

The Palestinian Economy and China's Economic Expansion

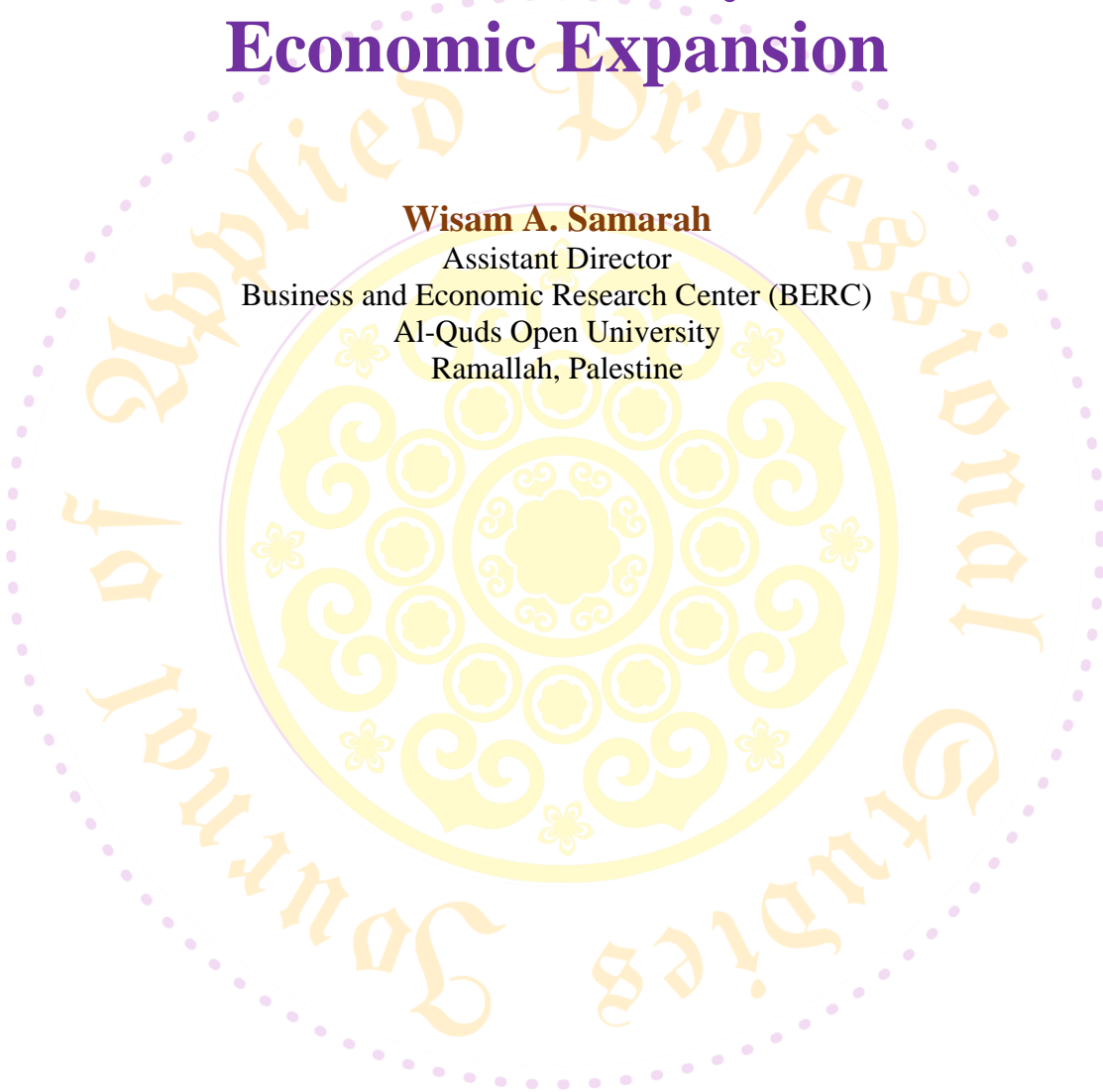
Wisam A. Samarah

Assistant Director

Business and Economic Research Center (BERC)

Al-Quds Open University

Ramallah, Palestine



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Abstract

China manifests as a major player in the international arena with economic and military power. It seeks to establish a multi-polar world order that would be an alternative to the unipolar system on which the United States alone sits. As a result, China is becoming a strong economic competitor to the United States. The Chinese economic power hidden by state funded institutions are offering an alternative to the current international world order hidden by the World Bank and the International Monetary Fund (IMF). The purpose of this paper is to examine whether the Palestinians can benefit from the economic expansion of China. Thus, can the Palestinians shift their economic reliance on China to achieve an independent Palestinian economy? The Palestinians should rely on both the historical relationship and strengthening their economic ties with China.

This paper will analyze the economic assistance -foreign aid sources- that Palestinians receive to determine whether it is possible to shift the economic reliance on China. The paper concluded that China cannot be a better alternative to the United States and the European powers. Nevertheless, it should play a parallel role to the United States. This will aid the Palestinians in achieving their legitimate goal of establishing an independent Palestinian economy.

Keywords: China, Economic Assistance, Foreign Aid, International Monetary Fund, Palestinian Economy, World Bank.

1. Introduction

The Russian military invasion of Ukraine which began on February 24, 2022 is another sign of the development of new world order. This world order is manifested by the rising coalition between Russia and China that is challenging the United States hegemony (Hanappi, 2022). This marks the establishment of a new international order based on multi-polarity and changes in the centers of power (Chan, 2013). The current world order-which was established after the end of World War II - was unable to create an independent Palestinian State. So as the Chinese and Russian coalition manifest the new world order is emerging (Larson and Shevchenko, 2010).

The purpose of this paper is to examine whether the Palestinians can benefit from the economic expansion of China through the Belt and Road initiative to achieve an independent Palestinian Economy. The Palestinians should rely on both the historical relationship and strengthening their economic ties with China.

The reason that Palestinians should rely on their historical friendship with China, lies in the fact that the Palestinian economy is a small open economy. So, we have a small economy trading with a large economy, i.e., the Chinese economy will not benefit substantially from the Palestinian economy. Thus, Palestinians need to create an economic incentive for China to cooperate with them.

One of the channels of the Chinese economic expansion is the Belt and Road Initiative. The Chinese are trying to revive the old Silk Road through the Belt and Road Initiative. Nations that are located along that road can benefit substantially from the Chinese economic expansion. Kazakhstan lies along the Belt and Road Initiative in a strategic location where it connects China with Russia and Europe. This is why Kazakhstan became Beijing's closest Central Asian ally. Hence, China conducted many joint projects including infrastructure, transportation, and connectivity sectors. In addition, there is a joint corporation in energy and finance. This Chinese corporation had aided Kazakhstan's economy, especially with the falling oil prices (Harutyunyan,2022). The Palestinians should try to convince China that they are a strategic partner following the Kazakhstan's example to benefit economically from China.

We will try here to stand on the historical development of Chinese attitudes towards the Palestinian issue and how it can play a greater role in the future. In addition, we will examine whether it is possible to rely on China to pressure Israel in implementing international resolutions, and to what extent it can contribute to building the institutions of the future Palestinian state.

2. The historical positive support for the Palestinian issue from the Great Powers

Several great powers had historically supported the Palestinian cause in seeking an independent Palestinian state. In this section we will look at the European position, Russian position, and the China position.

2.1. The European position

The European position has not been unified towards the Palestinian cause since the beginning of the struggle until the present day. Perhaps the simplest evidence is the colonial history of the European countries in the Arab world and the division of the areas of influence of each country in the Arab countries. As for Palestine specifically, the British-French competition for control of it was clear, as each of them sought to make it under its influence. Furthermore, both France and Britain supported the idea of establishing a national state for the Jews in Palestine (Robson, 2011).

The weakness of the European role after the end of World War II had manifested in the Arab-Israeli conflict and how to establish a Palestinian state. This included: the November 1976 statement in which the European countries expressed an explicit position on the Palestinian cause and demanded Israel's withdrawal from the Arab lands occupied in 1967 as a prelude to the establishment of a Palestinian state on this area of land.

The Venice Declaration in 1980, which was characterized by support for the Arab right and its explicit recognition of the right of the Palestinian people to self-determination and the establishment of their independent state (Allen and Hauri, 2010). In addition to the European role in the Madrid Conference in 1991, and then the Florence statement in 1996, in which the European countries expressed their position on the necessity of establishing a Palestinian state and stressed the dangers of retreating from the peace process and took a supportive stance for any serious and fruitful negotiations whose final outcome would be a Palestinian state Viable living side by side with a secure Israeli state. The United States became the primary supporter for the Israeli State and the main sponsor for resolving the Arab-Israeli conflict (Isma'i, 2011).

At the end of the twentieth century, a new formula was formed, one of its goals was the establishment of a Palestinian state, and the European Union, along with the United States, Russia and the United Nations, was one of its pillars. A vision of the Palestinian state, which considered that the establishment of the Palestinian state should be through negotiations only and that the operations carried out by the Palestinian factions are unacceptable terrorism. The negotiations are based on the principle of land for peace, and its legal framework is the relevant United Nations resolutions and the initiative of Prince Abdullah bin Abdulaziz. This is according to the mechanism of the road map and the Quartet (Samara, 2022).

As of 2021, nine out of 28 European Union (EU) member states recognize the state of Palestine. The first country to recognize Palestine while being an EU member state is Sweden in 2014 (Persson, 2015). Malta and Cyprus and other countries of central Europe had recognized Palestine prior to joining the EU. While some countries, the Czech Republic in particular, have become Israel's closest allies in Europe (Persson, 2018). The EU maintains a representative office in Ramallah, accredited to the Palestinian National Authority (PNA). The Palestinian Liberation Organization (PLO)'s general delegation in Brussels, accredited to the EU.

In western Europe, Spain was the first country granting diplomatic status to a PLO representative, followed later by Portugal, Austria, France, Italy and Greece. The EU states consider the Israeli settlements illegal under international law, and they will not recognize any changes to the 1967 borders other than those agreed between the parties. The EU has also been highly critical of Israeli military actions in the Palestinian territories, often referring to them as "disproportionate" and "excessive force" and calling for an immediate cease-fire. The EU has also been critical of Israel's Gaza blockade, referring to it as "collective punishment."

The Palestinian government called on the EU to recognize the State of Palestine many times, EU member states divided over the issue. Some, including Spain, France and the United Kingdom, stated that they might recognize if talks did not progress, while others, including Germany and Italy, refused. EU member states were divided in their vote on United Nations General Assembly resolution 67/19 in 2012, which recognized Palestine as a non-member observer state at the UN. Fourteen member states voted for, thirteen abstained and the Czech Republic voted against (Akasaka, 2008).

2.2. Russian position

The vote of 1947 at the General Assembly for the creation of the State of Israel is often glorified as a humanitarian gesture, a universal expression of repentance and remorse for the Holocaust. As well, the Soviet Union support of the State of Israel is associated with the common struggle of the Russian and Jewish peoples against Nazi Germany. The Soviet stand is mostly striking considering the steady negative attitude of the regime to Zionism, and the overt pro-Arab line taken by the Kremlin. For a clear understanding of the relationship between the Soviet Union and Israel, need to explicate the basis of their relationship.

Initially, Soviet-Israeli relations were of a positive nature (Gorodetsky, 2001). The honeymoon phase in Soviet-Israeli relations was in 1949, as was expressed in Moscow's support for the United Nations Partition Resolution in November 1947, recognition of Israel in May 1948, and support

for Israel's admission to the United Nations in December 1948 and May 1949. In fact, the support the Soviet Union initially showed for Israel was one of the (then) rare areas of agreement between the United States and the Soviet Union in the Third World.

Therefore, the friendly attitude toward Israel lasted only for a few months. The honeymoon phase in Soviet-Israeli relations was in 1949, as Moscow's support for the United Nations Partition Resolution in 1947, and then recognized Israel and support for its admission to the United Nations. Therefore, the friendly attitude toward Israel lasted for a few months then progressive deterioration in the relations set in after 1955 (Ginat, 2000).

In addition, there was a gradual improvement in relations between the Arab countries and the Soviet Union; "the center of the anti-Western struggle in the Middle East shifted to Egypt in 1950-1 and it was only natural that the Soviet Union came to support the Arab states against Israel". In 1987, the relationship coming to be better and Soviet diplomats were also implying that an exchange of consular delegations with Israel might be forthcoming.

Then, despite that Gorbachev has allowed Soviet Jewish emigration to Israel and upgraded the Soviet-Israeli dialogue since 1986, the Israeli government remains strongly opposed to a Soviet-backed international conference on the Arab-Israeli conflict, or to any process involving the PLO. The possibility exists that Gorbachev expects economic and diplomatic gains. That is, allowing more Jews out of the Soviet Union and edging towards diplomatic relations with Israel could pave the way for Soviet participation in a Middle East peace conference.

An interesting component which affects Soviet-Israeli relations is the tie the Soviets have to the PLO. Then, the PLO has been given a few official benefits: an embassy in Moscow and continued expressions of support for self-determination. While Moscow has helped arm, train, and encourage the PLO for years, this attitude toward the PLO has evolved as a function of its perceived need to align itself with the mainstream of the anti-American coalition in the Arab world". Therefore, while the PLO was granted an increasingly central position by Arab leadership, Moscow never agreed to act as the PLO's protector.

Moreover, the Soviet Union was under no obligation whatsoever—moral, legal, or military—to assist the PLO. The Soviet Union's relationship with the PLO is therefore significant more on a clandestine rather than on an official level, but this relationship can either prove to be a "help or a hindrance" to Soviet foreign policy with Israel. With the rise of Gorbachev to power in the Soviet Union, a warming trend is present in Soviet relations with Israel. These efforts paid off in July 1987 when, it seems clear that both the Soviet Union and Israel are becoming increasingly interested in alleviating previous tensions and improving relations. In fact, the good relations may facilitate negotiations in the context of the Arab-Israeli conflict, as the Soviet Union possesses contacts with both factions (Dietrich, 1991).

Mikhail Gorbachev also encouraged (albeit unsuccessfully) Yasser Arafat and the PLO to recognize Israel before the Palestinian Declaration of Independence on November 15, 1988, the Soviet Union became one of the first countries to recognize the new State of Palestine on 18 November 1988 and officially established full diplomatic relations with it by the end of 1989.

Soviet Relations with Israel have continued to advance, in October 1989, for the first time in eight years, the Soviet Union refused to vote against Israel's membership in the UN.

Nevertheless, the Soviet Ambassador to Syria Zotov who argued that there was hope of a serious settlement to the Arab-Israeli conflict and that Soviet diplomacy must be constructively engaged in achieving it. However, Moscow appeared to postpone extensive diplomatic relations until Tel Aviv provided a progress toward a legitimate negotiating process in which the Soviet Union was involved. Then Soviet Union took steps towards official diplomatic relations with Israel, simultaneously upgraded the PLO mission in Moscow to embassy status as they continued efforts to maintain a balanced position (Freedman, 1991; Dietrich, 1991).

The Russian position even after the collapse of the Soviet Union continued to back up the two-state solution based on the United Nations Resolutions.

2.3. China Position

The great Chinese leader, Mao Zedong supported the national liberation movements in the third world including the Arabs and Palestinians. During the 1960s, the People Republic of China (PRC) strongly supported Yasser Arafat and the Palestine Liberation Organization (PLO). In addition, the PRC established close relations with the Fatah party as well. In 1965, the PLO established a diplomatic office in China. After the PRC was admitted to the United Nations as a member in 1971, it continued to support the Palestinian cause. An embassy of the PLO was opened in Beijing in 1974. The PRC supported United Nations General Assembly Resolution 3379 which had equated Zionism with racism in 1975. The resolution, however, was later revoked with Resolution 4686 in 1991, a vote for which China was absent (Samara, 2022).

3. The Economic Support for the Palestinians

Unlike the European and US economic foreign aid which is based on intervening in the political structure of a state, the Chinese economic support is independent of any political or social policies. In other words, the Chinese economic support tries to deal with economic aspects of a state regardless of its political or social structure. Thus, in order for a state to receive financial aid from the Chinese government it does not have to alter its political position or implement certain social policies. This is a clear difference from both the European and US financial aid that is usually tied to implementing certain political and social changes. China's financial aid is not based on any political or social conditions, i.e., it tries not to intervene in the inner politics of a state (Fon & Alon, 2022).

According to the data published by PEC DAR in 2019, the Official Foreign aid given to Palestine During the Period between 1994- 2017, reached the amount of USD 36.5 billion, 35.4 billion USD of the aid has been given as grants and 1.06 billion USD as loans.

The table below will show the breakdown of the economic assistance in both amount and percentages.

Table 1: The amount and percentages of aids given to the Palestinians from the highest ten countries for the period 1994 to 2017.

	Amount	%
Total Economic Assistant	36.50	100.0%
European Union and European Institutions	6.57	18.0%
USA	5.74	15.7%
Saudi Arabia	3.60	9.9%
United Arab Emirates	2.08	5.7%
Norway	1.72	4.7%
Germany	1.68	4.6%
United Kingdom	1.28	3.5%
World Bank	1.06	2.9%
Japan	0.95	2.6%
France	0.91	2.5%

Source: PECDAR 2019

The highest aid during the era was from the European Union & its Institutions with the amount of USD 6.57 billion forming almost 18 percent of the total aid. The next from the USA with the amount of USD 5.74 billion forming almost 15.7 percent of the total aid, following them Saudi Arabia with the amount of USD 3.6 billion that forms 9.9 percent of the total foreign aid. (These numbers do not include their contribution to the UNRWA budget).

More than 70 percent of the total aid given to Palestine comes from only 10 countries and international bodies: The European Union & its Institutions 18 percent, the USA 15.7 percent, Saudi Arabia 9.8 percent, United Arab Emirates 5.7 percent, Norway 4.7 percent, Germany 4.6 percent, United Kingdom 3.5 percent, The World Bank 2.9 percent (does not include the loan of the amount of USD 269 million), Japan 2.6 percent, France 2.5 percent.

The Arab aid given to the Palestinians formed about 23 percent of the total aid: The aid provided from Saudi Arabia 42.8 percent, United Arab Emirates 25.9 percent, Algeria 10.3 percent, Kuwait 8.5 percent, and Qatar 8.5 percent, and 4.1 percent from other Arab countries.

The direct support to the treasury and the government budget: The highest aid was from Saudi Arabia with the amount of USD 3 billion forming 21.75 percent, next the EU & its Institutions with the amount of USD 2.9 Billion forming 20.68 percent, then the USA with the amount of USD 1.54 Billion forming 10.98 percent, Algeria USD 800 million forming 5.71 percent, and Norway USD 700 Million forming 4.97 percent of the total budget.

Here we need to mention that: According to anti-terrorism policy USA and European countries and EU always imposed some conditions for the economic supports to the Palestinians. The EU notified the Palestinian Non-Governmental Organizations (PNGO) network of conditions attached to the EU's funding contracts, namely that civil society organizations are obligated not to deal with individuals or groups designated as "terrorist" by the EU.

The effect of foreign aid on economic growth of a nation is clearly ambiguous. In the case of Palestine, foreign aid had failed to create an independent economy. This was due to the continuous Israeli occupation of the West Bank and Gaza, where Israel has succeeded in preventing the independence and the breakaway of the Palestinian economy from the Israeli economy. Through its control of the physical borders, resources, Palestinian labor, and the lack of a local currency; Israel was able to maintain a strong iron grip on the Palestinian economy and forming what is known as a semi-independent Palestinian economy. In addition, Israel has succeeded in benefiting from the foreign aid given to the Palestinians to boost its economy, and thus foreign aid did not play the role of aiding the independence of a Palestinian economy (Samara, 2017).

4. Public Debt- External loans

The public debt has reached \$3.7 billion as of June 2021. The table below shows the breakdown of the public debt in both amounts and percentages.

Table 2: Palestinian Public Debt for the period as of June 2021 (in Millions of Dollars, and percentages of total debt).

	Amount	%
Total Public Debt	3,702.4	100%
Domestic Debt	2,384.9	64%
Foreign Debt	1,317.5	36%
Arabic Financial Institutions	817.4	22%
International and Regional Institutions	334.5	9%
<i>World Bank</i>	275.2	7%
<i>European Investment Bank</i>	34.6	1%
<i>International Agricultural Development Fund</i>	1.9	0%
<i>OPEC</i>	22.5	1%
<i>German Development Corporation Bank Loan</i>	0.2	0%
Bilateral Loan	165.6	4%
<i>Spain</i>	83.0	2%
<i>Italy</i>	82.6	2%

Source: Palestinian Ministry of Finance

Looking at table 2 we noticed that foreign debt is only 36 percent. Meanwhile, domestic debt occupies 64 percent of the total debt. The Arabic Financial Institutions occupy 22 percent of the total and 61 percent of the foreign debt. Nonetheless, the International and Regional Institutions

recorded 9 percent of the total Public Debt, for the World Bank share reached 7 percent of the total Public Debt. Finally, Italy and Spain percentage of total Public Debt reached 4 percent.

Table 2 shows an absence of the financial role of Chinese institutions. Thus, China support for the Palestinian Government is non-existent in terms of loans. Meanwhile, the World Bank clearly has a material presence. This reflects the reliance of Palestinian policy makers on Western Financial Institutions. Therefore, the question will be could China substitute that role? Is it in the interest of the Palestinian people to substitute this role?

5. Aid Received Through the UNRWA During the Same Era

Besides the 36.5 billion USD that Palestine received, countries and other donors provided support to the UNRWA with the amount of 16.5 billion USD. 76.5 percent of the aid provided to UNRWA comes through 10 donors as follows: United States of America USD 4.47 billion forming 27.06 percent from the total UNRWA budget. EU & its Institutions USD 2.96 billion forming 17.95 percent, United Kingdom USD1.03 billion forming 6.26 percent, Sweden USD 0.89 billion forming 5.4 percent, Saudi Arabia USD 0.89 billion forming 5.4 percent, Germany USD 0.58 billion forming 3.53 percent, Norway USD 0.58 billion forming 3.53 percent, Japan USD 0.55 billion forming 3.31 percent, Switzerland USD 0.34 billion forming 2.07 percent, Denmark USD 0.32 billion forming 1.93 percent from the total budget.

6. Conclusion

According to the above analysis, we can derive the below economic trends.

The USA and EU are the greatest donors for Palestine, but their support is based on certain political concessions. Although, Russia and China play a major role in their support to the Palestinian people internationally, they are not one of the top ten donors.

Given the mentioned the economic trends, our paper concludes that the Palestinian people are in need for everyone's support. In other words, they cannot depend on one party and neglect the others. The Palestinians have a legitimate right and should exert more efforts in building stronger relationships with all countries.

Therefore, we conclude that choosing China as an alternative to the US is not a good choice. China is not a better alternative to the Palestinian people, but China's role should be parallel to the US role. This is due to the rising power and influence of the Chinese in the international arena. Thus, China can play a major contributing role to aid the Palestinians in achieving their goals, especially in their current economic expansion. China's economic expansion through the Belt Road initiative allows it to have a stronger role in the international arena.

Hence, China's rising economic power does not only allow it to influence great powers such as Russia but influence also small nations. Unfortunately, the Palestinians -due to the Israeli occupation- have no control over their natural resources. So, unlike African countries, the Palestinians cannot attract the attention of China using natural resources. The Palestinians should concentrate on their historical relationship and try to convince China that they are a strategic ally

in the area. It's important for Palestinians to engage China to counter the bias US position towards Israel. However, the challenge lies in the fact that the Chinese – Israeli economic relationship has improved dramatically.

Thus, China sees economic benefit from having a good relationship with Israel. The Palestinians need to think of ways to keep China on their side. Nonetheless, the total control of the borders of the Palestinian territories by the Israeli occupation is a major challenge to Palestinians, they cannot have any economic relationship without the permission of Israel. Even if Palestinians can convince China of their strategic location in the Belt and Road Initiative, Israel must also allow the increase in economic activity with China.

About the Author

Wisam A. Samarah has Masters in Economics from American University in Washington DC. He moved to The University of Iowa to complete a Ph.D. level Mathematical Economics and Econometrics. Wisam taught at American University in Department of Mathematics and Statistics. He also taught at Kirkwood community college in the math and science department in the state of Iowa. Currently he serves as an Assistant Director for Business and Economic Research Center (PERC) at Alquds Open University. Wisam has participated in a number of conferences and published several papers in peer reviewed journals. In addition, he served as a reviewer for various academically reviewed journals.

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