Chapter Four

The Structural Transformation of the Palestinian Economy after Oslo

Raja Khalidi

LOOKING BACK, TODAY

In 1993, the Palestine Liberation Organization (PLO) accepted to create a Palestinian "Authority" (PA) to manage the "interim self-government arrangements" ushered in by the Oslo, Washington, Paris and Cairo Accords—supposedly for only five years. At the time, its leaders surely could not have imagined how little would have been achieved 25 years later, at least in terms of the national goals in whose service the PLO claimed it accepted the Accords. With the most recent breakdown in the peace process, a new outbreak of military confrontations in Gaza and popular uprisings in the rest of Palestine since 2014, recognition of the failures of Oslo and Palestinian-Israeli bilateral negotiations and relations has become almost trite.[1] This and other strategic defeats suffered by the Palestinian "national project" over the past two decades are well documented and are increasingly acknowledged as new facts on the ground, especially:

- the incessant expansion of Israeli colonies and related infrastructure throughout the occupied Palestinian territory (OPT);
- the iron-fist security control exercised by Israel throughout the occupied territory and policed in some areas of the West Bank by the PA itself; and,
- the physical, legal and political separation of Gaza and East Jerusalem from the rest of the occupied territory in the West Bank.

However, it is less widely accepted that the same period has witnessed a similar degree of failure in the performance of the Palestinian economy and in development policy making. Indeed, the conventional wisdom among most Palestinian and Israeli policy makers and elites, no less among international

19_0050-Turner.indb 95 3/22/19 7:17 AM

donor circles and peace process advocates, is that economic growth is generally impressive, that individual prosperity is increasingly evident, and that Palestinian economic and institutional development is truly underway. Within this narrative, and notwithstanding prolonged occupation and the absence of sovereignty, Palestinians have rarely had it so good and should be able to acquiesce in enjoyment of the fruits of economic peace instead and thus postpone national self-determination. True, the balance of power in the Israeli-Palestinian struggle might be so asymmetric as to preclude the latter for the foreseeable future. However, within this logic there is no reason to expect capital or markets to remain dormant as long as the former is an acceptable second-best path for an emerging Palestinian "middle class" and "national interests" as understood by the ruling power elites of the PA regime.

In fact, since Oslo the PA has declared its adherence to the principles of an "open, free-market" economy, even within the constraints of military occupation, settler colonial aggression, unfettered capital penetration of vulnerable and dependent captive populations and markets. The impact has debilitated the structure of the putative "national Palestinian economy" and its development prospects, social fabric and values, natural resources and overall national economic security.

By 2018, the Palestinian economy had the following features, echoing its structure in 1994:

- structural deformation;
- channels of trade dependency and resource extraction that track the path of Israeli liberalization;
- a largely ineffective public sector that has ceded the way to private enterprise while maintaining a strong internal security ethos;
- growing economic, social and regional inequalities and disparities; and,
- a liberal economic policy framework risks undermining the options for a viable development strategy for an independent Palestinian state.

It is only natural to apportion primary blame for this among the obvious external suspects (Israel, donor states, international financial institutions). But no doubt the PLO and the Palestinian leadership bear their share of responsibility for having locked the Palestinian people into the Oslo cage, while being increasingly unable to fulfil their role as public authorities to ensure the welfare and prosperity of the community. Indeed, a whole class of PA functionaries dependent upon the status quo for their daily bread, an energetic professional and commercial class divorced from politics and seeking a "normal" lifestyle, and a political system wedded to the idea of a peace process with Israel all have a responsibility for the current state of economic policy.

They are all acquiescent in a liberal market and governance model that has delivered neither communal development nor national liberation.[2]

Various sources have related this story partially and at different points over the years, but with hindsight today we can recount it with greater clarity and candidness and indeed with a sense of closure. Certainly, the standard concepts and tools for measuring and analyzing the growth and development of sovereign economies are inherently inadequate to describe an economy under prolonged occupation and can only paint a limited picture of the Palestinian reality, which after all did not begin with Oslo.[3] Most recent efforts, especially favored by the international community, have attempted to analyze the Palestinian economic dilemma in terms of conventional institutional economics and generic concepts such as "good governance" and "institution building" or more dubious themes of "state-in-the-making" and "statehood readiness."[4] This latter theme characterized much of the 2008–2013 PA economic policy making, public investment and national or regional level planning. Its predominance largely served to divert Palestinian collective efforts away from mobilizing to end occupation and in the direction of liberal goals such as the rule of law, safeguarding property rights, good citizenship, private enterprise and operation of the "free-market" (as if such a thing could exist in the warped Palestinian context) as adopted in the Palestinian Basic Law of 2002.[5]

Other analyzes have searched for appropriate frames of reference and concepts that better address Palestinian realities, such as the economics of settler colonialism, "de-development" or "the economic impact of prolonged occupation."[6] These approaches have been unable to effectively dislodge the mainstream narrative of a state-building process devoid of independence or sovereignty, as still maintained by both the PA and the international community, or of economic growth despite political stasis. However, the failures to impose Palestinian statehood be it through institution building, diplomatic maneuvers or waging "lawfare," gives greater explanatory power to alternative, critical analyzes today and to their relevance in addressing future challenges.[7]

THE PLO EMBRACE OF GLOBALIZATION AND THE PARIS PROTOCOL

The last phase of direct military administration of the occupied territory prior to the signing of the Oslo and Paris Accords entailed, on the one hand, initiatives to create economic incentives and, on the other, the application of security measures which continued to limit the scope of Palestinian productive and income generation activities. As early as 1992, UNCTAD had argued that

the way out for the Palestinian people was through viable legal and economic frameworks, which could override Israeli occupation policies: "The Palestinian economy and its institutions need to be freed from arbitrary measures that distort economic structure and performance of the economy."[8] This is a refrain that is reproduced today in the international community's demand for "free movement and access" as a prerequisite for economic revival, indicative of how little the debate of that issue has changed.

The policy framework that has since then governed the Palestinian economy, and which has kept it bound to the Israeli economy and subject to its colonial security interests, has been one of the constants of the past 25 years that has allowed Israeli colonization to proceed apace.[9] The Protocol on Economic Relations (PER) was signed in Paris by Israel and the PLO in April 1994 and annexed to the Oslo I implementation agreements. This bilateral agreement always trumps any other economic agreements between Palestine and any other party. The essential ingredient in ensuring Palestinian economic dependency upon Israel was the acquiescence of the PLO in maintaining a common economic policy regime with the occupying power. As long as the PLO has been unwilling or incapable of breaking away from the Protocol straitjacket to pursue an alternative trade and economic regime, its complaints about its inadequate provisions or Israeli non-compliance ring hollow and the prospects for Palestinian development remain dim.

Nearly 25 years later the Protocol remains the economic law of the land and it reinforces the adverse growth path within which the West Bank and Gaza economies are locked. The Protocol's terms and operation, and the dependency it perpetuates, have been the subject of growing criticism since the 1990s from international agencies, Palestinian and Israeli economists, and even West Bank popular protests in 2012.[10] But the PLO's determination to not repudiate the PER's *de facto* or *de jure* validity has become yet another stumbling block on the path to Palestinian economic viability and development.

The economic model that the PLO espoused for its first 30 years of national liberation struggle as part of a global anti-colonial movement[11] was a far cry from that embodied in the Oslo/Paris scheme.[12] Most official and expert Palestinian economic thought and practice had until then revolved around a vision of public sector empowerment for the benefit of the broader dispossessed Palestinian masses. PLO officials promoted the idea of an economy that was productive in traditional sectors and reliant on its own capacities, and which could address the imperatives of disengagement from the economic domination and dependency engendered by decades of Israeli occupation and colonization. Throughout the PLO eras in Beirut and Tunis, Palestinian public economic, financial, research and social welfare institutions had continued to operate as a government in exile for the Palestinian

19_0050-Turner.indb 98 3/22/19 7:17 AM

people inside and outside their homeland, providing some sustenance for the former and supporting the steadfastness (*sumoud*) of the latter.

Despite the military and political defeat ultimately endured by the Palestinian national movement in Lebanon in 1982, this broader institutional landscape seemed to manifest the PLO's "viability" as a forerunner of the national state project in a future liberated Palestine that was still a twinkle in Palestinian planners' eyes. And yet within little more than a decade, the PLO had signed off in Paris on an economic policy package that aborted the plans and possibilities for an independent Palestinian economy and enshrined a "free market" economy designed in line with the spirit of globalization and trade liberalism. Just as the Accords were announced in 1993, the PLO had completed a "Program for the Development of the Palestinian National Economy 1994–2004" (PDP), designed by the eminent Professor Yusef Sayigh, whose heterodox economic thought remained rooted in the development and dependency economics that had held sway since the 1950s. Highlighting the crossroads that the PLO faced at that moment, the director of the PLO Economic Department responsible for spearheading the PDP effort in the preceding years (Ahmed Qurei, also known as Abu Alaa) was the same official who negotiated and signed the Oslo and Paris accords.

Nearly 25 years down the road, it is worth considering the limited options that the nationalist leadership (and an exhausted First Intifada) had by the early 1990s. These constraints were obvious both in terms of the ability to resist the terms of a dictated "peace settlement" despite two years of bilateral negotiations in Washington, and in terms of the limited capacities to manage the lives of some three million Palestinians with only a patchy record of (largely military and political) institution building in exile. The opportunity that Oslo offered for expatriate Palestinian capital to link up again with the PLO, except this time inside Palestine in a shared economic and investment program, meant that the PLO could only embrace the new world economic order of globalization and liberalization.

Even as a weakened, exiled PLO continued to raise the banner of resistance in the wake of its post-Gulf War isolation, the ensuing Madrid Peace Conference set in motion political negotiations that continue into their third decade. This drawn out "process" itself implies a trade-off between pursuing national liberation through resistance or through cooperation. But this is not adequate to explain the dramatic policy reversal that the PLO undertook when it signed the PER with Israel in Paris in 1994. Nor why for nearly 25 years the PLO has chosen the path of least resistance and has been reluctant to abandon an economic policy framework put in place in another era with limited, time-bound purposes that have been overtaken by time and events.

An important dimension of the dynamics of the retreat of Palestinian "developmentalism" was the rapidly transforming global and regional political scene at the time. The collapse of the Soviet bloc meant that while the PLO bought into the Madrid process in 1991 with USA-USSR cosponsorship, by the time the Oslo Accords were reached in 1993 the bilateral Israeli-Palestinian track had become dominant and the multilateral formula of Madrid (and Soviet camp support) became redundant. Meanwhile, PLO leaders were open to any formula that would return them to Palestine and that might achieve what they argued would be a short transition to independence.

In retrospect it is not difficult to see why the PDP, which represented the culmination of the thinking of an earlier generation, did not stand a chance once the World Bank arrived on the scene in 1993. The forceful entry into the Palestinian economy arena after 1993 of the Bretton Woods institutions (BWIs) and the powerful appeal of the World Bank's first (of many) publications on the subject, added an influential player to a scene that had, until then, been dominated by Israeli unilateralism.[13] By the 2000s the PLO had welcomed the engagement of influential Washington and Brussels players, who came armed with funding, political influence and a textbook of technical advice, not to mention their own secretariat in the form of the BWIs.

The Oslo Accords self-governing arrangements in the occupied territory were heralded by their signatories as a break with the past. The economic institutions that the PA was enabled to build within the scope of the Protocol did entail a withdrawal of the Israeli Civil Administration from those areas where the PA was granted jurisdiction—an unprecedented ceding to Palestinian hands of economic and local management functions that hitherto had been under direct Israeli control. While the PA strove to portray institutions as "national" in their role and purpose, the actual limits to their regulatory or enforcement authorities soon became apparent (in areas such as trade, fiscal management, banking, industrial zoning, agricultural resources, land use, etc.). Furthermore, while the reality of direct Israeli rule was replaced by Palestinian "home-rule" in the core "A" and "B" areas designated for PA jurisdiction under the Accords, the Israeli military remained in direct control of the surrounding "C" areas, while the Gaza Strip borders were and remain subject to Israeli control. Hence, while some *policy-management space* was gained, the pertinent issue relates to the restrictions placed on spatial and sovereign economic policy making and institutions.

The choice of appropriate trade regime with Israel was a source of much tension in the PER negotiations and has remained a subject of intensive academic analysis and debate.[14] Palestinian negotiators began by arguing for a free trade agreement (FTA) which would require drawing customs

borders between the territory and Israel, and allow Palestinians to maintain differential trade relations with other partners. However, Israel preferred a formalization of the "customs union," which had existed defacto since 1967 and insisted on referral of all matters linked to borders to the permanent status negotiations. In conceding to the Israeli formula, with some exceptions, PLO negotiators rationalized their acceptance of the Paris arrangements as a "small Palestinian customs envelope within the large Israeli customs envelope," giving the illusion of some trade autonomy.

In their calculations, PLO negotiators apparently believed that the price of signing an Economic Protocol, whose terms were spelt out by Israeli professors and lawyers, was outweighed by the political advantages they believed they had gained in the larger framework of Oslo and the establishment of the PA. Ultimately the Protocol was a necessary and natural corollary of the Oslo obligations and limitations accepted by the PA. It was much less about optimal economic models for a people engaged in a national liberation struggle or an economic reconstruction process than about which economic arrangements were most suited to ensuring Israeli security interests and domination of the occupied territory through limiting the powers of the PA.

The PER inherently linked the Palestinian economy to the foreign trade regime of Israel and the latter's rights and obligations under the World Trade Organization (WTO) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), thus binding Palestinian trade with third parties to these rules without enjoying any of the benefits of these agreements. This quasi-customs union exposed the fragile Palestinian economy to the winds of globalization without any protection or transition during liberalization of the Israeli economy in the 1990s. Therefore, the Palestinian economy paid the price of WTO membership since its markets were opened through Israel to products from all WTO members, without benefiting from WTO rules to regulate the trade practices of WTO members, including Israel.

As a result, Israel remained the occupied territory's main trading partner in the post-Oslo years and, under the PER, the PA has become critically dependent on Israeli rebates of customs and income taxes. However, Israel interprets 'imports' into the territory in a peculiarly restrictive way, i.e., it only counts those goods directly imported by *Palestinian* companies via Israel and *not* those imports into the territory that were first imported via an Israeli company for onward shipment to Palestinian traders. Reclaiming customs duties therefore does not apply to the latter type of imports, although they constitute the bulk of imports to Palestine. This, as well as other terms of the PER, limited the PA's access to a large part of revenues from imports, resulting in a recurrent loss of Palestinian fiscal revenue to Israel.[15]

While the Palestinian Monetary Authority would be the sole agent responsible for banking regulation in the territory, the issue of a Palestinian currency, which would carry with it the symbol of sovereignty, was postponed indefinitely under the PER, and the New Israeli Shekel (NIS) remained the main currency in circulation in the Occupied Palestinian Territory (OPT), alongside the dollar and the dinar. Although both sides were supposed to maintain normal labor movement with the other, the PER failed to guarantee unlimited Palestinian access to the Israeli labor market because it granted Israel the right to determine the extent and conditions of this labor movement. In fact, the Protocol explicitly gave the employing side (Israel) the "right to determine from time to time the extent and conditions of the labor movement into its area."[16]

Furthermore, the PER lacked any monitoring of implementation mechanisms, which was particularly harmful as such mechanisms could have been used to address the persistent leakage of revenues collected by Israel on behalf of the PA. The Joint Economic Committee, established by the Protocol to manage its implementation, was an unwieldy, politicized body which never served as an effective dispute resolution function and which failed to provide a governance role or address conflictual issues.

The interim period arrangements therefore perpetuated a skewed incorporation of the Palestinian economy with Israel and its settlements in the territory. However, the architects of the PER had envisaged the interim period as one of reconstruction and growth. Indeed, the PA adhered to the Protocol, just as it tolerated and discounted its acknowledged weaknesses as they became evident over the 1990s, on the assumption that Israel would implement the Accords and that would ensure a hospitable economic environment markedly different from the direct occupation period. Some accounts of PLO decision-making in this period point to an early realization by Arafat that the Israelis would not uphold their end of the "peace of the brave," especially after the assassination of Prime Minister Yitzhak Rabin. However, the PLO had locked itself into a deal that, as the weaker party, it could only play out in the hope that it could somehow outmaneuver Israel and consolidate its forces and resources to fight another day.[17]

Ultimately, political factors combined to create an environment by the end of the five-year interim period different from that proclaimed by the PER—fraught with violence, mistrust, uncertainty and unabated Israeli colonization. These engendered adverse repercussions, bringing down real income levels for the average Palestinian by 2000. These setbacks over time dampened public satisfaction with the interim economic and trade arrangements. Chronic Palestinian economic dependency upon Israel was perpetuated by the unchanging framework of the PER and the dysfunction of most of its machinery, especially during a time of great upheaval in the economy. By 2000, vari-

ous Israeli-Palestinian and international study groups had advanced models for future improved economic relations between two sovereign states.[18] But these were soon dashed against the Israeli security-first logic during the Second Intifada that disregarded neighborly economic relations and which easily converted the Protocol's fiscal and trade control mechanisms into punitive tools deployed against a fragile PA.

After the suppression of the Second Intifada, Israeli policies of land and water confiscation expanded, now based on 'security concerns.' As early as July 2004, 86 percent of the land confiscated for the construction of the Separation Barrier in the West Bank was agricultural, leading to the loss of some of the region's most fertile agricultural lands and a maze of movement and access restrictions. Meanwhile, Israel's West Bank settler population expanded from 116,300 in 1993 to over 400,000 by 2014, while settlers in East Jerusalem increased from 152,800 to almost 190,000.[19] After almost 50 years of occupation, these 600,000 Israelis settled in the West Bank were equivalent to over 20 percent of the Palestinian population in the territory, an extraordinary demographic reversal, mirroring that which has occurred within Israel between its Jewish and its one-in-five Arab citizens, almost to the percentage point.

But even in the best possible scenario of a benevolent Israeli occupation, the PA had conceded, among the compromises of Oslo, to permit the segmentation of the West Bank into zones of supposedly full Palestinian ("A"), shared ("B") and solely Israeli ("C") jurisdiction. This spelt an early death for any serious possibility of ensuring a contiguous or cohesive Palestinian economic development effort that might set the scene for sovereignty and statehood or create the conditions for an end to occupation. PA planners have gone through excessive contortions to explain why they did not properly examine maps at the time of signing off on the zoning in 1995, or that they expected Israel to cede the bulk of Area "C" by 1999. Only by 2014 had the time finally come for the PA to design a dedicated program for the benefit of Area "C" as a priority development zone—through a strategy that remains without effect several years later.[20]

Article IV of the 1993 Declaration of Principles affirmed that "the two sides view the West Bank and the Gaza Strip as a single territorial unit, whose integrity will be preserved during the interim period."[21] The PER was intended to lay "the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plan and priorities." It was a "contractual agreement that will govern the economic relations between the two sides and will cover the West Bank and the Gaza Strip during the interim period."[22]

On paper this was hailed by PLO advocates as an adequate starting point for maintaining a coherent and contiguous Palestinian economy in the whole

19_0050-Turner.indb 103 3/22/19 7:17 AM

occupied territory, including Jerusalem. However, perhaps the fatal weakness of the PER and the Oslo agreements (and some would argue, its core purpose from an Israeli vantage point), was the postponement of Palestinian sovereignty, which led to further dependency and irreversible loss for all aspects of the Palestinian economy. Amidst the euphoria surrounding the Oslo Accords, the lone voice of the late, eminent scholar Edward Said rings true today:

> By accepting that questions of land and sovereignty are being postponed till "final status negotiations," the Palestinians have in effect discounted their unilateral and internationally acknowledged claim to the West Bank and Gaza: these have now become "disputed territories.". . . Moreover, rather than becoming stronger during the interim period, the Palestinians may grow weaker, come more under the Israeli thumb, and therefore be less able to dispute the Israeli claim when the last set of negotiations begins. But on the matter of how, by what specific mechanism, to get from an interim status to a later one, the document is purposefully silent. Does this mean, ominously, that the interim stage may be the final one? [23]

STRUCTURAL TRANSFORMATION OF THE ECONOMY 1994–2014: THE SHAPE OF A FREE MARKET ECONOMY UNDER COLONIAL DOMINATION

Surveying Palestinian economic performance in the first few years after the PA was established, UNCTAD noted in 1997 that little had yet changed. This could have been written in 2018 because it retains the same accuracy and veracity:

> In the period 1995–1997 aggregate economic indicators exhibited trends consistent with those witnessed in previous years, with an overall adverse impact on the standards of living. The high exposure and vulnerability of the economy to external shocks continues to reveal major structural weaknesses. These include weak domestic employment capacity, uneven sectoral growth, weak intersectoral articulation, severe marketing bottlenecks, poorly coordinated and fragmented new investments in both public and private ventures, and structural imbalances among macroeconomic aggregates. These features become all the more critical when viewed against stagnation in income and growing poverty among marginalized segments of the population. Human resource development and growing unemployment since 1992 have posed critical challenges for the performance of the economy, with important political, social and economic ramifications.[24]

By 2014, in many *apparent* ways however, the Palestinian economy and society hardly resembled that which the PA had inherited after 1994.[25] In-

deed, the changes witnessed in the previous two decades were wider, deeper and more varied than those experienced in previous decades under Israeli or even prior to 1967 under Jordanian and Egyptian rule. The West Bank and Gaza economies under the latter had retained many of the sectoral and labor force features, limited scope of capital formation, and links with the Jordanian economy that had developed prior to 1967. However, some of the transformations after Oslo/Paris have been relatively dramatic. The West Bank economy, if not Gaza and Jerusalem in recent years, has morphed into a very different system than before, be it in terms of the degree of de-industrialization, ad-hoc services sector growth, scale and diversity of capital formation, or overall living standards and "human development" indicators.

Prosperity, conspicuous consumption and efficient private and public services are notable in the urban centers of the PA areas in the West Bank, and basic education and health standards for much of the West Bank population are good. However, on the rural margins in out-of-bounds Area "C," in Jerusalem, and in Gaza, economic and social disintegration and poverty are the challenges faced by over 2.5 million Palestinians living in those areas combined. Such an outcome undermines the credibility of the Oslo/Paris project as a whole. On the other hand, the structure of the Palestinian "macro-economy" and the enduring weaknesses which have been nurtured by prolonged occupation, have changed minimally in 20, or even 30 years. This lends credence to the idea of the legacy of Oslo/Paris having ensured "individual prosperity and communal impoverishment," and little in the way of "development."[26]

Several forces and dynamics have driven this structural transformation and skewed development. These include especially the largely negative impacts of prolonged exposure to the much more advanced and powerful Israeli economy, the effects of globalization and rapid liberalization (on Israel and, by extension, Palestine), both of which were facilitated and indeed inevitable within the PER framework. Surely the relatively weak Palestinian natural resource base, small market and other features of lagging development were factors which favored investment and policy choices that emphasized tertiary (services) sectors instead of primary (agricultural and mining) or secondary (manufacturing) sectors and imports instead of domestic production. Since the 1990s, the influence of the economic policy prescriptions of the Washington Consensus and the BWIs pointed to such constraints on domestic productive capacity as the justification for the neoliberal economic policies that they successfully advocated as being appropriate in the Palestinian context and necessary to ensure the PA's viability and survival.[27]

Ultimately, in this respect, as in the debate over the PER, the PLO is complicit in the process by having freely adopted and implemented a range of policy preferences that were not suited to the Palestinian development

challenge. The profit and rent seeking imperatives of Palestinian private capital increasingly call the shots in economic policy by maintaining PA fiscal solvency through supplier and banking credit lines. This trajectory has resulted in a stunted agricultural sector, an enfeebled industrial base, a captive trade sector, a highly indebted middle class, deep poverty and structural unemployment. These features cannot be ascribed solely to the adverse impact of prolonged occupation. The Palestinian political leadership and economic elites own agency in allowing this process to endure, take deep root and in "embedding neoliberalism"[28] in the life of all Palestinians, even amongst its fiercest intellectual critics, is one of the evident outcomes of the past two decades of economic peace.

AGGREGATE ECONOMIC DEMAND AND PERFORMANCE

In examining Palestinian economic growth, even without reference to gaps with Israel, its unstable path over the first 20 years of Oslo demonstrates a disarticulation of the macro-economy.[29] Table 4.1 presents the aggregate indicators that portray the major features of Palestinian economic performance between 1994 and 2013, the twenty-year period covered by this analysis.

The economy has regularly featured spurts in growth of Gross Domestic Product (GDP) and Gross National Income (GNI, which equals GDP plus non-domestic income from workers in Israel), and indeed has grown in nominal terms to almost four times its size in 1995. However, recurrent 3–4 year bouts of reversal (1988–1991, 2001–2005) and recovery (1994–1996, 2008–2011) are the primary feature of this growth trajectory, which had already emerged by the 1980s, leaving the economy fragile and highly vulnerable to shocks, be they fiscal, trade, price or security-based. Amidst the political uncertainties and continued adverse impact of occupation, and even after the latest growth spurt that peaked in 2011 at 12 percent, the slowdown in economic growth afterwards was consistent with the growth trajectory since occupation.

Adding donor and private transfers to GNI, gross national disposable income (GNDI) exceeded US$14 billion by 2013. While GDP's share of GNDI hovered around 79 percent from 1995 (the first year that significant aid reached the OPT and employment in Israel began to rise again) to 1999, during much of the 2002–2006 period it fell to as low as 73 percent as donor aid constituted more than a quarter of all Palestinian income. By 2013, the contribution of domestic sources of income had strengthened to 84 percent, reflecting a relative reduction of aid dependency if not a more robust domes-

Table 4.1. Economy of the Occupied Palestinian Territory: Selected Years[a]

	1995	*1999*	*2002*	*2005*	*2006*	*2010*	*2011*	*2012*	*2013*
Macroeconomic performance									
GDP ($ mil.)	3,282	4,271	3,555	4,831	4,619	8,913	10,465	11,279	12,476
Gross national income ($ mil.)	3,723	5,025	3,774	5,180	5,047	9,512	11,215	12,136	13,636
Gross national disposable income ($ mil.)	4,122	5,398	4,826	6,317	6,323	11,503	12,319	13,887	14,824
GDP per capita ($)	1,427	1,553	1,182	1,470	1,363	2,339	2,665	2,787	2,992
GNI per capita ($)	1,618	1,827	1,255	1,576	1,489	2,496	2,856	2,999	3,270
Real GDP growth (%)	6.0	8.8	–13.3	8.6	–5.2	9.3	12.2	5.9	1.9
Real GDP per capita growth (%)	–1.3	4.3	–15.7	5.3	–8.1	6.1	8.9	2.7	–0.1
Real GNI per capita growth (%)	0.7	4.1	–16.7	7.5	–6.5	5.4	9.0	3.6	–0.4
Final consumption expenditure/GDP (%)	118	118	123	133	145	122	119	118	116
Investment expenditure/GDP (%)	30	41	26	28	25	19	16	16	22
Household/Final consumption expend (%)	79	77	73	76	76	73	74	73	73
Buildings/Fixed investment (%)	75	67	63	66	61	72	79	78	81
Population and labor									
Population (mil.)[a]	2.34	2.96	3.23	3.51	3.61	4.05	4.17	4.29	4.42
Unemployment (%)[b]	32.6	21.7	41.2	29.0	29.8	30.0	25.8	26.7	27.0
Total employment (thousands)	417	588	452	603	636	744	837	858	885
In public sector	51	103	125	145	148	179	188	195	204
In Israel and settlements	68	135	42	56	55	78	84	83	99

(*continued*)

Table 4.1. *Continued*

	1995	*1999*	*2002*	*2005*	*2006*	*2010*	*2011*	*2012*	*2013*
External trade									
Net current transfers ($ mil.)	400	374	1,052	1,128	1,276	1,991	1,246	1,116	1,874
Exports of goods and services ($ mil.)	562	752	478	723	678	1,367	1,799	1,871	2,067
Imports of goods and services ($ mil.)	2,441	3,363	2,234	3,754	3,202	5,264	5,723	6,300	6,447
Trade balance ($ mil.)	–1,879	–2,612	–1,756	–2,851	–2 523	–3,897	–3,924	–4,429	–4,380
Trade balance (% of GDP)	–57	–61	–49	–59	–55	–44	–37	–39	–41
Trade balance with Israel ($ mil.)	–922	–1,598	–886	–1,945	–1,887	–2,818	–3,203	–3,712	–3,096
Trade balance with Israel (% of GDP)	–28	–37	–25	–40	–41	–32	–31	–33	–29
PA trade with Israel/total PA trade (%)[c]	92	69	53	83	73	77	69	67	60
A trade with Israel/total Israeli trade (%)[c]	4.3	3.7	1.8	2.5	2.2	2.8	2.7	2.9	2.7
Fiscal balance (% of GDP)									
Revenue net of arrears/clearance withheld	13.2	23.9	8.5	29.5	25.0	22.6	20.9	20.2	23.5
Current expenditure—commitment basis	15.3	22.6	29.0	43.0	49.3	36.9	33.1	32.4	33.5
Total expenditure—cash basis	25.6	29.9	35.4	49.2	55.0	41.5	31.3	29.1	31.0
Overall balance—cash bass	–12.3	–6.1	–27.0	–19.7	–30.0	–18.9	–10.4	–8.9	–7.5

[a]Except for the population figures, data exclude East Jerusalem.
[b]ILO's "relaxed definition" of unemployment includes discouraged workers.
[c]Palestinian and Israeli trade data refer to goods, and non-factor and factor services.

Sources: Palestinian Central Bureau of Statistics (PCBS), PA Ministry of Finance, IMF, International Labour Organization (ILO), and Israel Central Bureau of Statistics.

19_0050-Turner.indb 108
3/22/19 7:17 AM

tic economy, something that if sustainable would constitute a rare achievement in an otherwise bleak economic history.[30]

However, the Palestinian population almost doubled in the same period. Therefore, against nominal growth in GDP and GNDI, the real (deflated to constant prices) gains in output and income in per-capita over time have been limited. Even with accelerated GDP growth after 2007 and per-capita growth that almost reached double digits in the same period, this apparent gain was short-lived. Real per capita GDP and GNI growth in 2012 declined to a third of the previous year's record—to 2.7 percent and 3.6 percent, respectively—and stalled by 2013 for the first time in seven years.

The distribution of GDP in terms of "aggregate demand" (total expenditure on consumption, investment and net exports) is indicative of the overall productive and consumptive structure of the Palestinian economy, as well as the process of its development and its response to shocks over time. In "normal" periods when GDP growth is relatively strong, the share of consumption (private and government) from total GDP has remained under or close to 120 percent (e.g., in the 1990s, and since 2010). However, in times of crisis, such as the early 2000s, domestic output declines and external income sources predominate, so the share of consumption in GDP grows, reaching as much as 145 percent of GDP in 2006.

Alongside this, the share of (private and public) investment in GDP reflects not only the growth of actual investment flows, but also the maturity and stability of the economy and its ability to productively absorb new finance, and hence the creation of future productive capacity. Generally, advanced economies feature investment rates below 20 percent, owing to their relatively sophisticated and efficient economic structure and higher standards of living, while developing and emerging economies on sustained growth and development paths feature rates averaging over 30 percent. Average Middle Eastern investment rates are under 30 percent of GDP while those of developing Asian economies remain high, above 40 percent.

The Palestinian investment rate, which was robust and growing in the 1990s, plummeted during the Second Intifada to 25 percent by 2006, and continued to fall. As this path certainly does not reflect greater economic security, efficiency or emergence from "de-development," its decline to 16 percent by 2012 (and recovery to 22 percent in 2013) is more symptomatic of the weak investment opportunities and unstable climate, underlying weakness of the productive economy and inability of public investment to lead and crowd-in private investment. If anything, private investment dominates the Palestinian economy, and is composed largely of household investment in residential and commercial property, the safe haven in which Palestinian household savings have historically always found refuge. By 2013, over 80

19_0050-Turner.indb 109 3/22/19 7:17 AM

percent of fixed investment was still in buildings, clearly the least risky allocation of household and corporate savings.

High consumption expenditure and output growth fuel a chronically large external trade deficit, which was well above 55 percent for most of the period 1995–2006 and only began to fall after. This largely reflected the recovery of Palestinian exports of goods and services, whose total has trebled from a low in 2006 to just over $2 billion in 2013, whereas the level of imports has only doubled in the same period, to over $6 billion. With a trade deficit that exceeded $4 billion since 2011, the net trade balance has hovered within a few percentage points of 40 percent of GDP; some $3 billion of that deficit is with Israel, which remains the main Palestinian trade partner and source (or channel) of imports.

Alongside a less onerous trade deficit, the PA can credibly claim to have promoted and overseen a decreasing trade dependence on Israel. The deficit still accounted for 90 percent of all Palestinian trade in 1995, but fell to between 70–75 percent when the economy recovered after 2006 and, for the first time ever, hit as low as 60 percent by 2013. If such an achievement is pursued, no doubt this will make the important goal of Palestinian external trade market diversification within reach, while also undermining the economic arguments that have sustained belief in the necessity of the customs union with Israel. Clearly, as compared to its utility as a control tool, the Protocol remains of little, if any, economic significance to Israel, since the PA market accounts for less than 3 percent of total Israeli trade (exports and imports).

With the PA running a budget deficit that only in the past few years has been reduced to under 10 percent (from 30 percent in 2006), meaning anaemic public investment alongside risk-averse private investment, there are few prospects for any developmental surge in Palestine, or even sustained GDP/GNI growth. The few channels for private investment in residential construction become less attractive with over-supply, and excessive (increasingly debt-fuelled) private consumption becomes the preferred haven for the liberal Palestinian consumer. This is the macroeconomic testament of Oslo/Paris, and while it may be argued (as PA officials do) that at least the people have been kept alive, employed (more or less) and able to live normal lives, in Palestine, as far as economic development is concerned, these have really been two lost decades.

THE SUPPLY SIDE: THE INEXORABLE RISE OF THE SERVICES ECONOMY

In cautiously welcoming the opportunities that the Oslo and Paris Accords appeared to offer the Palestinian economy emerging in 1994 from the ad-

verse impacts of the First Intifada and the first Gulf War, UNCTAD nevertheless affirmed at the time that the challenges of structural transformation were daunting:

> The Palestinian economy remains characterised by a distorted structure of output which has favored services, residential construction and traditional agriculture as against the relatively weak industrial sector, infrastructures including utilities and some private services. This structure, reflecting a weak domestic resource base and the impact of prolonged occupation, will no longer be sustainable under the new policy environment emerging in the (Palestinian) territory.[31]

Reading today that concise testimony of the economy bequeathed to the PLO by the Israeli occupying power, the extent to which so little has changed despite the almost 25 years that have elapsed is striking. There were some initial spurts in strengthening of "productive" sectors in the first years after Oslo/Paris, and Palestinian industrial growth has not been without its successes, especially in import substitution investments in the last few years brought about by changing global market systems and greater Palestinian competitiveness. However, over two decades, the twin impacts of progressive rounds of trade liberalization and the violent confrontations of the Second Intifada combined to thwart most potentials or opportunities for building the productive and autonomous Palestinian economy that the PLO had promised in its 1993 development plan. Instead, for better or worse, an economy dominated by private and public services remains the "motor" of growth and of sustaining aggregate demand in uncertain and turbulent times.[32]

Table 4.2 summarizes the shifts in the sectoral structure of the Palestinian economy in the 25 years after 1987, reflecting the shocks of both the Intifadas, the influence of the Oslo/Paris framework, and the impact of late twentieth-century globalization and liberalization. In some respects, the changes in the share of each sector in total GDP typify those witnessed by some smaller, poorer developing countries in the face of the same global forces unleashed in the 1990s, especially the decline of agriculture and weak industrialization. Undoubtedly, the constraints of prolonged occupation also have stunted the possibilities for development of the productive (primary and secondary) sectors and favored the predominance of services. In other aspects however, conscious Palestinian policy choices made under the Oslo terms of engagement and the liberal economic philosophy adopted by the PA dictated the course of events. It is safe to assume that all those factors conspired (and reinforced each other) to thwart any hope that PLO planners might have entertained before 1994 to build "the core of the independent Palestinian economy and of a Palestinian public sector liberated of bureaucracy and infused with the determination and spirit of revolution."[33] Instead, by 2014 the Palestinian

Table 4.2. Economy of the Occupied Palestinian Territory: Percentage Contribution to GDP by Economic Activity, Selected Years

Economic Activity	*1987**	*1994*	*2000*	*2010*	*2013*
Agriculture, forestry and fishing	**21.6**	**12.3**	**9.5**	**5.2**	**4.1**
Mining, manufacturing, electricity, and water	**8.9**	**21.2**	**15.7**	**12.6**	**15.7**
Thereof:					
—Mining and quarrying	—	0.7	0.6	0.4	0.5
—Manufacturing	—	18.9	12.9	10.2	12.8
—Electricity, gas, steam, and air conditioning supply; water supply	—	1.6	2.2	2.0	2.4
Construction	**17.6**	**10.5**	**5.6**	**4.4**	**4.5**
Wholesale and retail trade, repair of motor vehicles and motorcycles	**36.7***	**17.3**	**11.7**	**15.9**	**17.1**
Transportation and storage	—	**4.5**	**5.1**	**1.9**	**1.8**
Financial and insurance activities	—	**1.0**	**4.1**	**3.7**	**2.8**
Services	—	**23.1**	**23.7**	**27.3**	**26.9**
Thereof:					
—Accommodation and food service, real estate, and professional services	14.4		14.5	10.5	10.9
—Information and communication			—	6.3	5.9
Education		5.3	5.8	7.2	6.6
—Human health and social work activities		3.2	3.2	3.2	3.4
Public administration and defense	**12.2***	**10.0**	**13.3**	**14.8**	**14.8**
Public Owned Enterprises		**0.0**	**4.1**		
FISIM		–0.6	–3.2	–2.8	–1.9
Customs Duties and VAT on Imports, net	**3.0**	**0.6**	**10.4**	**17**	**14.2**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Sources: Palestinian Central Bureau of Statistics (PCBS), and Israel Central Bureau of Statistics for 1987.

economy retained in most sectors the stunted features that have long characterized performance under occupation, while the specific impacts of globalization and neoliberal economic policy aggravated or accelerated "normal" development processes in some sectors.

Most notable in this respect is the spectacular collapse of Palestinian agriculture as the mainstay of the domestic economy, from one-fifth of GDP before the First Intifada to as low as 5 percent in 2013. Already, by 1994 the share of agriculture was down to around 12 percent, but this decline accelerated under the pressure of forces originating in land, natural resources, marketing and price/income constraints, alongside the prevailing economic orthodoxy that Palestinian agriculture was not competitive in the

19_0050-Turner.indb 112 3/22/19 7:17 AM

new global market. Both PA funding and donor aid bypassed investment in agriculture and it is only in recent years that private investment on an industrial scale (increasingly linked to upstream food processing industries) have rediscovered the potential and strengths of Palestinian agriculture, both economically and socially.

Meanwhile, a burst of industrial sector growth that was favored by the lifting from 1992 of Israeli restrictions on manufacturing industry and growing sub-contracting links with Israeli producers was stopped in its tracks by the liberalization of the Israeli trade regime and the wave of cheap imports from abroad in the subsequent decade. From a share of as much as 21 percent of GDP in 1994, industry's contribution (including manufacturing, mining and utilities) had fallen to 15 percent by 2010, only to rebound to around 18 percent by 2014. In the same period, the share of manufacturing industry declined from 19 percent to 13 percent. Construction, which was a leading sector prior to Oslo (given the limited alternatives for growth), also witnessed significant decline, to 5 percent of GDP. While this is something which may appear hard to reconcile with the ongoing building boom in much of the urban West Bank in the past years, the relatively low cost (and value added) of building activities most likely encourages the continuing massive allocation of private investment resources to residential construction, and vice versa.

Against this backdrop of productive sector decline, the creation of a Palestinian government sector and the expansion of public services after Oslo led to a doubling of the contribution of the public services sector to GDP, to more than a quarter of the economy by 2013. Whereas the contribution of public health and education services has not grown significantly since 1994 and remained under 10 percent, the strongest growth has taken place in government (civil and security) administration, which accounted for above 15 percent of GDP in 2013.

No less significant has been the sustained growth and diversification in the range of private sector services, which already accounted for over a third of economic output before the First Intifada and continues to be the leading economic cluster, generating around 45 percent of Palestinian GDP by 2010. Palestinian services today are composed mainly of wholesale and retail commerce, tourism and real estate and professional services, and the newly emergent information and communication services. Together, public and private services, which accounted for 54 percent of GDP in 1994, today produce over two thirds of Palestinian domestic product. The reliance on economic activities which are heavily dependent on (and have been shaped by) the constraints of occupation, render the prospects for building domestic productive capacity more difficult and improbable.

ISRAELI-PALESTINIAN ECONOMIC RELATIONS: CHANNELS OF DEPENDENCY AND RESOURCE EXTRACTION

Certainly, the free-market economic policies adopted by the PA as part of adherence to the liberalized Israeli trade regime enabled much of the structural transformation reviewed above, or at least could not protect the Palestinian economy from the more destructive forces of globalization and exposure to international competition. However, these usual economic forces of development were never free to operate on their own, nor was the PA ever in a position (politically or institutionally) to confront them, assuming it had possessed the requisite economic policy determination and foresight to do so. Most mainstream Palestinian and international analyzes of the Palestinian economy and programs for its development, policy planning and institution building have consciously ignored the obvious "abnormality" of markets in the case of the OPT. Instead, the past two decades have been characterized by policy making solely within the realm of the possible, rarely the desirable.

By definition, the "interim self-government" arrangements in place since 1994 reduced the PA's role to managing the "possible" with no real tools or realistic horizon to shape the economy. Hence, aggregate growth has been woefully inadequate in terms of building the autonomous Palestinian economic base as promised by Oslo. Moreover, it is hard today to find the "*Palestinian public sector liberated of bureaucracy and infused with the determination and spirit of revolution*" as envisioned by the PLO a generation earlier. All told, this adds up to continued domination of the Palestinian economy by Israel's settler-colonial imperatives and enforced trade, monetary and fiscal dependency upon the Israeli economic model and its liberal market philosophy.

Israeli and other apologists for occupation have tried to argue that regardless of other impacts of the domination of the Palestinian people and territory by Israel, at least the effects of exposure of the smaller, resource-poor and open Palestinian economy to that of Israel should be beneficial to both sides, and eventually lead to integration. Claims about the benevolence of the occupation and the "prosperity of the inhabitants of the Areas" was the regular trope of Israeli diplomats in rebutting UN reports to the contrary and of Israeli economists who produced counter-reports documenting Palestinian strong economic growth rates.[34] This assumption of the normal functioning of market forces even under occupation became the underlying premise of the PER, and the quasi-customs union it entailed, and it remains the conviction of many Palestinian business and economic leaders that the future of Palestinian growth and development lies to the west, with and through Israel.

19_0050-Turner.indb 114 3/22/19 7:17 AM

The main channel that ties the Palestinian economy to Israel, both in policy and material terms, is that of merchandise and services trade. The PA considers these flows as "external" trade (as they account for 60 percent of all Palestinian trade), while Israel continues to account for them as internal trade, within the one-state logic with which the Israeli Jewish economy trades with all sectors of the subjugated Palestinian population over which it rules. As shown in the preceding section, one of the economic achievements of the PA era was reduction of the Israeli economy's monopoly of Palestinian trade by a third, largely through PA efforts to diversify both import and export markets. However, as the occupying power in control of borders, Israel dominates international market access of 100 percent of Palestinian trade, as well as remaining the source or destination of much, though no longer most, Palestinian trade.

The trade deficit with Israel ($3.7 and $3 billion in 2012 and 2013, respectively) is equivalent to almost 30 percent (and in most years more) of GDP. In other words, for every dollar produced by the Palestinian economy, 30 cents end up back to Israel, in a perverse payment for this chronic dependence on the dominant trade partner (which so happens also to be the occupying power). Excluding exports of labor services to Israel, Palestinian merchandise and service exports to Israel account for 87 percent of all registered Palestinian exports, while Israel is the origin (or channel) of 72 percent of recorded merchandise and service imports. While not necessarily of economic significance to Israel, this resource capture provides a useful channel for control and sanctions when politically expedient (through withholding of PA trade tax revenues or through movement and access restrictions).

Recent official Israeli data suggest that a significant proportion of merchandise imports between the two sides recorded as being products of Israeli origin are in fact imports from abroad that are destined at once for the Israeli and Palestinian common market, and imported through Israeli shippers. This might constitute as much as 40 percent of all imports formally recorded as being from Israel including oil products (which account for 11 percent of all Palestinian imports).[35] Over and above the loss of fiscal revenue that these uncaptured, indirect imports represent for the Palestinian treasury, this decreasing share of the Israeli economy in Palestinian trade lends further credence to the observation that in fact the Palestinian economy trades mainly with the rest of the world, despite all the existing trade facilitation impediments. The Israeli economy is no longer the indispensable partner for Palestinian trade or economic development expected 25 years ago. While existing trade and fiscal arrangements do not reflect this reality, they certainly ensure Israeli colonial control over the OPT, its people, resources and prospects.

Foreign trade data also refute the hype among some economists and international agencies about the alleged advantages of building a service economy

in a globalized market where Palestinian merchandise exports cannot hope otherwise to compete. In 2013, merchandise still dominated the Palestinian import and export flows, including to/through Israel, constituting 79 percent of all recorded exports and 96 percent of all Palestinian imports. Almost all Palestinian services exports are destined for Israel and 24 percent of all Palestinian exports to Israel are services (mainly construction, telecommunication and sub-contracting processing). Most Palestinian services imports from Israel are in the areas of transportation, communications and other business services. Under the distorted market conditions of the OPT, even the supposedly more flexible and "borderless" services trade relying on the so-called "knowledge economy" is inadequate to redress the chronic imbalances of Palestinian external trade or to build a productive economy (the bulk of the private services sector is engaged in commercial and not "producer-services").

The Paris Protocol binds Palestinian trade and industrial support policy to the ultra-liberal stance that Israel has adopted in the past decade, suitable to its development needs but alien to those of the OPT. The Protocol also enables a significant leakage of fiscal resources to the occupying power. The value of lost PA fiscal revenue on indirect imports to the Palestinian territory by Israeli importers/shippers who pay trade taxes on the goods to Israeli Customs has been estimated by UNCTAD and the World Bank, respectively, at around $310 and $285 million annually.[36] The foregone opportunities for public investment, fiscal solvency and trade sovereignty of this open wound are recurrent and significant, when compared to the fiscal needs of the PA, and when viewed alongside the other channels through which the cost to

Table 4.3. Major External Trade Indicators, 2013

Million US$	*2013*
Total Palestinian Exports	900.6
Total Palestinian Imports	5,163.9
Palestinian Net Trade balance	–4,263.3
Total Palestinian Imports From Israel	3,694.8
Total Palestinian Exports to Israel	786.4
Total Palestinian Imports by Pipes and nets	552.7
Total Palestinian Exports of Services to Israel	185.8
Total Palestinian Imports of Services From Israel	136.3
Percentages	
Merchandise exports/Total exports	0.79
Imports Israel/Total imports	0.72
Exports Israel/Total exports	0.87
Pipes/Total imports	0.11
Services Exports Israel/Total exports Israel	0.24
Services Imports Israel/Total imports Israel	0.04

Source: Palestinian Central Bureau of Statistics (PCBS); constructed by the author.

Israel of occupation is minimized (e.g., donor allocations to cover PA internal security expenditures). Additional fiscal resource leakage takes place in smuggling, which over and above indirect imports denies the PA Treasury of revenue and diminishes its customs control capacities. Official statistics do not capture these "under-the-radar" trade flows, like much of the informal/shadow economy that exists on the fringes of the formal economy. However, their existence is indicative at once of the inability of outdated trade arrangements to cater to economic realities, as well as the degree of entanglement of the Palestinian economy in the web of Israeli commercial, security and colonial control interests.

LABOR, LAND AND NATURAL RESOURCE EXTRACTION

Underlying the economic predominance that Israel enjoys over Palestinian markets and access to markets, are more profound processes that have entailed significant extraction of labor and natural resources from the OPT over the past five decades. The confiscation and colonization of Palestinian land and control over water resources went hand in hand since 1967 with the incorporation of (mainly unskilled) Palestinian labor into Israeli labor markets. This began with agriculture and construction (including in settlements) and extended for some periods into industry and various commercial and personal services branches, with demand shifting over time as Israel's economy grew and matured. Ensuring Israeli domination over each of these important Palestinian resources proceeded at a different pace and according to changing imperatives. But they fit together neatly, along with control of trade routes and fiscal resources and overall macroeconomic sovereignty (within the monetary union in place), in the matrix of control exercised by Israel, and which seems only to have tightened in recent years.

The "non-factor income" of Palestinian labor in Israel at one point in the 1980s contributed as much as a quarter of Palestinian GNI, with as many as 150,000 Palestinians working in Israel and its settlements. This has been reduced since the building of the Israel Security Barrier, and today over 110,000 Palestinians work with permits or illegally inside Israel. By 2013, income from labor in Israel contributed only 10 percent of GNI, reflecting both the reduced numbers and the low-paid occupations they fill. Here again, the Oslo/Paris framework failed to ensure the terms of movement upon which it was predicated, but also was unable in 25 years to promote a Palestinian productive economy that could wean its labor force from dependence on Israel or from providing the manpower which has built its settlements throughout the West Bank.[37]

Perhaps of greater strategic significance to Israel than either fiscal resource or rent extraction from its control of Palestinian trade and of greater vitality to fueling its colonial enterprise in the West Bank has been its increasingly suffocating embrace of Palestinian land, water and mineral resources. The World Bank has estimated the loss to the Palestinian economy of lack of access and control in Area "C" at $3.4 billion annually.[38] Through an elaborate fabric of colonies, roads, military bases and firing zones, checkpoints, barriers and utility networks emanating from inside Israel and now integrating the settlements in the OPT into Israel as one territory, Israel is effectively sovereign not only in the 60 percent of Area "C" (plus Jerusalem) that is formally outside PA jurisdiction. It equally constrains and shapes the path of urban and rural development in the rest of the West Bank and access to the natural resource base, without which any sustained growth, much less development, is an illusion. The growing isolation and separation of the Palestinian economy in East Jerusalem and its shrinking share of Palestinian national income[39] adds yet another dimension to the multiple levels on which Israel divides and separately rules different Palestinian regions.[40]

The fragmentation of the OPT, the daily struggle of ordinary Palestinians to defend land and water rights, the inability of the PA to access and exploit natural resources such as stone and marble, Dead Sea minerals, Gaza offshore gas or West Bank shale oil deposits, are among the concrete testaments to the naïveté, irresponsibility, ignorance or complicity of Palestinian negotiators since Oslo. By error of commission or omission, over the past 25 years the PLO treated these assets of national economic security as bargaining chips, expendables, revenue streams, "delayables" or otherwise secondary matters, when all that really mattered for the viability of any state-building effort was precisely such red-line issues.

LOOKING FORWARD: THE NEXT 25 YEARS OF OSLO?

Over the first 25 years of the Oslo/Paris regime, the Palestinian economy certainly has grown and in some macroeconomic respects, has strengthened. However, other aggregate indicators highlight the enduring constraints of any growth path under the "non-market" constraints that have always limited potentials for development. The volatility of the growth path, affected by external shocks of differing degree and source, has meant only limited irreversible welfare gains as measured by per capita income and output indicators. Under the fragile economic conditions created by occupation and colonialism there can be no structural transformation in the composition of aggregate demand or strengthened domestic demand and production of the sort that sustained growth might permit. That is a bare truth too often overlooked by conven-

tional economic policy for Palestine, which remains in the realm of damage limitation that at best reinforces communal resilience rather than sovereign state building or development that decolonizes.

Despite the weaknesses, deformations and limitations inherent in the Palestinian economic edifice built since 1994, it is hard to discern what, if anything, may unmake what has been wrought. Only with a dramatic transformation in the Israeli-Palestinian struggle for sovereignty could a different relation than that currently in place be envisaged, and only through the rosiest of glasses.[41] Israel's system of military and colonial domination over some six million Palestinian Arabs and control of their livelihoods within the different domains of its sovereignty has been refined into a sophisticated system of divide and rule. This allows for differential degrees of civil and legal status and local government for Palestinians living in Gaza, Jerusalem, Ramallah and Area C in the OPT, and Haifa, Nazareth and the Naqab inside Israel. Whereas some 4.5 million Palestinians in the former areas remain stateless, though with significant autonomy in many areas of public services and government, around 1.5 million Palestinian Arabs are citizens of the State of Israel, though with no distinct political governing entity to represent them or provide them services beyond the local (municipal) level. In all cases, national self-determination is denied, and Palestinians are expected to acquiesce in, and suffice with, whatever civil, cultural or economic freedoms are granted by the sovereign. Economic peace, for the moment, reigns.

This would seem to be an unsustainable, if not unjust, situation that surely is a recipe for unending confrontation and rebellion. But such a likelihood does not necessarily mean that the balance of power will shift within a foreseeable horizon in favor of oppressed Palestinians, however much international law, global public opinion and their own sacrifices may weigh in that struggle. Conflict "management" has been elevated in the case of Israel-Palestine to an artform. In fact, just as permits, curfews, checkpoints, walls, closed military zones and prisons serve to operate and valorize the complex matrix of colonial control, so do economic facilitation, promises of material enrichment and the basic human instinct of self-preservation and seeking a normal life play an essential role in keeping the peace. Hence, to view the economic outcomes of Oslo as somehow separate from its politics and security arrangements misses the point of why the Palestinian people face today one of the greatest predicaments of the modern Palestinian national movement.

Sustained Israeli calculating, planning and policy making from before and since Oslo have been invested in devising a formula for governing Palestinians that is carefully balanced between economic, material and lifestyle inducements while denying political self-determination and sovereignty. For all the tactical maneuvering and brinksmanship of Yasser Arafat, and the sincere dedication to peace-making of Mahmoud Abbas, the Palestinian leadership

has only become more beholden to the Oslo framework, the limited power it has created for them and the reduced liberation horizon that has entailed. In the meantime, most Palestinians have adapted their lives to this regime, some surviving in the worst of conditions (e.g., in Jerusalem or Gaza) and others flourishing in the best (Ramallah or Haifa). Therefore, in the absence of either significant Palestinian social upheaval that challenges an economic system that perpetuates poverty, unemployment and deprivation, or of effective, widespread contestation of Israeli colonization and occupation in the West Bank, there is no reason why the status quo cannot be sustained.

While Israeli economic peace policies might be crafted to maintain an explicit trade-off between prosperity and self-determination, or property rights and national rights, the law of unintended consequences is always at play in the Palestinian-Israeli struggle. On the one hand, the three most significant Palestinian mass uprisings against settler colonialism (1936, 1987 and 2000) came in the wake of relatively sustained periods of economic growth and improving quality of life. This might well imply, on the other hand, that the creation of wealth, accumulation of material and economic assets and the taste of a better life creates inducements to more of the same . . . and to seeking greater freedom in disposing and investment of capital . . . and to more jealously guarding acquired assets and rights. To paraphrase Mao-Tse-Tung, in the Palestinian case, political power may well be said to spring from the proliferation of industrial assembly lines.

This in turn points to a conceivable way forward out of the current dead-end. Could the creation of a Palestinian economy (however stunted) and the concentration in one space (however nonsovereign) of Palestinian capital (however much profit-oriented) be a necessary condition for growing autonomous Palestinian national economic power in an otherwise asymmetric conflict with Israel? Just as Israel's state security and economic system extend from Tel Aviv to its northern, eastern and southern borders, so do the strategic interests of Palestinian wealth creation and economic interaction encompass the West Bank, Jerusalem, Galilee and Gaza. If, alongside the imminent demographic balance between Arabs and Jews under Israel's sovereignty, some closing of economic gaps and imbalances can also be achieved through sustained Palestinian wealth creation, this might create the material conditions that could break the stranglehold that Oslo has held on Palestinian politics and economics. The lure of unfulfilled national self-determination may well continue to frame the struggle of the Palestinian people for their denied rights. But the imperatives of accelerating processes of capital accumulation, class formation and socioeconomic contestation will also shape the future dynamics of conflict in the territory from the River to the Sea.[42]

19_0050-Turner.indb 120 3/22/19 7:17 AM

NOTES

1. Hussein Agha and Ahmad Samih Khalidi, "The End of This Road: The Decline of the Palestinian National Movement," *New Yorker* (August 6, 2017).
2. Raja Khalidi and Sobhi Samour, "Neoliberalism as Liberation: The Statehood Program and the Remaking of the Palestinian National Movement," *Journal of Palestine Studies*, 40, No. 2 (2011).
3. George T. Abed, *The Palestinian Economy: Studies in Development Under Prolonged Occupation* (London: Routledge, 1986).
4. These were exemplified by the reports presented by the key international organizations to the 2011 United Nations General Assembly discussion of the Question of Palestine, when the PLO first attempted to garner Security Council recognition of the State of Palestine. This entailed a veritable reporting simultaneous chorus of the World Bank attesting to the good governance capacities of this "middle-income economy," the IMF verifying the transparent and modern management of PA public finances (e.g., International Monetary Fund—IMF, *West Bank and Gaza: Report to the Ad-Hoc Liaison Committee* (Washington, DC: IMF. 2011).
5. Adam Hanieh, *Lineages of Revolt: Issues of Contemporary Capitalism in the Middle East* (Chicago: Haymarket Books, 2013).
6. Raja Khalidi and Sahar Taghdisi Rad, *The Economic Dimensions of Prolonged Occupation: Continuity and Change in Israeli Policy Toward the Palestinian Economy* (Geneva: UNCTAD, 2009); Omar Jabary Salamanca, Mezna Qato, Kareem Rabie, and Sobhi Samour, editors "Past Is Present: Settler Colonialism in Palestine," *Special Issue of Settler Colonial Studies*, No. 2.1 (2012).
7. Raja Khalidi, "Bringing it All Back Home: Twenty First Century Palestinian Development Studies," *Journal of Palestine Studies* Vol. 45, No. 4 (2016); Rayya Zein, "Developing a Palestinian Resistance Economy through Agricultural Labor," *Journal of Palestinian Studies* Vol. XLVI, No. 3 (2017).
8. United Nations Conference on Trade and Development, *Report on Assistance to the Palestinian People* (Geneva: UNCTAD, 1992).
9. United Nations Conference on Trade and Development, *The Palestinian Wartorn Economy: Aid, Development and State Formation* (United Nations: Geneva, 2006).
10. Raja Khalidi, "After the Arab Spring in Palestine: Contesting the Neoliberal Narrative of Palestinian National Liberation," *Jadaliyya E-Zine*, March 2012.
11. Paul Thomas Chamberlin, *The Global Offensive: The United States, the Palestine Liberation Organization, and the Making of the Post-Cold War Order* (New York: Oxford University Press, 2012).
12. Raja Khalidi, "The Economics of Palestinian Liberation," *Jacobin Magazine*, October 15, 2014.
13. Ishac Diwan, Radwan Shaban (editors), *Development Under Adversity: the Palestinian Economy in Transition* (Washington, DC: World Bank, 1999).
14. Sobhi Samour, *Review Assessment of Palestinian Trade Policy Options* (Ramallah: Palestine Economic Policy Research Institute—MAS, 2016).

15. United Nations Conference on Trade and Development, *Palestinian Fiscal Leakage under the Paris Protocol* (Geneva: UNCTAD, 2013).

16. Article VII of the PER, 1994.

17. A theme explored in its various dimensions in Mushtaq H. Khan, Ingrid Amundsen and George Giacaman (editors), *State Formation in Palestine: Viability and Governance During a Social Transformation* (London: Routledge, 2004).

18. The Economic Permanent Status (EPS) project in 1998 was the first of such joint ventures, followed after 2001 by the Aix Initiative, and the similar Geneva Peace Initiative, all of which remained without effect.

19. For 1993 figures, Daniel Kurtzer, "The Settlement Facts," *Washington Pos*t, June 14, 2009. For 2014: Palestinian Central Bureau of Statistics (http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/sett_2013_E_tab4.htm).

20. As suggested by the author in Vijay Prashad, "Palestine's Lost Present: A Journey in the Jordan Valley," *New Araby*, December 31, 2015.

21. The Declaration of Principles on Interim Self-Governance Arrangements, 1993, http://avalon.law.yale.edu/20th_century/isrplo.asp.

22. Protocol on Economic Relations Between the Government of the State of Israel and the PLO Representing the Palestinian People, April 9, 1994, https://www.paltrade.org/upload/agreements/Paris%20Economic%20Protocol.pdf.

23. Edward Said, "The Morning After," *London Review of Books*, October 21, 1993.

24. United Nations Conference on Trade and Development, *Report on UNCTAD's Assistance to the Palestinian People* (UNCTAD: Geneva, July 1997—TD/B/44/10).

25. Raja Khalidi, "Key Features of the Palestinian Economy: Challenges to Endurance and Existing Visions to Address Them," in MAS (ed.), *Toward a New Vision for the Revival of the Palestinian Economy, MAS Economic Conference 2016 Preparatory Papers* (Ramallah: Palestine Economic Policy Research Institute—MAS, 2016).

26. The concept of "de-development" was elaborated to describe the Gaza economy in the pre-Oslo period in: Sara Roy, *The Gaza Strip: The Political Economy of De-development* (Washington, DC: Institute for Palestine Studies, 2016).

27. World Bank, *Economic Monitoring Report to the Ad Hoc Liaison Committee Meeting* (Washington, DC: World Bank Group, April 2016).

28. Khalidi and Samour, "Neoliberalism as Liberation."

29. All figures in this section are taken from or based upon the data in tables 4.1–4.3.

30. Sahar Taghdisi-Rad, *The Political Economy of Aid in Palestine* (London: Routledge, 2011).

31. United Nations Conference on Trade and Development, "Developments in the Economy of the Occupied Palestinian Territory" (UNCTAD: Geneva, July 1994—TD/B/41(1)/3).

32. Raja Khalidi, *Political Economy Analysis of the Palestinian Private Sector* (Ramallah: Palestine Economic Policy Research Institute—MAS, 2019).

33. As advocated from the exile of Beirut prior to 1982 by an earlier incarnation of Yasser Arafat, quoted in Ahmad Qurie, *The Productive Experience of the Palestinian Revolution* (Amman: Arab Institute for Studies and Publishing, 2007).

34. Raja Khalidi, "The United Nations, Palestine, Liberation and Development" in Vijay Prashad and Samir Makdisi (eds.), *Land of Blue Helmets* (Oakland: University of California Press, 2017).

35. United Nations Conference on Trade and Development, *Palestinian Fiscal Revenue Leakage to Israel under the Paris Protocol on Economic Relations* (Geneva: UNCTAD, 2014).

36. UNCTAD, “Palestinian Fiscal”; World Bank, “Economic Monitoring.”

37. United Nations Conference on Trade and Development, *The Occupied Palestinian Territory: Twin Deficits or an Imposed Resource Gap?* (Geneva: UNCTAD, 2017).

38. World Bank, *Area C of the West Bank and the Future of the Palestinian Economy*, Washington, DC: World Bank Group, January 15, 2014.

39. United Nations Conference on Trade and Development, *The Palestinian Economy in East Jerusalem: Enduring Annexation, Isolation and Disintegration* (Geneva: UNCTAD, 2013).

40. Raja Khalidi, “What is the ‘Palestinian Economy’?” in Gulistan Gurbey, Sabine Hoffman and Ferhad Ibrahim Seyder (eds.), *Between State and Non-State: Politics and Society in Kurdistan-Iraq and Palestine* (New York: Palgrave Macmillan, 2017).

41. Raja Khalidi, “An Israel-Palestine Parallel State Economy by 2035,” in Mark Levine and Matthias Mossberg (eds.), *One Land, Two States: Israel and Palestine as Parallel States* (Berkeley and Los Angeles: University of California Press, 2014).

42. This trade-off is explored further in Raja Khalidi (2018) “Nation and Class: Generations of Palestinian Liberation,” *Rethinking Marxism* Vol. 30, No. 3, 368–392.

BIBLIOGRAPHY

Abed, George T. *The Palestinian Economy: Studies in Development Under Prolonged Occupation.* London: Routledge, 1988.

Agha, Hussein J. and Khalidi Ahmad Samih. “The End of This Road: The Decline of the Palestinian National Movement.” *New Yorker*, August 6, 2017.

Chamberlin, Paul Thomas. *The Global Offensive: The United States, the Palestine Liberation Organization, and the Making of the Post-Cold War Order.* New York: Oxford University Press, 2012.

Diwan, Ishac and Radwan A. Shaban (eds.). *Development Under Adversity: the Palestinian Economy in Transition*. Washington, DC: World Bank, 1999.

Hanieh, Adam. *Lineages of Revolt: Issues of Contemporary Capitalism in the Middle East*. Chicago: Haymarket Books, 2013.

International Monetary Fund—IMF. *West Bank and Gaza: Report to the Ad-Hoc Liaison Committee*. Washington, DC: IMF, 2011.

Khalidi, Raja. “After the Arab Spring in Palestine: Contesting the Neoliberal Narrative of Palestinian National Liberation.” *Jadaliyya E-Zine*, March 2012.

———. “The Economics of Palestinian Liberation.” *Jacobin Magazine*, October 2014.

———. “An Israel-Palestine Parallel State Economy By 2035,” in *One Land, Two States, Israel and Palestine as Parallel States*, edited by Mark Levine and Matthias Mossberg. Berkeley and Los Angeles: University of California Press, 2014.

———. “Key Features of the Palestinian Economy: Challenges to Endurance and Existing Visions to Address Them,” in *Toward a New Vision for the Revival of the Palestinian Economy, MAS 2016 Economic Conference Preparatory Papers*. Ramallah: Palestine Economic Policy Research Institute, 2016.

———. "Bringing It All Back Home: Twenty-first Century Palestinian Development Studies." *Journal of Palestine Studies*, Vol. 45, No. 4, 2016.

———. "The United Nations, Palestine, Liberation and Development," in *Land of Blue Helmets*, edited by Vijay Prashad and Samir Makdisi. Oakland: University of California Press, 2017.

———. "What is the 'Palestinian Economy'?" in *Between State and Non-State: Politics and Society in Kurdistan-Iraq and Palestine*, edited by Gulistan Gurbey, Sabine Hoffman and Ferhad Ibrahim Seyder. New York: Palgrave Macmillan, 2017.

———. "Nation and Class: Generations of Palestinian Liberation," *Rethinking Marxism*, Vol. 30, No. 3, 368–392, 2018.

———. *Political Economy Analysis of the Palestinian Private Sector.* Ramallah: Palestine Economic Policy Research Institute—MAS, 2019.

Khalidi, Raja and Sobhi Samour. "Neoliberalism as Liberation: The Statehood Program and the Remaking of the Palestinian National Movement." *Journal of Palestine Studies*, Vol. 40, No. 2, 2011.

Khalidi, Raja and Sahar Taghdisi-Rad. *The Economic Dimensions of Prolonged Occupation: Continuity and Change in Israeli Policy Toward the Palestinian Economy.* Geneva: UNCTAD, 2009.

Khan, Mushtaq H., Ingrid Amundsen and George Giacaman, eds. *State Formation in Palestine: Viability and Governance During a Social Transformation*. London: Routledge, 2004.

Qurei, Ahmad. *The Productive Experience of the Palestinian Revolution.* Amman: Arab Institute for Studies and Publishing, 2007 (in Arabic).

Roy, Sara. *The Gaza Strip: The Political Economy of De-development.* Washington, DC: Institute for Palestine Studies, 2016.

Samour, Sobhi. *Review Assessment of Palestinian Trade Policy Options*. Ramallah: Palestine Economic Policy Research Institute—MAS, 2016.

Taghdisi-Rad, Sahar. *The Political Economy of Aid in Palestine*. London: Routledge, 2011.

United Nations Conference on Trade and Development. *Report on Assistance to the Palestinian People*. Geneva: UNCTAD, 1992.

———*The Palestinian War-torn Economy: Aid, Development and State Formation*. Geneva: UNCTAD, 2006.

———*The Palestinian Economy in East Jerusalem: Enduring Annexation, Isolation and Disintegration.* Geneva: UNCTAD, 2013.

———*Report on UNCTAD Assistance to the Palestinian People: Recent Developments in the Economy of the Occupied Palestinian Territory.* Geneva: United Nations, July 2015.

———*The Occupied Palestinian Territory: Twin Deficits or an Imposed Resource Gap?* Geneva: UNCTAD, 2017.

World Bank. *Economic Monitoring Report to the Ad-Hoc Liaison Committee Meeting*. Washington, DC: World Bank Group, April 2016.

Zein, R. "Developing a Palestinian Resistance Economy through Agricultural Labor." *Journal of Palestinian Studies*, Vol. 46, No. 3, 2017.