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PALESTINE ECONOMIC POLICY
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The Political Economy of Palestinian Nationhood, Independence and Development in the Wake of War

Executive Summary



2025

**The Political Economy of Palestinian Nationhood, Independence and Development
in the Wake of War**

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We Are at A Crossroads, A New Epoch That Requires Bold Analysis and Strategies

1. **We are now in a new era. What Palestinians, Israelis, and the international community do next is crucial for peace and justice between the Jordan River and the Mediterranean Sea.** Since October 2023, Israel has waged a catastrophic war against Palestinians in the Gaza Strip, resulting in immense human, economic, social, environmental, and geopolitical costs. Simultaneously, Israel has accelerated military violence and settler expansion in the West Bank, and more aggressive policing measures for Palestinians living inside the “green line”. Our report is direct in its messages because it is our conclusion that we cannot go back to a situation of “business as usual”. This is a crossroads. To take the next step, we need to be clear about the situation we are in, why all our strategies for liberation have thus far not worked, and what we need to do to develop a new political strategy for Palestinian national self-determination.
2. **The current war has instituted a series of tectonic shifts** – a collapse of past assumptions, particularly the viability of a two-state solution and non-sovereign Palestinian self-government. The idea of returning to pre-2023 governance arrangements is both unviable and undesirable. Palestinians demand an end to occupation and oppression, and for national rights.

Israel insists on exclusive sovereignty and differential rights for Jews between the Jordan River and the Mediterranean Sea. The stakes are high.
3. **There are four possible scenarios.** The fluid political and military situation makes any of these outcomes possible.
 - i. **Sudden Shock:** A wholesale ethnic cleansing of the Palestinian people by Israel through making the Gaza Strip specifically and the West Bank generally unlivable for Palestinians, entailing the elimination of the “Question of Palestine” from the international agenda. Current developments in the North Gaza Strip portend to Israel continuing this trajectory.
 - ii. **Protracted Regression:** Protracted low-level generalized violence and attrition of both sides, with no victors and no defeated, leading to internal strife, the further fragmentation of the West Bank and Gaza Strip into Bantustans with separate power relations and development trajectories, while sparking the further growth of grassroots voices calling for the re-orientation of Palestinian national goals towards non-partition and equal civic rights in one state.
 - iii. **Baseline Recovery:** Protracted low-level generalized violence and attrition of both sides, with no

victors and no defeated, with a new version of the pre-2023 status quo of no war, no peace; separate West Bank and Gaza Strip governance arrangements, including a weakened but indispensable Palestinian National Authority (PNA); plus no political change in Israel towards a peace process.

iv. **Emergence Trajectory:** A combination of Palestinian direct power through resistance and national unity, influencing the global and regional policy agenda and longer-term shifts in Israeli and global perceptions, pushing Israel to cede land for peace, imposing international law, and ensuring equal national rights and justice for Palestine (in contradiction to the current aims of national-religious Zionism in Israel).

4. Palestinian economic and social history is intertwined with the quest for national self-determination. Palestinian political economy is shaped by the struggle to define a national identity based on deep social, cultural, and spiritual ties to the land of Palestine. But establishment of Israel and the ongoing Nakba since 1945 has disrupted the potential for Palestinian economic growth and led to a relationship defined by deep political and financial power imbalances. Since the early 20th century, the economic fortunes and political futures of Palestinians have been subject to a confrontation with the Zionist movement for Jewish national self-determination.

5. Zionism is a movement whose key goal is to institute and enforce differential rights for Jews. It is not just a movement for national self-determination, otherwise, the two-state solution could have been implemented decades ago. We must therefore develop different political strategies. Israel is now in the clutches of Neo-Zionism, which wants to complete the ethnic cleansing and population transfer of Palestinians started in 1948. Zionism could not, and will not, permit a sovereign Palestinian state to emerge, even on 22% of historic Palestine

Palestinian economics and politics on the eve of October 7

6. Over a century of economic domination. The structural constraints and development prospects of the Palestinian economy have been shaped and determined by over a century of Zionist settler colonialism. Even before the establishment of the State of Israel, Zionist ambitions were based on economic domination over Palestinian-Arabs.

7. One colonial reality, but two clashing narratives. The establishment of Israel and the ongoing Nakba since 1948 has disrupted the potential for Palestinian economic growth and led to a relationship defined by political and financial power imbalances. The Israeli narrative on this is orientalist in its underpinnings often highlighted “modernization” and “integration” of the “Arab sector” and a “benevolent occupation”, while Palestinian analysis

focused on “resilience for development” through sumud in the face of colonial economic policies.

- 8. Israel controls all resources between the Jordan River and the Mediterranean Sea.** It has seized and diverted Palestinian natural resources, especially water, land, and mineral wealth for its colonial expansion. Israel controls Palestine’s trade borders with the world, it also monopolizes Palestinian markets when it comes to selling Israeli goods; and uses Palestinian labor to build Israeli cities, roads, and settlements. This dependency has been a tool for both economic exploitation and security control.
- 9. Security first imperative.** Israeli policy towards the Palestinian economy (in Israel and the oPt) has been driven by economic imperatives (cheap resource extraction, market domination etc), but it has also been a security tool, indeed security imperatives have always been dominant – and this means security for its settler communities inside the oPt.
- 10. The Oslo-Paris matrix of control.** The Oslo Accords and the Paris Protocol on Economic Relations locked-in Israeli economic hegemony by limiting Palestinian economic policy autonomy and spatial arrangements. Israel continues to rule the oPt and economy much as it did before Oslo, with securitized trade borders while ceding some governance functions to the PNA. The daily life of every Palestinian in the West Bank, including east Jerusalem, is controlled by Israeli soldiers, bureaucrats, settlers, and politicians.

11. The PNA’s limited policy toolbox.

The highly restricted economic policy space given to the PNA, which might have been normal for an interim period, became the Achilles heel of all attempts at fiscal sustainability or export-led development. Integration with the trade regime of a much larger, more advanced, and industrialized economy has meant that no Palestinian economic policy autonomy was permissible or possible. The PNA’s limited trade and fiscal policy toolbox has meant that it cannot reshape the Palestinian economy in line with development needs and available resources.

- 12. A peace process without goals.** The Middle East peace process has been an extended theatre with no clear goals, leading to a focus on state-building and good governance without achieving sovereign statehood. Over the past three decades, this process, funded by over US \$40 billion of international support to Palestine since 2000, has created a layer of donor agencies, professional corporate community, and Palestinian government officials. This has created a middle class, which has more of a stake in safeguarding the political status quo. But there is no “escape” from politics, no technocratic solution to the Palestinian development dilemma.

- 13. Limited power and declining legitimacy of the PNA.** The PNA has created the machinery of the Palestinian state, with around 24 ministries and an almost equal number of authorities, state institutions, and higher councils. It has maintained stability and governance despite

limited resources and enforcement powers, although it has been unable to provide security for Palestinians from Israeli military or settler attacks.

14.No partnerships, just pure dependency. Economic relations between Palestinian and Israeli businesses have created dependencies and monopolies which are asymmetric, but they became a lifeline for Palestinian capitalists. Palestinian economic officials and experts have advocated for disengagement, but this remains challenging given the likelihood of Israeli interference and without a coordinated strategy for greater Palestinian productive economic self-reliance.

15.Aroutefouteconomicdependency? An independent Palestinian economic future will require breaking free from adverse dependencies (in trade, labor and investment) with a vigorous lead by public capital supported by international finance, to reduce risks for private investment in strategically vital economic growth sectors.

16.Disenfranchised citizenry and de-self-determination. Palestinians lack mechanisms of accountability, both under occupation and in the diaspora. The PLO, once a central representative body of the Palestinian people, is now seen as marginal and ineffective. This has created a situation where Palestinians are ruled by two authorities, although Israel is the dominant and sovereign power, neither of which democratically represents them. One is dedicated to suppressing them and the other is unable to protect them. Pre-2005 systems of centralized accountability

and civic representation, have been paralysed or increasingly devolved to local, factional, and tribal decision making. This amounts to the “de-self-of the determination” of the collective will of the Palestinian people.

The steep costs of denying Palestinians self-determination

17.Successive economic Nakbas.

Over the past century, Palestine has faced numerous economic disasters, both catastrophic and gradual, due to prolonged occupation and conflict. Israel's actions in 1948 and subsequently have deprived Palestinians of homes, land, resources, opportunities, rights, and futures. Instead, Palestinians have experienced statelessness and exile ever since. The cumulative effects of these economic losses have had profound and far-reaching consequences. The genocide launched by Israel on the Gaza Strip in October 2023 represents the culmination of this costly history of colonial expansion and appropriation.

18.Bearing witness to their own dispossession. Palestinians witness daily how Israel has been, and continues to be, built through a massive transfer of Palestinian resources to its colonization enterprise. All around them, Palestinians see Israeli cities and settlements rising on expropriated private and public land, uprooting olive trees, and demolishing homes in the process.

19.The British Mandate over Palestine aborted the economic and social developments taking place through

Ottoman reforms and investments in infrastructure, favoring Zionist economic expansion and control by awarding Zionist groups and companies large concessions and monopolies. Simultaneously, the British implemented destructive policies aimed at marginalizing and impoverishing Palestinians, especially by dismantling the Palestinian agricultural sector. The Balfour Declaration and the British Mandate over Palestine was the colonial incubator for the Israeli state.

20. The 1947 UN 181 Partition Plan

solidified Zionist ambition by recommending a division into a Jewish state and an Arab state that was unfair in terms of land distribution versus population and was rejected by Palestinians and their Arab allies. The first Arab-Israeli war ended with Israel holding roughly 40% more of the area assigned by the UN to the Jewish state. During the Armistice negotiations, Israel demanded and received an extension of the Green Line eastwards, which negatively affected a further 20% of Palestinians in the West Bank (excluding the refugees).

21. The 1948 Nakba subdivided Palestine into three shards: Israel within the 1949 Armistice Blue and Green Lines, the West Bank annexed to Jordan, and the Gaza Strip under Egyptian rule. The war left around a million Palestinians as refugees, losing all their property. Estimates of Palestinian property losses vary, but updated assessments include the cost to human capital, public lands, buildings, infrastructure, and the opportunity loss of productive capital,

totalling around US \$750 billion in 2022 prices. To put this into context, if these losses were recuperated, it would give Palestine a sovereign wealth fund nearly comparable with that of Kuwait.

22. West Bank and Gaza Strip until 1967.

On the eve of Israel's occupation, economic and living standards in the Gaza Strip were higher than the West Bank because Egypt imposed lower customs duties, which had helped to further expand trade, particularly to eastern Europe. Although the Gaza Strip suffered heavily from destruction and thousands of casualties during Israel's war on Egypt in 1956. The West Bank, on the other hand, suffered from a series of economic setbacks.

23. The 1967 war and Israel's occupation of the West Bank and Gaza Strip

resulted in the "re-unification" of Palestine under Israeli control. But it also heralded another wave of ethnic cleansing through the displacement of 30% of Palestinians from the West Bank (including east Jerusalem) and the Gaza Strip. Israel's occupation strategies included land expropriation, resource usurpation, and economic restrictions – which Palestinian economist Yusif Sayigh referred to as a policy of "dispossession and pauperization". All revenues from taxes, customs duties, excises, and other fees paid by the Palestinians in the oPt went straight to the Israeli Treasury. Israel made no investment in infrastructure in the oPt, but it invested heavily in its illegal settlements.

24. The economy during the Oslo period. The years 1993-2000 were marked by institution-building and international donor support, but also by Israeli closures and economic restrictions. These policies caused significant economic losses, including a decline in GDP and increased poverty. Economic losses in the first three years after the establishment of the PNA were twice that of the total aid that flowed into the oPt during the same period. By the end of the agreed interim period, real GDP was lower than its levels during the mid-1980s before the eruption of the First Intifada.

25. The economic impact of the Second Intifada further exacerbated economic decline. By 2002, Israel had caused extensive material damages of US \$1.7 billion, and the poverty rate had increased to 50% in the West Bank and 75% in the Gaza Strip. Most damage was in the Gaza Strip – a harbinger of what was to come over the next two decades. These estimates do not include the impacts of the disintegration of the economy of east Jerusalem, where 15% of the Palestinian population of the West Bank lives, and where taxes, customs duties, and other excised duties are plundered for the benefit of the Israeli Treasury.

26. The Roadmap period following the Second Intifada saw increased donor disbursements but limited economic growth. In 2014, the World Bank estimated that unrestricted Palestinian access to Area C would have resulted in an increase in GDP by around 35%, from the expansion in agriculture,

construction, Dead Sea mineral processing, manufacturing, tourism, and generation of energy.

27. Two decades of economic loss due to Israeli policies of blockade, closures, and military violence. UNCTAD estimated the cumulative GDP loss 2000-2020 to be close to US \$50 billion in the West Bank (UNCTAD, 2022). The cost of Israel's blockade, closures, and military violence during 2007-2018 alone were estimated at US \$16.7 billion (UNCTAD, 2020).

28. The Palestinian diaspora. Only 35% of Palestinians live in the oPt, with around 50% in the diaspora (and 15% as citizens of Israel). The lost potential of the socio-economic contribution of these displaced Palestinians represents another dimension of cumulative losses. While diaspora capital has supported the national movement, most Palestinians in exile have little direct influence on Palestinian politics or development.

29. Regional and global costs. Wars waged by Israel under the guise of self-defense have expanded its borders and regional dominance. All neighbouring states have been affected, with Israel occupying parts of Jordan, Lebanon, Syria, and Egypt at different times during this history. Israel continues to occupy parts of Lebanon and Syria; and since 2023 has expanded into these two sovereign states yet again. The cumulative cost of Israel's wars and occupations of Arab neighbours' lands has not been calculated.

30. Intangible and incalculable losses. The credibility of international law

and the United Nations system has been tested by this prolonged conflict. Israel stands accused of pursuing a genocidal war and crimes against humanity, yet so far has faced no significant consequences. Because of their experiences, Palestinians see international law as hypocritical and driven by double standards, and the UN as ineffective in the face of US unconditional support for Israel.

Palestinian nationhood, national identity, and political dynamics

31. A century of struggle for nationhood.

Hamas' attack on October 7 and the subsequent genocidal acts by Israel has disrupted the structures and institutions of the Palestinian political system, yet the struggle for nationhood, sovereignty, and rights continues. By 2025, Israel's sovereignty is set to extend throughout the area from the Jordan River to the Mediterranean Sea. The Palestinian nation has never been further from establishing a sovereign statehood space, yet never more determined.

32. Palestinian national identity has evolved over at least a century, driven by internal dynamics and the confrontation with the Zionist movement. The Palestinian nation assumed it would enjoy sovereignty and independence in all of Palestine, but Zionist colonization under British tutelage established Jewish spaces throughout the country in the first half of the 20th century.

33. A nation denied. The nation-state is typically the framework for guaranteeing human, civil, political, cultural, social, and economic rights. But these rights have been denied to most Palestinians living under Israeli rule and to millions in exile. Despite the challenges, Palestinian nationhood is a well-established reality, with seven million Palestinians living from the Jordan River to the Mediterranean Sea with an equal number in the diaspora.

34. Zionism is based on differential rights.

Israel defines itself as the "nation-state of the Jewish people", which it codified through its 2018 Nation State Law. States do not usually provide nationhood rights to non-nationals although Israel does – this makes it a strange and unique example. Any Jew from around the world can arrive in Israel or the oPt and immediately be granted more rights than Palestinian Arabs who have lived there all their lives, with family roots stretching back centuries. At least five million Palestinians in the oPt are not legal citizens of the sovereign state of Israel, and some two million Palestinians in Israel are legal citizens but have less rights and access to opportunity than Jewish-Israelis and face multiple forms of discrimination.

35. The Palestinian political system is divided between the Fatah-led regime in the West Bank and the Hamas-led regime in the Gaza Strip. Each has different political agendas and claims to legitimacy. Initially focused on armed struggle, the PLO has spent the past three decades pursuing a negotiated

two-state solution. The PLO/PNA regime's legitimacy is rooted in its recognition as the representative of the Palestinian people, but its claim has been undermined by the lack of democratic accountability. Before October 2023, Hamas's regime in the Gaza Strip faced challenges, particularly Israel's blockade, and it has also experienced a steady decline in popular support. The current situation is marked by weakening of Hamas's ability to govern under the pressure of Israel's ongoing war, alongside a financial crisis threatening the very existence of the PNA.

36. The PNA may have outlived its function. Even though direct Israeli rule is not preferable to self-rule, the PNA (and its reform) must not be seen as an end in itself. The PNA was established for a purpose that has been overtaken by time, momentous events, and a new asymmetry in the struggle with Israel. These factors render its purpose uncertain and ability to provide essential services at risk..

37. Lack of accountability. Consultation and common action between the PNA, the private sector, and civil society organizations have retreated, and the PNA lacks essential democratic or legislative accountability mechanisms. The PNA was established for an interim purpose that has long ended, and many Palestinians question its future relevance and role. Upgrading local government capacities and authorities is an appropriate state-building response to the specific Palestinian conditions of geographic fragmentation

and political disunity, and deserves allocation of more resources and stronger leadership from the center.

38. The struggle over ideologies spans religious, economic, and political beliefs, both among Palestinians and in their relations with other nations. The potency of religious ideology has reached new heights, with Islamic resistance and Jewish national messianism influencing the conflict, an escalating struggle over control over the Al-Aqsa Mosque Compound, and the influence of Christian Zionism in the US Trump administration. Nevertheless, the Palestinian peoples still largely perceive and frame their struggle as a non-religious rights-based quest for nationhood and sovereignty. In a recent public opinion poll commissioned for this Report, the largest share of respondents did not identify with any of the proposed ideologies (leftism/socialism, liberalism, centrism, conservatism, political Islam, and other), instead, 29.4% chose "no one". The second largest share of responses went to centrism (20.4%), with the 25-34 age group identifying with it at nearly double the rate of all other age groups (30.5%).

39. Support for the Palestinian right of return and restitution is still strong. Opinion polling also shows that over half of Palestinians in the West Bank and Gaza Strip continue to hold on to the right of return (with full return of land ownership and the dismantling of Zionism). Only one in five (22.2%) would accept only statehood. The

youngest age group (15-24 years old) is most likely to advocate for the return of entire lands to original owners and the dismantling of Zionism at 58.2%, perhaps indicating greater passion and sense of belonging among the youth.

40. Inappropriate economic development model.

The political compromise of Oslo, the free-market policies of major donors, and the PNA's neoliberal development plans left Palestine defenseless against the forces of Israeli colonial domination. This led to rent-seeking, financialization, property speculation, a weak public sector, and minimal social security safety nets in the oPt.

41. International aid was an important resource for Palestinian state building, although it has been frequently dogged by threats of aid cessation and conditionalities. But the huge amount of donor engagement was founded on a near-universal endorsement of the two-state formula, belief in partition as the only equitable and mutually beneficial outcome of the conflict, and bilateral negotiations overseen by the United States. More intensive and intrusive donor involvement is likely in the current context of economic ruin and a weakened Palestinian national movement. Opinion polling shows that 55.2% of Palestinians think that international aid is effective; this rises to 65.75% of Palestinians in the Gaza Strip.

42. Festering social crises. Even under the duress of occupation and war, the oPt has been able to maintain some degree of relatively free markets and international trading, although less oriented for now

towards growth than survival. Classes have formed, with deeply poor and extravagantly rich, and a middle class more focused on consumption and individualism. Social crises such as gender-based violence and income inequality, along with contradictions between capital and labor, and religious and non-religious, have been put aside so as not to endanger the national front against Israel, but these issues are festering and growing.

43. Resistance or representation. Both strategies are regarded as important sources of legitimacy for the Palestinian leadership. Opinion polling shows that 58% of Palestinians agree or somewhat agree that elections are the only way for Palestinian leadership to gain legitimacy, with 54% strongly agreeing or somewhat agreeing in armed resistance as a source of legitimacy. Percentage figures on elections between West Bank and Gaza Strip were similar, but figures diverge sharply in terms of armed resistance, with 65% support in the West Bank compared to only 37% in the Gaza Strip.

44. Palestinians in east Jerusalem should not be ignored. They currently live in limbo divorced from self-governance and development, isolated from the rest of the Palestinian nation-state project because of Israel's illegal annexation. But east Jerusalem, al-Quds, is an essential part of Palestinian nationhood and national symbols. It is regarded by the PLO as Palestine's future capital, even while the few remaining Palestinian institutions in the city fight for survival

under the pressure of relentless and accelerating policies of Judaization.

45. Clarity on the Palestinians' national address. Is it the PNA, the PLO, or the State of Palestine (created by the PLO in 1988)? who represent and should govern the Palestinian people? The creation of multiple overlapping representative institutions has confused the situation.

46. Stakeholders in Palestine's future. Whether living under Israeli rule or in exile, the Palestinian people should be the primary stakeholders in their national project. However, they are less able to determine their future than at any time since the 1948 Nakba. Palestinian existence in their homeland will still go on, despite being threatened by genocide, undermined by a political system that is divided and dysfunctional, and with economic resources that are subject to Israel's colonial plunder.

Why October 7 happened

47. Israel's asymmetric containment and conflict management strategy has failed to contain the Palestinian population, curtail their political aspirations, and dissuade them from resistance. This strategy relied on two pillars: the use of force and punitive measures, and population control through the PNA. Israel's use of military interventions, house demolitions, night raids, targeted assassinations, mass arrests, and collective punishment aimed to repress the Palestinian population. Even before October 2023,

Israel's violence against Palestinians had escalated. Israeli forces killed at least 400 Palestinians in the first nine months of 2023, more than in any year since 2005. This period also saw the expansion of illegal Israeli settlements, settler incursions into Al-Aqsa Mosque, and calls by Israeli politicians to "wipe out" Palestinian towns. Israel partially relied on the PNA to ensure internal security in the West Bank to ensure stabilization, and limited economic opportunities were intended to lift living standards modestly while deepening Palestinian dependency on Israel. The Gaza Strip had been reduced to being the world's largest open-air prison, experiencing regular rounds of military violence ("mowing the grass") and widespread deprivation due to 16 years of an Israeli-imposed blockade. Israel thought it could co-opt Hamas, akin to its relationship with the PNA. But this strategy failed to ensure Palestinian submission, as evidenced by multiple uprisings and resistance movements, culminating in the October 7 surprise attack against Israel.

48. The disintegration of the Palestinian national movement. Internal conflicts and rivalry between Fatah and Hamas have consumed the movement's energy and attention since Hamas won the legislative election in 2006. There are also competing views on strategies towards national liberation: Hamas and Islamic Jihad maintain armed resistance, while Fatah and the PNA focus on leveraging international law to establish an independent state. Israel's policies have eroded the PNA's

credibility and effectiveness, because they were designed to destroy the possibility of an independent Palestinian state.

49. Regional and international developments. The October 7 attack was partly a response to the marginalization of the Palestinian cause through the US-sponsored Abraham Accords, which normalized relations between Israel and several Arab states. This reinforced the perception of regional and international abandonment; and strengthened the position of the “axis of resistance” led by Iran. Opinion polling shows that half of Palestinians (51%) strongly agree that normalization efforts between Israel and Saudi Arabia are likely to succeed under the Trump US administration, and an additional 25% moderately agree with this statement.

50. The rise of the religious-nationalist bloc and settler-colonial fascism in Israel represented by religious Zionist and ultra-Orthodox parties. These parties promote Jewish political supremacy, settlement expansion, and a “Greater Israel” free of Palestinians, viewing it as a divine mandate. They now occupy key positions in the Israeli military, political, and media establishments, mobilizing resources for a messianic vision of the “land of Israel” advocating annexation, tougher conditions for Palestinians, and reject the creation of a Palestinian state, which can only be realized through genocide. Israel’s disproportionate response signals a shift towards ethnic cleansing by forced population transfer.

51. The political settlement of Oslo was guaranteed to fail. This is because Israel had non-negotiable demands on which it would not concede – differential rights between Jews and non-Jews in the areas under its control. Zionism is a state-building project for a group of people who are still largely dispersed across the world. Zionism and its believers regard Israel as not just a state for Israelis living in Israel, but for Jews living anywhere. By definition, the national and civic rights of Jews who are not yet in Israel (and may never come) must be superior to those of non-Jews living in Israel and any land under Israel’s control. There is no other state-building project like this in the world.

52. Israel’s overwhelming economic and military power is not a guarantee of success. Less well-resourced actors often win conflicts, such as in Vietnam or Afghanistan. Better organizational power and ideological commitment are also crucial. Palestinians believe in the justice and fairness of their struggle, underpinned by the concept of *sumud* (steadfastness); but better organizing and national unity are required.

53. Ethnic cleansing is the only strategy left for Israel to ensure differential rights. The only other strategy, apart from apartheid and asymmetric containment, which can ensure that Jews do not have to share equal rights with non-Jews in historic Palestine is to remove the non-Jewish population. From this perverse perspective, the death and destruction unleashed by Israel after October 7 no longer looks

like an overreaction: it is the result of a deliberate strategy of creating conditions for a population exodus.

The malformed Palestinian national economy at war

54. The Palestinian economy has faced successive shocks over the decades, including extensive closures, destruction of physical capital, and the impact of the Covid-19 pandemic. The October 2023 war has brought the Gaza Strip's economy to a standstill and created a downward spiral in the West Bank, which has diminished economic productivity and consumption. The cumulative effects of occupation, blockade, and military offensives left the Palestinian economy unable to withstand the shocks of war.

55. The political economy of the world's largest open-air prison. Before October 2023, the Gaza Strip was already suffering from a harsh Israeli blockade and recurrent military offensives that had left its economy in dire straits. According to the IMF, the Israeli military operations of 2008/2009 alone destroyed the equivalent of over 60% of the total capital stock of the Gaza Strip, including machinery, buildings, tools, and equipment; while the military operation of 2014 resulted in the decline of 85% of the remaining capital stock that had survived the previous operations (IMF, 2017). The contribution of the Gaza Strip in the GDP of the oPt had declined to 17% in 2022, whereas its contribution had been close to 33% in 2006 (MAS, 2023b).

Unemployment in 2022 was estimated at 50%, but the rate amongst the youth was higher at 72% (PCBS, 2022).

56. Israel's complete destruction of the Gaza Strip's economy. By the end of 2024, 80% of the Gaza Strip's population was displaced, and extensive damage had been inflicted on housing, infrastructure, education, and health facilities. Economic activities have largely halted, and the labor force has been severely impacted, with most jobs lost except in health and humanitarian relief sectors. The destruction of critical infrastructure, including water, energy, and sanitation systems, has had severe consequences for public health and living conditions. By the end of 2024, the estimate of damage to buildings, utilities, and infrastructure had reached 70% of the total pre-war stock; and 90% of the population requires relief, basic income, emergency shelter, and health care. Official figures put the Palestinian death toll from Israel's war at 47,000 in January 2025. In October 2024, indirect deaths from lack of healthcare, nutrition, and sanitation were estimated at upwards of 186,000; this is certain to rise.

57. The West Bank economy is on the brink of ruin. The past few years has witnessed an intensification of restrictions on movement and violence against Palestinian communities and properties by Israeli settlers and the Israeli security forces in areas A and B, particularly on the refugee camps. Since October 2023, Israeli-imposed mobility restrictions have reduced

internal and external trade, worker mobility, and economic activity. The ban on access to the Israeli labor market has cut off remittances and forced returned workers to compete for local jobs, leading to decreased wages. Israel has also intensified sanctions on the PNA through the suspension of fiscal clearance revenues, which is crippling its capacity to finance public services and economic activities.

58. Since 1967, east Jerusalem has been subjected to Israel's segregation policies, settlement expansion, and movement restrictions. After Oslo, Israel restricted access to Jerusalem from Palestinians in the West Bank and Gaza Strip, which was further enhanced by the building of its Separation Barrier. These policies disconnected east Jerusalem from the rest of the West Bank, impeding commercial activity and economic exchanges, causing a decline in economic activities. The contribution of east Jerusalem to the oPt GDP diminished from close to 15% in 1990, (UNCTAD, 2014) to around 7% in 2022 (PCBS, 2024a). According to UNDP, 90% of shop owners in east Jerusalem rely on tourism, which has plummeted in the aftermath of the October 2023 war. The tourism sector came to a virtual standstill causing the closure of many shops in the Old City (UNDP, 2024).

59. Economic interactions between Palestinians inside the Green Line and Palestinians in the oPt has been restricted by Israel's policies. The main economic activities of the 1948 Palestinians were in the

purchase of goods and services in the West Bank and the expenses of thousands of students attending West Bank educational institutions, as well as investments mainly in real estate. In 2022, these expenditures were estimated as constituting the equivalent of US \$1.4 billion annually, which represents around 7.3% of GDP in 2022, almost equal to total exports of the oPt (MAS, 2023). The comprehensive closure imposed on the West Bank after October 2023 has largely blocked the contribution of Palestinians inside the Green Line to the West Bank's economy.

60. The humanitarian disaster in the Gaza Strip and the socio-economic shocks of the October 2023 war represent a brutal stage of Israel's settler-colonial policies. Terms such as "econocide", "politicide", "spatiocide", and "memoricide" capture the unique character of Zionist settler colonial policy, which seeks to replace the Palestinian people and erase their history and identity.

New Crises Compound Social Development Deficits

61. Social protection is defined beyond relief-oriented assistance, encompassing health, education, and economic indicators to mitigate socioeconomic vulnerabilities. The Multidimensional Poverty Index (MPI) is used to measure these dimensions, including health (nutrition and child mortality), education (years of schooling and school attendance),

and living standards (cooking fuel, sanitation, drinking water, electricity, housing, assets).

62. The social protection system in Palestine includes various actors. PNA: Ministry of Social Development (MoSD), Commission of Detainees' Affairs, and Foundation for the Care of the Families of Martyrs. NGOs: Zakat Committee. International organizations: UNRWA, UNICEF, and WFP.

63. The future of UNRWA. Refugees make up 66% of the Gaza Strip's population, while making up 26.3% of the West Bank population. As a historically marginalized group socioeconomically, refugees are more reliant on social assistance given their status and correspondent deprivations while living in cramped camps with poor socioeconomic living conditions. It is unclear which agency will provide services and assistance for Palestinian refugees considering Israel has banned UNRWA from operating in all areas under Israel's control, i.e., in the oPt.

64. Differentiated labor sectors with varying rights. Palestinian workers cross three labor sectors - public, private, and Israel and its settlements. They are all organized under different frameworks, leading to variations in socioeconomic rights and protections. In the private sector, workers have socioeconomic rights as outlined in the Palestinian Labor Law of 2001. However, a contributory social security law which would provide a holistic framework for safeguarding these rights does not yet exist. In the public

sector, employees are organized under the Civil Service Law, which details their socioeconomic rights, and they also receive pension through the Palestine Pension Fund Authority. The 180,000 Palestinian workers who, until October 2023, had received permits to work in Israeli settlements, were covered by three types of social insurances: work-related injuries, maternity leave, and severance in case of bankruptcy; as such, these workers were susceptible to socioeconomic vulnerabilities amidst shifting political situations.

65. Pre-war socioeconomic indicators. Before the 2023 Israeli aggression, Palestine showed mixed progress in social development. Education showed significant improvements in literacy but poor transition to the labor force, with only 44% labor force participation. The labor market showed high unemployment (25%) and a large informal sector (53% of the labor force). In the Gaza Strip, the severe impacts from the Israeli blockade created high levels of poverty (63.3%) and food insecurity (76%). In the West Bank, there was a decline in agriculture due to Israeli restrictions, with 90% of the area inaccessible to local producers. Furthermore, by 2023, 180,000 Palestinians were working in Israel and its settlements, who are constantly at risk of losing their jobs and the devastating impact this will have on their livelihoods, as Israel's policies after October 2023 again proved. PCBS socioeconomic condition surveys show that the percentage of households which could manage

financially dropped from 63.5% of families able to sustain themselves in 2014 to 44.6% in 2020.

66. Regulation is inadequate.

Multidimensional poverty is worsened in the context of inadequate monitoring and legislative frameworks, as well as the lack of a social security law that ensures universal protection for all workers in the formal private sector. The informal sector remains large, with informal employment constituting 53% of the labor force in Palestine, most of which work in household projects as unregistered establishments.

67. Coverage of the social protection system is poor.

By 2023, the PNA MoSD's National Cash Transfer Program covered only 40% of households in extreme poverty, leaving 60% of extremely poor households and all poor households without assistance. Even for those who receive assistance, the program offered four periodic instalments of NIS 750-1800 (US \$210-500), which is well below the minimum wage and basic living standards. The MoSD's budget accounts for only 5% of the PNA's total budget.

68. The war since October 2023 has exacerbated existing deficits,

causing widespread destruction and further deterioration in socioeconomic conditions. In the Gaza Strip, the massive destruction of housing, health, and education infrastructure has increased multidimensional poverty from 10.2% to 30.1%. Nearly all schools now serve as shelters, which left 625,000 students going

into a second year unschooled. In the West Bank, increased movement restrictions and military incursions is disrupting access to basic services. For instance, this has left 782,000 students facing difficulties accessing schools (UNICEF, 2024). There have been significant human capital losses, with high mortality and injury rates, increased disabilities, and severe impacts on health and education. The long-term implications include reduced labor force participation, increased poverty, and heightened socioeconomic vulnerabilities. By the end of 2024, monetary poverty was expected to rise from 29.2% to 74.3% in the Gaza Strip and West Bank combined. In the Gaza Strip alone, poverty rates were predicted to rise from 45.1% to 97.9%.

69. Long-term impacts of Israel's current war.

The number of fatalities is likely to surpass 100,000, and will continue to rise, translating into between 4-8% of the Gazan population. The long-term implications are grave, affecting critical vital statistics such as average family size, mortality and life expectancy, and impacts on fertility. The large number of injuries and corresponding 17.2% increase in the number of disabilities in the Gaza Strip will also pose both direct and indirect costs that impact future social protection provisions. Mass displacement and killing has left around 20,000 children in the Gaza Strip as orphans thus further exposing them to additional socioeconomic vulnerability.

- 70. Public perceptions of income inequality.** More than half (53.2%) of Palestinians view income inequality as a significant problem, with over 86% of Palestinians in the Gaza Strip. Palestinians in the Gaza Strip are in dire need of urgent support, with only 4.8% of respondents there stating they do not need any emergency assistance compared to 48.3% in the West Bank. In both the West Bank and the Gaza Strip, the top three policy priorities were: viewed as improving the job market (40.9%), limiting inflation (20.8%), and instating safety and security (17.9%).
- 71. The PNA's minimum wage policy is inadequate** to protect individuals from socioeconomic vulnerability. First, monitoring is weak, as evidenced by the fact that a little less than half of labor market participants receive less than a minimum wage. Second, even if implemented, the current minimum wage, set at NIS 1,880 (US \$524), is below required standards of monetary and non-monetary poverty.
- 72. Workers' rights in the private sector are poor,** with over half working with no contracts (56%), only 30% receiving severance pay, and less than half of working women do not receive maternity leave. A 2003 MAS study revealed that despite the Labor Law having penalties for employers that break the rules, enforcement is weak because of ineffective inspection and legislative processes. Moreover, the absence of specialized labor courts in the judicial system further restricts workers' access to legal and social protection.
- 73. Challenges and structural issues for social protection in Palestine** include: i) heavy reliance on international aid, with declining support impacting the sustainability of social protection programs; ii) the lack of a comprehensive, multidimensional social protection strategy, leading to fragmented and unsustainable provisions; iii) the Palestinian economy's dependence on Israel and liberal economic policies promoted by international institutions have hindered development.
- 74. Compounded crises have deepened existing social development deficits** in Palestine. Addressing these challenges requires a shift from relief-oriented assistance to sustainable, inclusive development strategies that empower the Palestinian population and build sumud (resilience).
- 75. Policy priorities and recommendations** should be urgent relief and immediate support for those affected by the aggression (particularly in the Gaza Strip); sustainable development through the creation of long-term strategies to foster inclusive economic development and strengthen social protection systems; and social cohesion fostered through policy reforms address the roots of social deprivation and inequality. Deficits in the Palestinian social protection system should be mitigated to prepare for scenarios of ethnic cleansing and sustained low-level aggression.

Palestine in Comparative conflict Perspective

76. The Palestinian experience shares key similarities with several conflicts, particularly in being protracted, marked by an asymmetry of power, and involving ethnonational or religious dimensions. The paths taken by other nations towards independence and conflict resolution could offer lessons for the Israeli-Palestinian context.

77. Drawing lessons from comparable cases such as Algeria, South Africa, Northern Ireland, and Colombia makes it possible to explore the implications of four potential scenarios for conflict resolution. These cases highlight the importance of religious and ethnic identity, struggles over land and natural resources, power dynamics, leadership, and the complexities of negotiation and peace processes. The future of Palestine may be shaped through a deeper understanding and properly addressing these factors.

78. There are 10 key stakeholders in Palestine: i) political parties, ii) NGOs, iii) grassroots and community organizations, iv) professional and academic institutions, v) the private sector, vi) media and influencers, vii) international actors, viii) Palestinians in the diaspora, ix) armed groups, and x) tribes.

79. The two-state solution is still the most preferred option. In a November 2024 poll by the Institute for Social and Economic Progress (ISEP), when presented with five options – two-state solution, one-

state solution, a confederation with Israel and Jordan, autonomy under Israeli sovereignty, or none of the above – no single solution garners majority support among Palestinians. However, the two-state solution emerges as the most favored, with approximately 44% of the population viewing it as an appropriate resolution. The second most popular choice is “none of the above” selected by 27% of respondents.

80. Land, identity, and religion. The land of Palestine is central to the Palestinians’ struggle and collective identity. The Algerian struggle for independence was tied to land and identity, with Islam playing a significant role in unifying the population. The Palestinian struggle is also defined by identity and colonialism.

81. Non-state actors, particularly NGOs and civil society, play a crucial role in conflict resolution. The case of Colombia shows the importance of involving civil society in peace talks. In South Africa, civil society resisted apartheid and advocated for justice. The Palestinian struggle has similar dynamics, with civil society advocating for human rights and mobilizing international support.

82. Multilateralism and third parties can play a crucial role by providing time, support, and space for negotiations. For instance, the Algerian War of Independence was shaped by international pressure and global support. The Arab Peace Initiative (API) proposed by Saudi Arabia in 2002 called for Israel’s withdrawal from the oPt and the establishment

of a Palestinian state. Despite the Abraham Accords, the API remains a reference point in peace discussions.

83. The challenges are mounting because of Israel's aggressive occupational measures, disregard for international law, and the absence of international accountability. For a solution to succeed, there must be a shift in both internal and external factors.

Prospects for an end to the conflict

84. The core goal of Zionism is to maintain differential rights between Jews and non-Jews, which the two-state solution would fail to ensure. The fundamental lesson of the last thirty years is that Israel does not want a two-state solution. Zionism's core goal of maintaining differential rights between Jews and non-Jews makes both one-state and two-state solutions equally challenging.

85. Western donors provided financial support for Israel's asymmetric containment strategy over three decades despite seeing the deepening of a system of apartheid. The ideological and economic reasons motivating Western countries are complex and include Holocaust guilt, the Christian Zionist constituency in the United States, the pro-Israel lobby, and strategic Western interests in the region, most recently with regards to Iran. The international community's failure to recognise and deal with Zionism as a settler-colonial movement has helped to prevent a political

settlement that establishes Palestinian rights. This was also assisted by the Palestinian leadership's focus on a territorial compromise without addressing rights.

86. The asymmetric containment strategy that Israel pursued since Oslo is over. Israel cannot continue with that strategy because Palestinians have shown they can break out of containment, even from the open-air prison of the Gaza Strip. Israel's strategy has evolved from maintaining differential rights through asymmetric containment to potentially pursuing ethnic cleansing and expulsion of Palestinians from the oPt.

87. The United States under the new Trump administration has expressed support for the transfer of the population of the Gaza Strip and there is also evidence that it will support Israel's annexation of the West Bank. But while Israel's goal of making life unlivable for Palestinians to force them to leave is evident, whether this will succeed depends on Palestinian resilience and the response of neighbouring states.

88. The struggle for the soul of Zionism. Over the past few decades, Israel has experienced the rise of a national-religious brand of "Neo-Zionism" threatening the historic hold on Israeli politics, society and culture of "Foundational Zionism" (referred to by its critics as the "liberal-left deep state"). In the months that preceded October 2023, the so-called "constitutional reform" that was attempted by Israel's ruling coalition provoked anti-government demonstrations

that were characterized as a conflict over the identity of Israel, its “soul”, between secularists and Haredim, between Tel Aviv and Jerusalem. But during wartime, the majority of Jewish Israelis have remained locked into revenge mode. In the “day after”, this polarization can be expected to surface in various manifestations.

89. Palestinian public opinion on the four potential scenarios for the future of the conflict is divided: 33.8% of Palestinians believe global pressure will lead to Palestinian unity and statehood, (Scenario 4), making it the most common expectation nationally; while 53.7% expect protracted low-level violence (Scenario 2 or 3); and only 12.5% believe Israel will succeed in ethnic cleansing (Scenario 1).

90. Economic strategies must adapt to the new reality. The Palestinian economy has become a series of islands with limited transactions. As Israel moves from asymmetric containment to more intensive repression and violence, local survival strategies will become even more critical. The most effective Palestinian response is likely to be a combination of a war economy (i.e., state planning with a focus on resilience and survival) and a new politics around a rights-based movement against apartheid, annihilation, and neo-Zionism. Together, these strategies can enhance Palestinian holding power and resist expulsion. Only a significant improvement in Palestinian holding power can bring about genuine moves towards a negotiated political

settlement. We need Palestinian unity intact to resist expulsion.

91. Ways forward. The immediate future looks bleak, with the worst-case scenarios of ethnic cleansing and protracted regression being the most likely. However, a fifth scenario could emerge through a new struggle that forces an abandonment of Zionism as currently practiced by Israel. While Israel’s strategy has shifted to creating conditions for mass expulsion, Palestinians must develop coalitions to block these moves and survive in devastated localities. This requires an alternative global coalition with sufficient power to make neo-Zionism’s advance unsustainable, based on a powerful rights-based narrative that appeals to all factions and global supporters focused on equal rights and challenging Israel’s apartheid and ethnic cleansing agenda. This new Palestinian political narrative is likely to come from a new generation of Palestinians, which has already forged deep connections with the global movement for Palestinian rights and which has little nostalgia for the factional politics of the past decades and the unfulfilled promises of national liberation and human rights..