrigation could therefore be doubled without increasing the demand for water. However, long lead times and fragmented holdings mean that some additional pumping of groundwater — perhaps as much as 40–50 million cubic meters — would be inevitable.[44] Some of this might come from the eastern aquifer, which would not affect supplies to Israel, but much would be drawn from the western aquifer, which would reduce the amount available to Israel and raise the salinity of the remaining flow. The effect on Israeli agriculture, in general, would be detrimental, and many Israeli farms would have to be abandoned.

It is therefore necessary, from Israel's point of view, that an agreement be reached limiting Palestinian pumping of water west of the water divide. This agreement might include Israeli technological assistance (irrigation systems, hothouse techniques, and so forth) that would reduce the West Bank's need to draw on groundwater reserves, but since Israel's own water balance is so delicate and critical, some agreement to prevent overpumping of the western aquifer is indispensable. The fragmented nature of the Palestinian state would make such an agreement enforceable. For just as Israel would be vulnerable to West Bank overpumping, so would the Gaza Strip be vulnerable to Israeli overpumping. Gaza water is already growing brackish because of local overdrawing, and stepped-up Israeli pumping to the east of the Gaza Strip, to compensate for reduced flows in the Yarkon-Taninim basin, would adversely affect current agricultural production in Gaza and make further expansion there altogether impossible.

This leverage would disappear if Gaza received large quantities of water from the Nile (although that might make the Palestinian state uncomfortably dependent on Egyptian goodwill), in which case Israel would have to rely on other means to prevent the implementation of the potential threat to her water supplies implied by Palestinian independence. In the longer run, of course, the optimal solution to these problems would be a comprehensive regional water plan, including the introduction of large-scale desalination projects and the involvement of other states with water surpluses in regional sharing schemes. But until that became possible, a bilateral agreement covering the subterranean aquifer west of the mountain ridge would be indispensable.

29. For some of the best examples of imaginative thinking within the Israeli paradigm see Kollek, "Jerusalem," and interview in the *Jerusalem Post Magazine*, February 1, 1980; Cohen, *Jerusalem*, pp. 115–123; and Meron Benvenisti, "An Eternal Problem," *Jerusalem Post Magazine*, February 8, 1980, and "Status and Sovereignty," *Jerusalem Post Magazine*, February 22,1980.

30. By the end of 1979, over 55,000 Jews were living in those parts of Jerusalem under Jordanian control before 1967. Michael Romann, "Jews and Arabs in Jerusalem," *The Jerusalem Quarterly*, no. 19 (Spring 1981), 39.

31. See, for example, Khalidi, "Thinking the Unthinkable," and Anwar Nusaybah, *Jerusalem Post*, May 29, 1980.

32. *Statistical Abstract*, no. 32 (1981), table xxvii/11, p. 721.

33. Ibid., table vii/2, p. 192.

34. Calculated from figures for Israeli and West Bank/Gaza GNP, ibid., tables vi/2, p. 164, and xxvii/6, pp. 716–717.

35. See Ephraim Ahiram, "Economics and a Palestinian State," *Jerusalem Post*, October 5, 1981.

36. Computed from *Statistical Abstract*, no. 32 (1981), table vi/10, p. 179.

37. Ibid., table xii/1, pp. 318–319.

38. Ibid., tables xii/12, pp. 336–337, and xxvii/19, p. 732.

39. The oft-expressed fear that workers from the territories would become a politically volatile "reserve army of the unemployed" has not been borne out by experience. Contrary to expectations, economic slowdowns have produced unemployment in Israel itself without affecting full employment in the territories, apparently because workers from the West Bank and Gaza are prepared to do jobs for which Israeli workers consider themselves overqualified. A similar phenomenon has been observed with respect to migrant or illegal workers in Western Europe and North America. In 1980, 63,600 Israelis were unemployed, even while 71,900 West Bank/Gaza residents continued to work in Israel. Ibid., table xii/1, pp. 332–333.

40. About two-thirds of the building stone used in the Jerusalem area is supplied by Bethlehem or Hebron quarries. Discussion with Captain Ishai Cohen, Economic Staff Officer, Judaea and Samaria Area Command, June 9, 1981.

41. Aryeh Shalev, *The Autonomy—Problems and Possible Solutions*, Center for Strategic Studies Paper 8 (Tel-Aviv, 1980), p. 138.

42. Ibid. See also "Israel and the Resources of the West Bank," *Journal of Palestine Studies*, 8 (Summer 1979), 97.

43. US, Library of Congress, *West Bank and Gaza Economy*, p. 48.

44. Ibid., p. 50.

6. Israeli Requirements for Risk Minimization

1. For more on a neutral Palestinian state and various attitudes toward it see John Edwin Mroz, *Beyond Security: Private Perceptions Among Arabs and Israelis* (New York: International Peace Academy, 1980), pp. 138–163.

2. See, for example, the acknowledgment that Israel needs early warning stations by Naffez Nazzal, "Land Tenure, the Settlements and Peace," in *A Palestinian Agenda for the West Bank and Gaza*, ed. Emile A. Nakhleh, American Enterprise Institute Study 277 (Washington, 1980), p. 118.

3. Walid Khalidi, "Thinking the Unthinkable: A Sovereign Palestinian State," *Foreign Affairs*, 56 (July 1978), 703. See also Valerie Yorke, "Palestinian Self-Determination and Israel's Security," *Journal of Palestine Studies*, 8 (Spring 1979), 16–17.

4. The primary determinant of the permissible size of the Palestinian army would be Israeli security considerations, but the fact that the Palestine Liberation Army also consists of three brigades means that most of its members could be absorbed into the new Palestinian army (with some changes in the upper command), thus avoiding the political danger of unemployed and potentially disgruntled officers and soldiers. Several thousands of former *fida'iyyun* would have to be provided for in some other way.

5. Yorke, "Palestinian Self-Determination, p. 18. The PLO has not specifically addressed the issue of arms limitations, except for some fleeting references by Yasir 'Arafat to a possible role for international observer forces along the frontiers. Interview with Anthony Lewis, *New York Times*, May 2, 1978. Nevertheless, the fact that arms limitations proposals were published in the *Journal of Palestine Studies*, an organ of the Institute for Palestine Studies in Beirut, suggests that the basic idea is not excluded.

6. Based on Israel, Israel Defense Forces, Spokesman, *PLO Terror—A Statistical Summary* (Tel-Aviv, 1981). Figures exclude the period October 7–26, 1973.

7. This appears to be one of the principal Palestinian objections to the Camp David autonomy agreement. See Mark Heller, "Begin's