

MEMORANDUM

TO: President Obama

FROM: Khaled Elgindy

DATE: January 17, 2013

BLACK SWAN: Ramallah Unravels - The Collapse of the Palestinian Authority



Mahmoud Abbas, the President of the Palestinian Authority (PA) is threatening to dissolve the PA and hand back to Israel full responsibility for the 2.5 million Palestinians in the West Bank. Even without such a step, the severe fiscal crisis within the PA, compounded by Israel's withholding of Palestinian tax transfers (accounting for two-thirds of the PA budget) and the drying up of international – especially Arab – donor funds, could lead to the same result.

The collapse of the PA could lead to large-scale Palestinian civil unrest and perhaps even a total breakdown in law and order in the West Bank, increasing the chances of a violent Palestinian uprising against Israel, a full Israeli reoccupation of the West Bank, and/or a takeover by extremist elements. From a strategic standpoint, the PA's demise would eliminate the single most tangible expression of efforts to achieve a two-state solution – an investment totaling tens of billions of dollars from the United States and the international community over nearly two decades – all but destroying chances for a peaceful settlement between Israelis and Palestinians for the foreseeable future. It would also increase the isolation of our ally Israel and force it to deal with Palestinian demographic realities on a whole new basis that threatens the democratic and Jewish nature of the state. It would have serious negative implications for U.S. interests in the region and beyond.

Recommendation:

Despite the dire condition of the PA, its collapse is not inevitable. Strengthening the Palestinian leadership in Ramallah, however, will require boosting the PA both economically and politically, as well as preparing the ground for a credible negotiations process. This will require you to press Congress to release aid to the PA, urge Israel to hand over all the tax revenues, and insist that the international donors fulfill their financial commitments. Israel will also need to be persuaded to allow Palestinian development in the West Bank's Area C and stop new settlement activity. And

it will require you to announce early on that you have asked the Secretary of State to prepare for a new initiative to achieve a two-state solution.

Background:

The collapse of the PA would instantly put out of work approximately 140,000 public sector employees, who serve as breadwinners for roughly one-third of the Palestinian population in the West Bank. This includes some 58,000 men who currently serve in the various PA security services. The implications of this are impossible to overstate. On the one hand, mass unemployment and the absence of a police force could easily degenerate into large-scale Palestinian civil unrest and perhaps even a total breakdown in law and order in the West Bank, an environment in which extremists would thrive. This in turn would dramatically increase the likelihood of a violent Palestinian uprising against Israel (a "third intifada"), a full Israeli reoccupation of the West Bank, and/or a takeover of Palestinian population centers in the West Bank by extremist or rogue elements. In addition to ending nearly 20 years of security coordination with Israel, the prospect of tens of thousands of idle, frustrated, well-armed and well-trained Palestinian security personnel would pose a whole slew of security challenges for Israel.

The PA's collapse is likely to result in one or both of the following scenarios:

- **Hamas Takeover:** As the most obvious and most important beneficiary of the PA's demise, Hamas would have both the means and incentive to try to extend its current control over Gaza to the West Bank. Buoyed by its recent "victory" in Gaza and its growing regional acceptance, Hamas may judge that Israel would be willing to tolerate Hamas rule in the West Bank if it shows it is able to prevent attacks on Israelis and maintain basic law and order. For Israelis, however, the West Bank is not Gaza, and the prospect of a well-armed, ascendant Hamas force situated just a few kilometers from Tel Aviv and most major Israeli population centers is unlikely to be tolerated by any Israeli government.
- **Local Ad Hoc Leaderships:** As an alternative to a Hamas takeover (or as a precursor to one), we could also see the emergence of multiple, ad hoc leaderships across the West Bank, comprised of some combination of local clan heads, municipal councils, business interests, and even gangs or warlords. Dealing with multiple centers of power would pose logistical challenges for the Israel

Defense Forces (IDF) in its efforts to protect Israeli settlers while increasing the likelihood of friction both with and within Palestinian communities, making an IDF reoccupation of Palestinian cities and towns far more likely.

Preventing the PA's Collapse:

In either case, the longer uncertainty and instability (or worse, violence and chaos) persist, the louder Palestinian, Arab, European and other voices will be for Israel, as the Occupying Power, to assume its responsibilities under international humanitarian law for both policing and governing the Palestinian population. The immediate objective for the United States therefore should be to do everything possible to prevent the collapse from occurring.

- The first priority is to prevent an imminent financial collapse of the PA by pushing all international donors, especially Arab states, to follow through on their commitments to the PA. For such calls to be credible, however, the U.S. and Israel must be willing to do the same. Thus, it is equally crucial that you press Congress for the immediate release of \$200 million held since the PLO's unsuccessful bid for full UN membership last year (and to refrain from further aid cuts) as well as pressure Israel to release all withheld VAT transfers, which account for some two-thirds of the PA budget.
- This is only a short-term fix, however, which cannot succeed without parallel economic and political measures. As a recent World Bank report makes clear, genuine economic growth is not possible while restrictions imposed by the Israeli occupation remain in place, particularly the Palestinians' inability to exploit or develop some sixty percent of the West Bank designated as Area C. It is time to have a serious conversation with the Prime Minister of Israel about lifting restrictions in substantial portions of Area C.
- It will not be possible to keep donor funds flowing or to sustain developments on the ground without meaningful and parallel progress at the political level. This will require credible U.S. action on the issue of Israeli settlements aimed at preventing the recent surge in settlement plans – especially in the E-1 corridor and other sensitive areas in and around East Jerusalem – from moving forward on the ground. While new negotiations remain a key objective, it would be a mistake to rush into them. Rather than merely urging (or attempting to force) the parties to return to the negotiating table, you should instruct your new secretary of state to undertake a serious appraisal

of the likely requirements for success and causes of past failures, while making clear that an American initiative is forthcoming.

Minimizing the Fallout:

Should these efforts prove unsuccessful, and the PA collapses or is dissolved by Mahmoud Abbas, you would need to move quickly, in coordination with Israel and Jordan, to prevent West Bank cities and towns from descending into total chaos and to contain any outbreak of Palestinian-Israeli violence in either the West Bank or the Gaza Strip. At the same time, both the United States and Israel would have an overriding interest in preventing the total elimination of Fatah on the one hand and a complete, partial, or even attempted takeover by Hamas on the other. This will require close consultation with the Israelis to contain their military response to any unrest, and to prevent such a response from escalating the violence even further. It will also require engaging (directly or via third parties) with credible Palestinian interlocutors capable of exerting some measure of control on the ground – namely Fatah and Hamas. And since the United States cannot talk directly to Hamas, such coordination would need to take place through a unitary leadership mechanism such as the PLO, which could (at least theoretically) survive the PA's demise.

Needless to say, this will require the United States to drop its opposition to Palestinian reconciliation, and encourage Israel to do likewise. Moreover, if we are to dissuade Hamas from taking over (or even attempting to) in the West Bank, it will need to be offered something in return. This will entail some sort of power-sharing arrangement in a newly restructured and reconstituted PLO, as well as working with Egypt and other regional partners like Qatar and Turkey to persuade Hamas to go along.

There are many risks involved in engaging with Hamas in this way, including legitimizing a designated terrorist organization whose charter calls for the destruction of Israel as well as the potential for provoking a backlash from Congress (to say nothing of the resistance from the government of Israel). Nevertheless, attempting to ignore or sideline Hamas would be even riskier and more costly, encouraging it to become more assertive and aggressive in both the West Bank and Gaza. Although Hamas would undoubtedly pay a heavy price for any confrontation with Israel, it would come at considerable cost to Israel as well, in both human and political terms. Any period of protracted violence between Israelis and Palestinians will subject Israel to greater international opprobrium and isolation, as well as growing calls for Israel to assume its responsibilities

under international law, while extinguishing what little hope may still exist for a two-state solution. The simple reality is that a credible Palestinian interlocutor that can act effectively both on the ground and in the diplomatic sphere, *regardless of its composition*, is the only thing standing between where we are today and an eventual one-state outcome.