Countering economic dependence and de-development in the occupied Palestinian territory

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Countering economic dependence and de-development in the occupied Palestinian territory

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Executive summary

This report proposes a rights-based policy framework as a path towards countering the de-development of the Palestinian economy and its dependence on Israel.

The policy framework proposed in this report advocates an alternative approach to the largely ineffective, donor-supported approach that has prioritized security, political and territorial considerations over the application of international law in the occupied Palestinian territory. The proposed approach instead prioritizes the attainment of the Palestinian people's inalienable rights, including the right to self-determination, recognizing these rights as prerequisite to development. The proposed policy framework is based on the following three pillars: (1) disengaging the Palestinian economy from Israel; (2) empowering the Palestinian private sector; and (3) advocating a rights-based approach to achieving the first two pillars.

The first pillar of the policy framework aims to reduce the decades-long chronic dependence of the Palestinian economy on Israel. The second pillar aims to mitigate de-development in the occupied Palestinian territory and its socioeconomic consequences by empowering the private sector.

The third pillar entails employing a rights-based approach towards the Palestinian economy that prioritizes the application of international law, including the attainment of Palestinian individual and collective rights, with the right to self-determination being the ultimate goal. This pillar lies at the heart of the policy framework proposed within this report. It constitutes the main driving force that would make possible the realization of the key policy goals under the first two pillars. The right to self-determination must be the guiding principle for all development and assistance policy work - without it no meaningful and sustained change can be expected.

A two-track policy agenda is proposed to operationalize each pillar of the policy framework and transform it into an action plan. The first track addresses short-term issues of immediate concern and the second relates to long-term strategic issues.

For a rights-based approach to be realized and yield results, the following conditions are required:

- Palestinian ownership and commitment - without the endorsement of the Palestinian people and their institutions, first and foremost, and the willingness of the international community to support such a strategic shift in direction, the proposed rights-based course to Palestinian development will be hard to implement.
- The identification of short- and long-term priorities to be addressed within the context of a rights-based approach.
- The articulation of a rights-based policy agenda once priority issues are identified and clearly defined.

Contents

Abbreviations and acronyms

COGAT	Coordinator of Government Affairs in the Territories
ESCWA	Economic and Social Commission for Western Asia
FTA	Free trade agreement
GDP	Gross domestic product
GNP	Gross national product
IMF	International Monetary Fund
MFN	Most favoured nation
NGO	Non-governmental organization
PCBS	Palestine Central Bureau of Statistics
PLO	Palestinian Liberation Organization
UNCTAD	United Nations Conference for Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
VAT	Value-added tax

Introduction

Since Israel militarily occupied the West Bank, including East Jerusalem, and the Gaza Strip in June 1967, it has deployed a matrix of policies and practices that seeks to control the people of the occupied Palestinian territory and monopolize the land and its natural resources.[1] These actions entail violations of international humanitarian law and human rights law.

Israeli policies and practices have fragmented the territorial and economic landscape of the West Bank and severed it from East Jerusalem.[2] The Gaza Strip has been subjected to a land, air and sea blockade, as well as recurrent military offensives. Israeli policies, which include restrictions on the movement of the population and on economic activities, have effectively eviscerated the Palestinian economy.[3]

The approach adopted by Israel towards the occupied Palestinian territory stems from its military, security and territorial objectives. Its tactics have eroded the productive capacity of the occupied Palestinian territory, depriving it from its growth potential and turning into a captive market and a reservoir of cheap labour servicing the Israeli economy. This economic evisceration has worsened living conditions as both the Palestinian economy and human capital have been continuously depleted.[4]

Despite the direct involvement of the international community since the peace process dialogues of the early 1990s and the provision of a large package of financial and technical aid to the occupied Palestinian territory, estimated at about $40 billion over nearly three decades,[5] the Palestinian economy remains extremely fragile, structurally weak and highly dependent on Israel for trade, wage employment and the provision of basic infrastructure. Unemployment, poverty and food

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1 ESCWA uses the term "matrix of control and domination" describing Israeli policies and practices to emphasize the suppressive/domination dimension of the occupation. For more on this, see Economic and Social Commission for Western Asia (ESCWA), 2022. The matrix of control is also discussed in United Nations General Assembly, 2022.

2 For the purposes of this report, the term West Bank includes East Jerusalem, unless explicitly stated otherwise.

3 For detailed accounts of Israeli policies and practices in the occupied Palestinian territory and their socioeconomic repercussions, see periodic reporting by ESCWA under the title "Economic and Social Repercussions of the Israeli Occupation on the Living Conditions of the Palestinian People in the Occupied Palestinian Territory, including East Jerusalem, and the Arab Population in the Occupied Syrian Golan". Also see periodic reporting by the United Nations Special Rapporteur on the situation of human rights in the Palestinian territories occupied since 1967.

4 Several studies attempted to calculate the economic costs of the Israeli military occupation of the occupied Palestinian territory. A report by a Palestinian think tank, for example, estimated the total *measurable* costs in 2010 to be close to $6.9 billion, or 85 per cent of the Palestinian gross domestic product (GDP) in that year. See Applied Research Institute-Jerusalem (ARIJ) and the Palestinian Ministry of National Economy, 2011. In 2019, UNCTAD estimated the monetary value of Palestinian fiscal losses identified during the period 2000–2017 to be $47.7 billion, almost three times the Palestinian GDP in 2017. See UNCTAD, 2019.

5 Organisation for Economic Co-operation and Development (OECD), n.d.

insecurity among the occupied Palestinian territory's 5.3 million inhabitants (3.2 million in the West Bank and 2.2 million in Gaza) are widespread, and rates are alarmingly high.

The occupied Palestinian territory continues to be chronically dependent on donor funding for its fiscal survival. It is also dependent on Israel allowing the transfer of the tax revenues it collects on behalf of the Palestinian State in accordance with the provisions of the 1994 Paris Protocol on Economic Relations - transfers which Israel has repeatedly withheld for political leverage.[6]

United Nations entities have long recognized the need to revisit the signed agreements governing relations between Israel and the occupied Palestinian territory, namely the 1994 Protocol on Economic Relations between the Government of the State of Israel and the Palestinian Liberation Organization (PLO), representing the Palestinian people (hereafter the Paris Protocol) and its associated agreements. Concurrently, the Palestinian Authority has adopted a strategic approach that seeks to disengage the Palestinian economy from Israel, or more realistically, to reduce its economic dependence on it.

Over five decades of military occupation and settlement expansion in the occupied Palestinian territory have fundamentally weakened its economy. As a 2016 United Nations Conference on Trade and Development (UNCTAD) report stated,

> "military occupations typically involve the exploitation, impoverishment, marginalization and displacement of the occupied people, as well as the destruction of their assets and appropriation of their resources. Equally damaging, are measures and policies by the occupying power that undermine the capacity of occupied people to access and utilize their resources, move freely within their homelands and conduct normal trade, economic and social transactions with neighbours and trading partners".[7]

The parties involved in negotiating the agreements that define relations between Israel and the occupied Palestinian territory prioritized reaching a final status agreement in the peace process. This prioritization allowed the principles of international law, including that of self-determination, to be overshadowed by political-security-territorial considerations. Within this context, donor-funding and development efforts have failed to address the structural challenges the Palestinian economy is facing; to attain Palestinian rights, including statehood; and consequently, to achieve peace.

> "*Decades of pragmatism and realpolitik have resulted in neglecting rights-based approaches. The need for remedy is now urgent. Future research should increasingly adopt*

6 One aspect of the Paris Protocol on Economic Relations is the "clearance revenue" mechanism which commits Israel to make a *regular* monthly transfer to the Palestinian coffers of *all* import duties, value added tax, petrol excise tax, and other indirect taxes it collects on the behalf of the Palestinian Authority. Clearance revenues constitute about two-thirds of Palestinian Authority's public revenues and cover more than 50 per cent of its expenditure.

7 UNCTAD, 2016, pp. 7–8.

> *a rights-based lens… Indeed, any and all support and assistance should have as strategic objective and purpose the attainment of Palestinian self-determination.*"[8]

This report puts forward a policy framework that constitutes a shift away from the largely ineffective approach to development that has prioritized political-security-territorial considerations towards a path that is based on the internationally recognized rights of development and economic emancipation.

The proposed framework is rooted in the premise that self-determination is a prerequisite for sustainable and equitable economic development. The report analyses the consequences of the matrix of Israeli policies and practices and puts forward a policy framework based on reducing the dependence of the Palestinian economy on Israel, empowering the Palestinian private sector and advocating a rights-based approach to mitigating the destructive impacts of the occupation.

The current report builds on the existing literature on the Palestinian economy, which includes academic texts, technical reports from international organizations and Palestinian think tanks, and periodic publications by Israeli and international non-governmental organizations (NGOs). It also builds on previous work by the Economic and Social Commission for Western Asia (ESCWA), including the study "Palestine Under Occupation III: Mapping Israel's Policies and Practices and their Economic Repercussions in the Occupied Palestinian Territory" (2022). These sources are used to analyse the evisceration of the Palestinian economy and to support the development of rights-based policy options to counter this evisceration.

ESCWA organized an expert group meeting in June 2022 to discuss an earlier draft of this report, with a focus on the recommended policy framework. Prominent Palestinian economic and human rights experts provided feedback and suggestions, which have been incorporated into the current report.

The report is divided into the following four parts:

Part One introduces the concept of economic evisceration and its application in the context of the occupied Palestinian territory, showing how the process of evisceration was, and still is, a natural outcome of the continued military occupation. The report provides an overview of the Israeli matrix of control that has been methodically implemented in the occupied Palestinian territory since 1967, controlling all aspects of Palestinian lives and serving the strategic interests of Israel during the periods before and after the signing of the Oslo Accords.[9] It will then analyse the de-development of the Palestinian economy under the continued heavy presence of the Israeli military.

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8 ESCWA, 2022.

9 "The Declaration of Principles on Interim Self-Government Arrangements," signed in Washington, D.C. on September 13, 1993, frequently referred to as "Oslo I"; "The Agreement on the Gaza Strip and Jericho Area", signed in Cairo on May 4, 1994; and "The Israeli-Palestinian Interim Agreement on the West Bank and Gaza", known as Oslo II, first signed in Taba, Egypt, by Israel and the PLO on September 24, 1995, then signed in Washington, D.C., on September 28, 1995, by Israeli Prime Minister Yitzhak Rabin and PLO Chairman Yasser Arafat and witnessed by United States President Bill Clinton. The Oslo Accords also included the "Protocol on Economic Relations," signed in Paris on April 29, 1994, which was included in the "Oslo I" agreement in its annex IV.

Part Two starts with a critical review of the donor-supported “development-as-usual” approach to development in the occupied Palestinian territory, which was followed throughout the post-Oslo Accords years, and explains its failure to deliver on its promise to revive and develop the Palestinian economy. This is followed by a discussion of the critical structural challenges that Palestinian policymakers continue to face nearly thirty years after the Oslo Accords were signed. The case is made for the need for an alternative approach.

Part Three proposes the contours of such an approach in the form of a policy framework that aims to mitigate, and ultimately reverse, the impacts of de-development in the occupied Palestinian territory. It also aims to distance the Palestinian economy from Israel, reducing its heavy dependence, through a rights-based approach to the Palestinian economy. A proposed three-pillar policy framework to counter the evisceration of the Palestinian economy will then be presented, with a two-track policy agenda to operationalize the policy framework. The potential and expected impediments and limitations of the proposed approach will be briefly addressed.

Part Four concludes the report with some final thoughts.

1. Israeli policies"and the evisceration of the Palestinian economy

Key points

- *The 55-year Israeli military occupation entails policies and practices designed to undermine the Palestinian economy and deepen its dependence on Israel for trade, employment and the provision of infrastructure services.*
- *Israel's matrix of policies and practices during the first 25 years of the occupation (1967–1993) resulted in major structural imbalances and distortions in the Palestinian economy.*
- *The Palestinian economy has been fragmented into three separate, disconnected and Israeli-dominated sub-economies: the geographically-disconnected parts of the occupied West Bank; the blockaded and war-torn Gaza Strip; and the occupied and annexed East Jerusalem.*
- *With the denial of the conditions necessary for an economy to operate, the Palestinian economy has been eviscerated.*
- *Data and trends reflect an economy that has already lost its viability and fiscal sustainability; the industrial sector, for example, remains underdeveloped with little contribution to employment, export or total output.*

> " *More than 54 years of Israeli occupation have had a cumulative, multi-layered and inter-generational impact on Palestinian society, economy and environment. Throughout this protracted period, Israel has employed policies, measures and practices that caused deterioration of the living conditions of the Palestinians, de-development of the Occupied Palestinian Territory (oPt), evisceration of the Palestinian economy and entrenchment of its asymmetric dependency on Israel, and exacerbation of Palestinian institutional dependency on foreign aid*." [10]

A. Economic evisceration in the occupied Palestinian territory

A holistic approach to analysing the Palestinian economy over the course of the Israeli military occupation and its matrix of policies and practices demonstrates that it was never possible for it to operate viably.

For an economy to function, achieve sustained rates of economic growth and provide for the population, certain conditions are necessary. These include full control of the policymaking bodies

10 ESCWA, 2022.

governing the territory's natural resources and its national borders (namely, sovereignty and territorial integrity); open and unfettered access to regional and global markets; policy instruments that policymakers can employ to stabilize the economy and plan its future course (monetary, fiscal, trade, and exchange rate policies); a vibrant private sector that functions as an engine of growth and as the main driver of job creation and exports; an inclusive and modern financial intermediation system where savings - national and foreign - are channelled towards finance investment; strong and accountable public institutions (political, legal and administrative); and good governance that ensures the efficient use of all available resources.

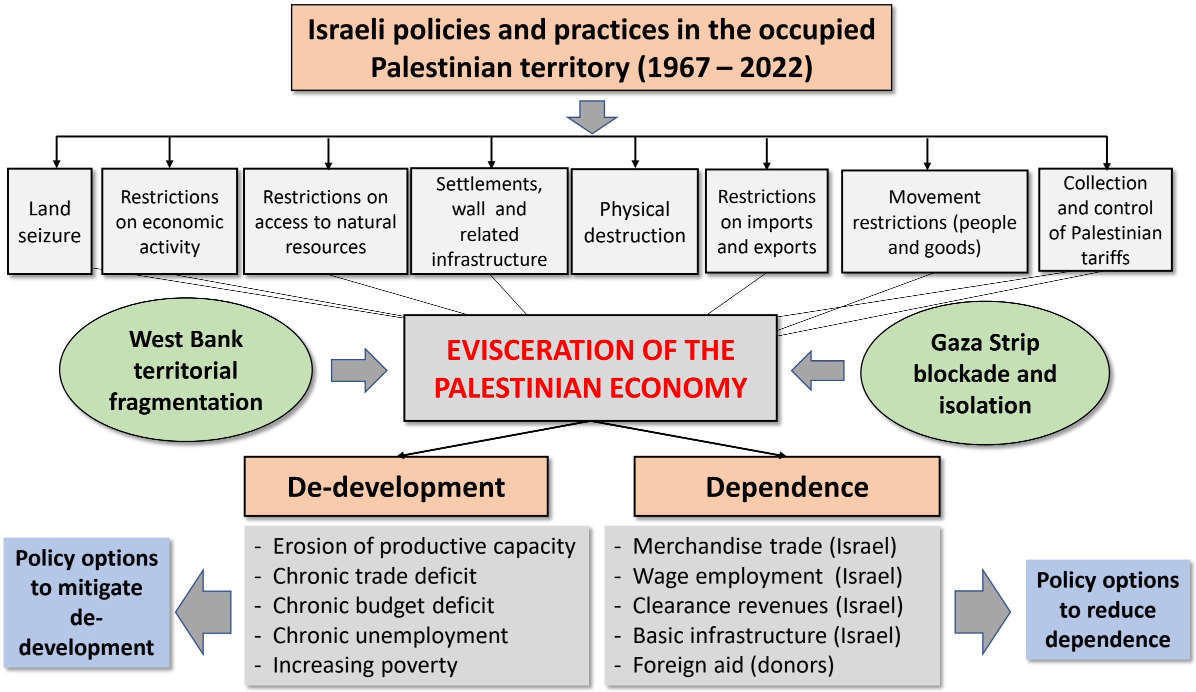
These conditions are critical for long-term economic viability and sustainability. If they are compromised due to internal or external factors, the economy can be described as eviscerated. The degree of fragility and vulnerability of an economy to internal or external shocks determines the level of its evisceration. An eviscerated economy operates far below its full potential and becomes increasingly dependent on other countries and actors.

The Palestinian economy is under a prolonged military occupation and most, if not all, of the basic requirements necessary for it to operate sustainably have long been denied. The continued dispossession and economic evisceration of the occupied Palestinian territory has resulted in stagnating growth, de-development and dependence on foreign nations.

A lack of understanding of the conditions under which the Palestinian economy has been operating has ultimately led to the failure of the internationally-funded "development-as-usual" model that was implemented during the post-Oslo Accords period, as will be explained in Part Two of this report. This failure highlights the need for a different approach to the development of the Palestinian economy.

Figure 1 illustrates the intricate processes of the economic evisceration of the occupied Palestinian territory as it evolved, deepened and was institutionalized over the past five decades.

Figure 1. The evisceration of the Palestinian economy, 1967–2022: causes, consequences and policy options



Source: ESCWA.

Since 1967, Israeli policies and practices in the occupied Palestinian territory have constituted a matrix of control,[11] causing the de-development of the Palestinian economy and ensuring its dependence on Israel.[12] The erosion of productive capital, chronic trade deficit, chronic budget deficit, high levels of unemployment, and widespread poverty are trends that have stemmed from the evisceration of the Palestinian economy. Any future policy measures should have two main

11 The "matrix of control" is a term coined by the Israeli political activist and writer Jeff Halper. The term is used to describe the complex set of Israeli policies and practices designed and implemented by the Israeli military establishment in order to control all aspects of Palestinian life in occupied Palestinian territory. For more on this, see the following two articles: Halper, 2000; Halper, 2009. ESCWA uses the term "matrix of control and domination" in 2022 when describing Israel's policies and practices in an updated version of that coined by Halper and to emphasize the suppressive/domination dimension of the occupation. For more on this, see ESCWA, 2022.

12 This widely used term "de-development" was first coined by Sara Roy (Roy, 1987, 1999, 2001a, 2002).

objectives, namely, mitigating the cumulative damaging impacts of the continued de-development of the Palestinian economy and reducing its chronic dependence on the Israeli economy.

The report will now turn to an overview of the Israeli matrix of control that has been methodically implemented in the occupied Palestinian territory since 1967, controlling all aspects of Palestinian lives and serving the strategic interests of Israel. The de-development of the Palestinian economy under the continued heavy presence of the Israeli military will then be analysed. A firm understanding of this context is necessary for realizing the proposed rights-based policy framework introduced in Part Four.

B. Israeli policies and practices – a matrix of control

> *"Israel's occupation is backed by force. Accompanying that ever-present security apparatus have been deliberate policies that have isolated Palestinian communities from each other, ruptured social cohesion, profoundly limited economic activity and deprived many of their basic rights – of movement, of expression, of access to health and much more. In too many cases, these policies have violated international humanitarian law as well as the human rights instruments to which Israel is a party."*[13]

This statement was made by a senior United Nations staff member on the 50th anniversary of the Israeli military occupation of the West Bank and Gaza Strip. Over the years, Israeli policies and practices have continuously sought to maintain and entrench control over Palestinian land and people. After 1994, Israel revised its policies and practices, while retaining this objective, in response to the changes that occurred in the political, security and territorial setting as a result of the Oslo Accords.

1. 1967 to 1993

From 1967 to 1993, the Israeli Government – through its military authorities (specifically the Civil Administration after 1981) in the West Bank (excluding East Jerusalem) and Gaza[14] – implemented an array of policies and practices that restricted private and public investment in the occupied Palestinian territory, diminished the scope of economic activities and minimized economic space.

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13 From a statement by the United Nations Coordinator for Humanitarian Aid and Development Activities, Robert Piper, on the 50th anniversary of Israel's occupation (June 6, 2017).

14 The Civil Administration was established in 1981 by military order as a part of the Israeli Defense Ministry and is run by a unit called "the Coordinator of Government Affairs in the Territories (COGAT). Before the 1994 and the Oslo Accords, it was the governing body in all the occupied Palestinian territory. It currently oversees all civil matters for Jewish Israeli settlers and Palestinian residents in Area C of the West Bank, as well as some administrative matters for Palestinians living in other areas of the West Bank and the Gaza Strip and primarily is responsible for issuing travel permits from the West Bank and Gaza to Israel and within the West Bank and work permits for Palestinians entering Israel to work, in addition to all kinds of construction permits or demolitions in Israeli settlements in Area C. For more on this, see Arnon and others, 1997, p. 6.

These were enforced through hundreds of military orders that covered all aspects of economic activity in the occupied Palestinian territory.[15]

These policies and practices served to protect the Israeli economy from potential Palestinian competition, transform the occupied Palestinian territory into a captive market for Israeli products and maintain a reservoir of cheap Palestinian labour.[16] Three major areas of the Palestinian economy were particularly impacted by these Israeli policies, namely, the investment climate, basic infrastructure and Palestinian access to national natural resources.

The Israeli-controlled regulatory environment in the occupied Palestinian territory from 1967 to 1993 was prohibitive and discouraged private investment, especially in areas perceived by Israel to constitute competition – both within Israel and inside the occupied Palestinian territory – to the heavily-subsidized Israeli products.[17] A complex system of permits and licensing, entailing a lengthy bureaucratic process, stunted Palestinian efforts to open new businesses or expand existing ones. One month into the occupation in 1967, Israel ordered all banks operating in the West Bank and Gaza Strip to close (Military Order no. 7). Only two Arab banks were later permitted to re-open, under very restrictive conditions.[18] The absence of a functioning Palestinian financial sector and restrictions on imports of new machinery and on the types and quantities of imported raw materials were among the factors that seriously impeded domestic growth.[19] This led to increasing Palestinian dependence on Israel.[20]

Indirect taxes on Palestinian imports that should have been used for public investment and to finance infrastructure in the occupied Palestinian territory were instead transferred to the Israeli treasury. Palestinian tariff revenues that Israel collected between 1970 and 1987 were estimated at between 12–21 per cent of Palestinian gross national product (GNP) or between $5.2 billion and $9.4 billion (in 1990 prices).[21] Israel, however, spent a minimal amount of these revenues on public investment and infrastructure within the occupied Palestinian territory. The lack of financing left the physical infrastructure in the West Bank and Gaza in a state of disrepair and at a level far beneath that of other neighbouring countries with similar income levels at that time.[22] The loss of income

15 For a full list of 40 years of Israeli policies and practices in the occupied Palestinian territory, along with all military orders issued during this period, see Handel, 2009. Also see Rabah and others, 1995.

16 See Kleiman, 1999, p. 247.

17 In January 1985, then Israeli defense minister Yitzhak Rabin was quoted, “there will be no development [in the West Bank and Gaza] initiated by the Israeli Government, and no permits will be given for expanding agriculture or industry [there], which may compete with the State of Israel”. *Jerusalem Post*, February 15, 1985; and Human Rights Watch, 2021a.

18 *Bank of Palestine* in Gaza in 1981, and *Cairo-Amman Bank* in the West Bank in 1986. UNCTAD, 1989. See also Harris, 1988, pp. 191–222.

19 Israel did not allow Palestinian businesses in the occupied Palestinian territory to import machines and equipment incorporating the latest technology, and thus they were compelled to buy second-hand machines from Israel. See Kubursi and Naqib, pp. 19–20.

20 For more on this see Abu Kishk, 1988, chapter 8, pp. 165–189.

21 See Hamed and Shaban, 1993, p. 142.

22 The World Bank estimated the ratio of public sector development expenditure to the GDP in the occupied Palestinian territory, during the Israeli rule period of 1967–1993, at less than one third of the worldwide average for developing countries, and less

from the occupied Palestinian territory increases further if income tax and social security contributions paid by Palestinian workers inside Israel are taken into consideration.[23]

Throughout the pre-Oslo Accords period, increasing swathes of land within the occupied Palestinian territory were expropriated for the building of illegal Israeli settlements, the construction of an advanced system of highways and bypass roads[24] and Israeli military bases and other facilities.[25] By the end of 1993, the number of Israeli settlements had reached 144, with a settler population of 247,000 living inside the occupied West Bank, including East Jerusalem, and the Gaza Strip.[26] As a result, Palestinian access to land was severely restricted and economic activities, particularly in agriculture, were suppressed.[27] The expansion of Palestinian municipal boundaries to provide for industrial growth and residential needs was also constrained.

Concurrently, Israeli military orders, assigned quotas and a permit system restricted Palestinian access to and development of water resources. The volume of water used by Palestinians in the West Bank was estimated at about 15–20 per cent of the annually available water originating in the area; the rest of the water was diverted to Israeli settlers and to Israel, in violation of international law that prohibits the expropriation of the resources of occupied lands.[28] According to one study, "almost the entire increase in Israeli water use since 1967 derives from the waters of the West Bank and the Upper Jordan River".[29]

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than a quarter of what existed in Jordan in early 1990s. See World Bank, 1993b, pp. 34–35. For more on the state of infrastructure in the occupied Palestinian territory during 1967–1993, see World Bank, 1993d. In this report, the World Bank observed that "despite some positive improvements in service levels under the Israeli administration […] the level, and particularly the *quality*, of service provided is below that generally found in countries with comparable incomes. Moreover, the poor state of the existing physical facilities for sewerage, water supply and solid waste and drainage, and the inadequacy of service provided in these areas, has already placed a heavy strain on the environment."

23 The proportion of Palestinian GNP transferred to Israel through taxation alone jumped from 6 per cent in 1978 to 12 per cent in 1984. See Khalidi and Taghdisi-Rad, 2009, p. 5.

24 Bypass roads are a modern network of roads and highways, constructed to connect Israeli settlements with each other and with Israel. Crisscrossing the occupied West Bank, they are mainly built to bypass Palestinian villages and towns, hence the name, and are used mainly by Israeli settlers. Palestinians in the occupied Palestinian territory can only use these roads if they have an Israeli military-issued permit. See Poica, 2001.

25 Between June 1967 and the end of 1990, according to a United Nations report, close to 52 per cent of the West Bank land, and 43 per cent of the Gaza Strip land, were expropriated by Israel. See United Nations Economic and Social Council, 1991, p. 15, para 38.

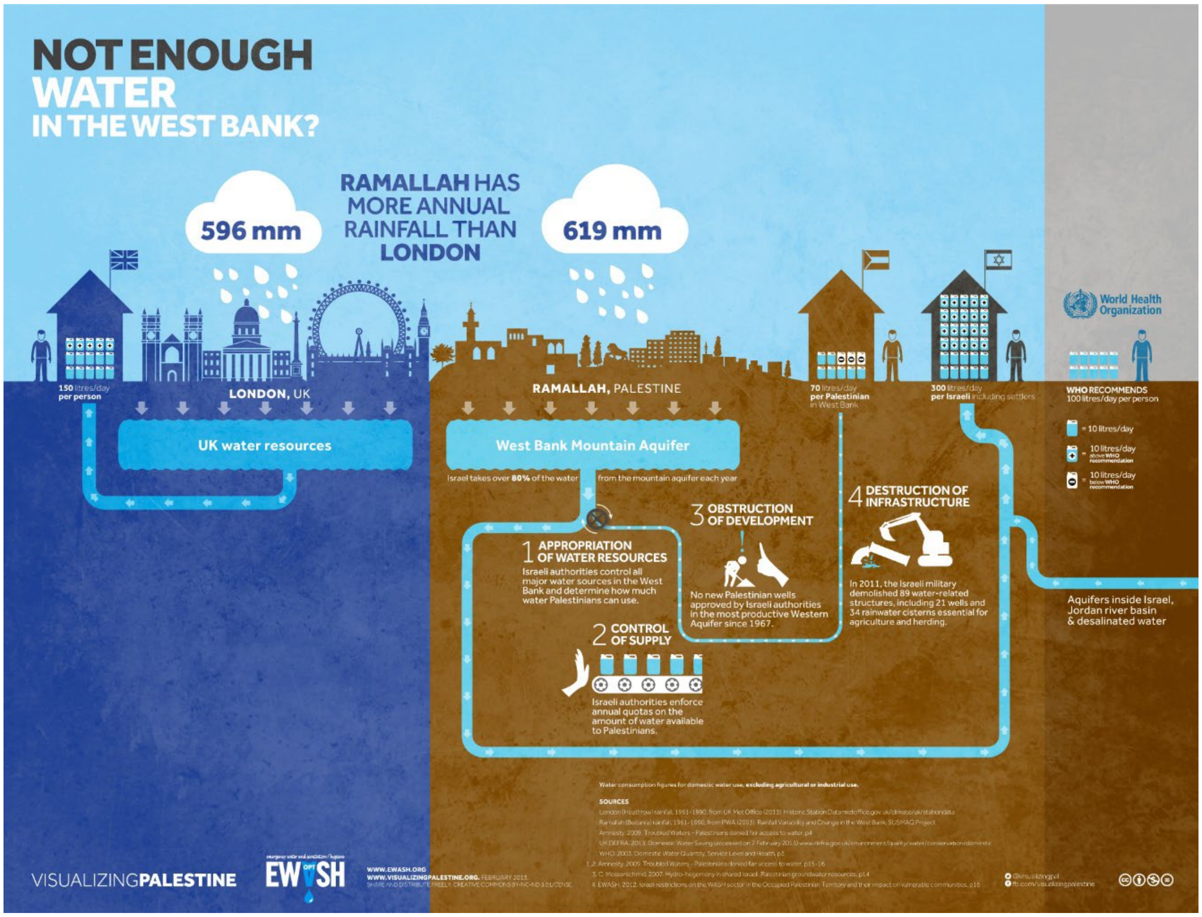
26 B'Tselem, 2002.

27 The continued expansion of illegal Israeli settlements in the occupied Palestinian territory during this period led to a decline in the size of cultivated areas in the.occupied Palestinian territory from 37.5 per cent of total land area in 1967 to 31.5 per cent in 1989. As a result, the share of agriculture in GDP fell from 24 per cent in 1967 to less than 15 per cent in 1994, with a hefty drop in the percentage of working people employed in the agriculture sector from 43 per cent of total employment in 1967 to 22 per cent in 1993. See Aronson, 1998.

28 See World Bank, 1993d, p. 67. A report by the United Nations on water resources in the occupied Palestinian territory gave even more bleak statistics: "Some 95 per cent of the transboundary groundwater resources originating in the West Bank are being used and overexploited in Israel and by its settlements in the occupied Palestinian territory, leaving a meagre 5 per cent and increasingly saline water resources to the Palestinians." See United Nations, 1992.

29 See Gleick, 1994, p. 43.

Between 1967 and 1993, the Palestinian population in the occupied Palestinian territory doubled to over 2 million. Water consumption only increased by 10 per cent, constituting a fraction, on a per capita basis, of water consumption in the illegal Israeli settlements.[30] The restrictions to water access also led to insufficient amounts of water being allocated to irrigated agriculture.[31]



In addition to the damage to the Palestinian economy caused by Israeli policies, the military occupation produced a profound sense of instability, insecurity and uncertainty regarding future economic possibilities and prospects. Palestinian productive capacity was decimated, not only due to the constant erosion of access to the resources, but also because of the many distortions created within the economy.

30 According to some estimates, per capita water consumption in Jewish settlements was five to six times higher than that of the Palestinians in the.occupied Palestinian territory. See Elmusa, 1997, p. 254.

31 Between 1967 and 1990, only 23 new wells were permitted to be drilled in the occupied Palestinian territory, and mainly to replace older ones. See Kramer, 2008, p. 12.

The process of the economic evisceration of the occupied Palestinian territory continued during and after the establishment of the Palestinian Authority in 1994. Israeli policies and practices then became even more damaging than they had been during the pre-Oslo Accords era.

2. 1994 to 2022

In 1993 and 1994, a number of transitional negotiated agreements between Israel and the Palestinian Liberation Organization were signed. This development generated high expectations for a brighter economic future for the occupied Palestinian territory, but proved to have grave political and economic consequences.[32] From 1994 to 2022, the Palestinian economy operated within an extremely inhospitable political, territorial and security setting directly resulting from the signing of the Oslo Accords.

The Oslo Accords contributed to the evisceration of the Palestinian economy in a number of ways. While the Oslo I agreement allowed for the retainment of all the Israeli military orders that had been enacted since June 1967,[33] the Oslo II agreement further complicated the situation on the ground by territorially fragmenting the occupied West Bank into three administrative areas: Areas A, B and C (about 18 per cent, 22 per cent and 60 per cent of the West Bank's geographic territory, respectively). The Palestinian Authority assumed both civil powers and internal security responsibilities in Area A. It assumed only civil powers in Area B.[34] Area C, the largest part of the West Bank and the richest in natural resources, remained under the full control of the Israeli military.[35]

Neither the Oslo Accords nor any other signed agreements included any provisions for the removal and evacuation of settlements. They also maintained full Israeli control over the external security of the occupied Palestinian territory.[36]

Areas A and B, that came under full or partial Palestinian Authority jurisdiction, were not territorially contiguous and were splintered into 165 isolated cantons surrounded by Area C, the only

32 These agreements are as follows: "The Declaration of Principles on Interim Self-Government Arrangements," signed in Washington, D.C., on September 13, 1993, frequently referred to as "Oslo I"; "The Agreement on the Gaza Strip and Jericho Area", frequently referred to as "Oslo I", signed in Cairo on May 4, 1994; and "The Israeli-Palestinian Interim Agreement on the West Bank and Gaza", known as Oslo II, first signed in Taba, Egypt, by Israel and the PLO on September 24, 1995, then signed in Washington, D.C., on September 28, 1995, by Israeli Prime Minister Yitzhak Rabin and PLO Chairman Yasser Arafat and witnessed by United States President Bill Clinton. The Oslo Accords also included the "Protocol on Economic Relations," signed in Paris on April 29, 1994, which was included in the "Oslo I" agreement in its annex IV.

33 Israeli military orders continued to restrict the Palestinian economy even after the establishment of the Palestinian Authority in 1994. See Article VII, para. 9 of Oslo I Agreement.

34 Although Oslo Accords gave the Palestinian Authority control over civil affairs in Areas A and B of the West Bank, all major economic decisions in these two areas continue to rest with Israel. See B'Tselem, 2016.

35 For a brief discussion of the stages and dates of the Israeli military redeployment from the occupied West Bank, see Aronson, 2000.

36 Article V of Oslo I.

contiguous area in the West Bank.[37] Water resources and land use in Area C, along with external borders, travel and immigration, and population registry, all remained exclusively under Israeli military control.

The post-Oslo Accords political and geographic context was further exacerbated by the continued implementation of restrictive Israeli policies and practices. This matrix of control and domination included the continued construction and expansion of Israeli settlements in the occupied Palestinian territory;[38] the construction of a vast network of major highways, bypass roads and bridges across the West Bank to connect Israeli settlements with each other and with Israel;[39] the control of Palestinian natural resources (particularly land and water);[40] the imposition of physical constraints on the movement of Palestinian people and on trade within and beyond the occupied Palestinian territory,[41] including restrictions on Palestinian economic access to and construction in resource-rich Area C;[42] and a multi-layer Israeli closure and permit regime[43] that became, over time, more entrenched and institutionalized,[44] causing heavy economic losses to the occupied Palestinian

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37 The non-contiguous nature of Areas A and B, coupled with Israeli restrictions on Palestinian movement and access, and the continued building of Jewish-only settlements inside the West Bank, have rendered Palestinian Authority control in these two areas to be *nominal* at best. See Khalidi, 2006, p. 199. Furthermore, and in a major military operation in the West Bank in March 2002, Israel reoccupied Area A, which, according to the Oslo II agreement, was under the Palestinian Authority's full security control. Since then, and despite the deployment of the Palestinian security forces in this area, the Israeli army conducts regular raids and incursions inside major Palestinian cities and refugee camps in Area A without any restrictions.

38 The Israeli settler population in the occupied Palestinian territory more than quadrupled since the signing of the interim Oslo Accords in 1993, reaching by the end of 2020 more than 630,000 Israeli settlers living in the occupied West Bank, including East Jerusalem, in 250 settlements and settlement outposts. See United Nations Economic and Social Council, 2021, p. 8. In March 2007, a report by Peace Now, an Israeli NGO, found that 32 per cent of the land held for settlement and outpost use, and 24 per cent of the land on which the settlements are actually built, is private Palestinian land (the rest are built on public Palestinian land). See Haaretz, 2007.

39 For more on the Israeli infrastructure plans inside the occupied West Bank, see Rosen and Shaul, 2020.

40 For example, some 85 per cent of the land in the Jordan Valley and northern Dead Sea is designated as Area C, and hence is inaccessible to Palestinian economic use. See B'Tselem, 2011. According to the World Bank calculations, Palestinian access to the mineral-rich Dead Sea alone could have generated $918 million for the Palestinian economy, or 9 per cent of 2011 GDP level. See World Bank, 2013.

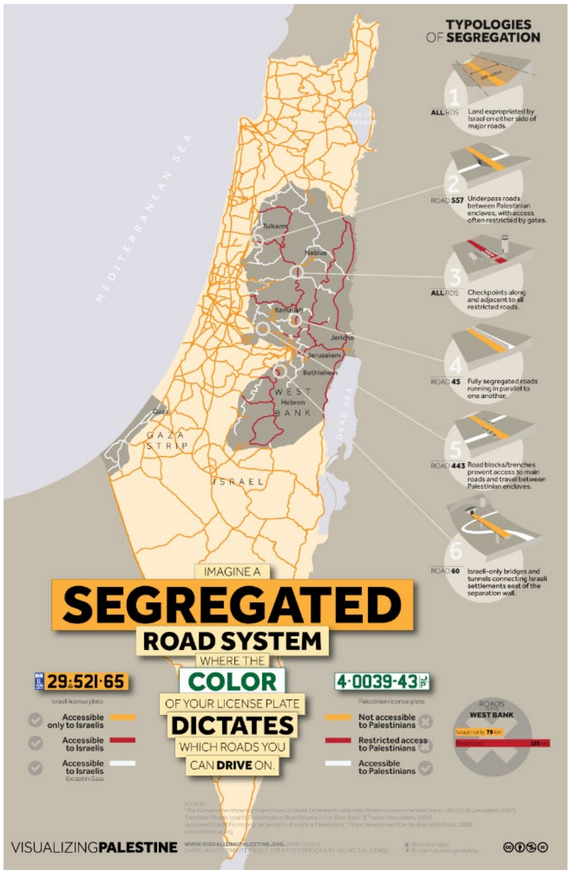
41 In violation of Article III.13 of the Paris Protocol which states that "the import and export of the Palestinians through the points of exit and entry in Israel will be given equal trade and economic treatment", a World Bank report in 2015 showed that for both exports and imports entering and leaving Israeli ports, Palestinian firms face significantly higher transaction costs and considerably longer processing time than the Israeli companies, thus making Palestinian imports more costly and rendering exports of the occupied Palestinian territory less competitive. See World Bank, 2015, p. 193 and p. 229.

42 For an elaborated discussion on the nature of these restrictions and their serious ramifications on Palestinian development activities, see World Bank, 2008, chapters 3 and 4, pp. 13–28. Also see OCHA, 2008a.

43 The United Nations defines the Israeli closure regime as follows: "The Closure Regime is a term referring to a systematic policy which restricts freedom of movement within the occupied West Bank. It consists of physical closure obstacles and administrative/legislative restrictions used to control Palestinian pedestrian and vehicular movement. The following closure obstacles are recorded and mapped by OCHA during its monitoring." See OCHA, 2008b, p. 7.

44 Israel has repeatedly maintained that these restrictions are imposed on security grounds. A report by the World Bank, however, had presented a counter view. "While Israeli security concerns are undeniable and must be addressed, it is often difficult to reconcile the use of movement and access restrictions for security purposes from their use to expand and protect settlement activity and the relatively unhindered movement of settlers and other Israelis in and out of the West Bank." See World Bank, 2007a, p. 2.

territory;[45] restrictions on the importation of essential goods through the application of a vague and arbitrary-defined “dual-use” goods system;[46] restrictions on Palestinian importation and use of modern telecommunications technologies and related infrastructure, and total control over the allocation of communication frequencies;[47] the geographic and demographic separation of East Jerusalem from the rest of the West Bank, all of which was separated from the Gaza Strip;[48] and heavy restrictions on Palestinian access to regional and world markets.



45 The cumulative Palestinian losses caused by the Israeli closure policy between 2001 and 2005 to be in “billions of dollars” due to the income forgone by Palestinian workers in Israel (estimated at more than $3 billion), in addition to losses in export earnings and other losses that were “more difficult to capture”. For more on this, see Akkaya and others, 2008, p. 19. A report by the World Bank in 2018 has shown that by alleviating Israeli restrictions on the Palestinian economy, mainly by allowing access to Area C and relaxing restrictions on imports of “dual-use” goods could increase real GDP in the West Bank and in Gaza by 36 per cent and 40 per cent, respectively, by 2025. See World Bank, 2018a, p. 11.

46 The “dual-use goods” list, which applies to the West Bank and the Gaza Strip, covers a wide range of civilian goods viewed by Israel as having a potential military use. The list of “dual-use” goods includes items such as capital equipment, raw materials, spare parts, chemicals, fertilizers, and others. For more on this, see the following two publications by the Israeli human rights NGO Gisha: Gisha, 2022; Gisha, 2016.

47 See World Bank, 2016b. The Palestinian mobile company Jawwal, for example, had, in 2015, the same electromagnetic frequencies it had when it was first established in 1999, though its clientele increased 21 times over the 16 years period, from 120,000 subscribers to more than 2.5 million customers. See, Arafeh, Abdullah and Bahour, 2015.

48 Gisha, 2012.

The post-Oslo Accords period also witnessed the implementation of two unilateral Israeli measures that proved to be very costly to the occupied Palestinian territory: the building of the separation barrier which began in June 2002, deemed to be illegal by the International Court of Justice as its route was primarily inside the West Bank;[49] and the land, air and sea blockade of the Gaza Strip imposed in the summer of 2006.[50] Following Hamas' takeover of the Gaza Strip, which exacerbated a debilitating Palestinian political division in mid-2007, Israel tightened its restrictions on Gaza and its 1.7 million inhabitants in an act of collective punishment, the economic impact of which was catastrophic. Israel then waged four major military offensives against Gaza (in 2008/2009, 2012, 2014, and 2021).[51,52] The human toll was extremely heavy, in addition to the near total destruction of the private sector of the besieged Gazan economy and the decimation of its already crumbling infrastructure.[53]

The Protocol on Economic Relations (the Paris Protocol) between Israel and the PLO, signed in 1994, formalized the acutely asymmetric relationship between the Palestinian and Israeli economies. This relationship had existed since 1967 in the form of an imposed one-sided customs union regime governing trade. Not only were aspects of the Paris Protocol inherently exceedingly costly to the occupied Palestinian territory,[54] but Israel was selective and arbitrary in its implementation and frequently violated its provisions.[55] In addition to the overall political-security context within which it

49 The separation barrier is "a complex series of concrete walls, electronic fences, observation towers, trenches, patrol roads and razor wire, used to block or control the movement of Palestinian pedestrians and vehicles in the West Bank and East Jerusalem". Only 15 per cent of the barrier is located on the Green Line, the internationally recognized border between Israel and the West Bank. The rest of the barrier, 85 per cent, is constructed *inside* the West Bank. See OCHA, 2014, pp. 2–3. The area between the barrier and the Green Line, known as "the seam zone" – about 10 per cent of the West Bank and very rich in water resources and fertile land – is severely restricted to the Palestinians. A World Bank report notes that due to increased restrictions on Palestinian access to the Jordan valley, "Israel is enforcing a de facto Eastern Separation Zone without walls or fences along the Jordan Valley and the shores of the Dead Sea." See World Bank, 2008, p. 5.

50 Despite the evacuation of Jewish settlers and military posts from Gaza, Israel continued to retain exclusive control over Gaza's air space, territorial waters, Palestinian population registry, electromagnetic space, and the movement of goods and people to and from Gaza (except the Rafah border crossing with Egypt). For more details on this, see OCHA and WFP, 2010. Also see Samhouri, 2006. In the context of the Gaza disengagement plan, Israel also evacuated four small, isolated settlements in the northern West Bank. The evacuated land, however, remained part of the Israeli-controlled Area C and was not handed over to the Palestinian Authority.

51 These military operations are euphemistically known as mowing the lawn. See Rabbani, 2014.

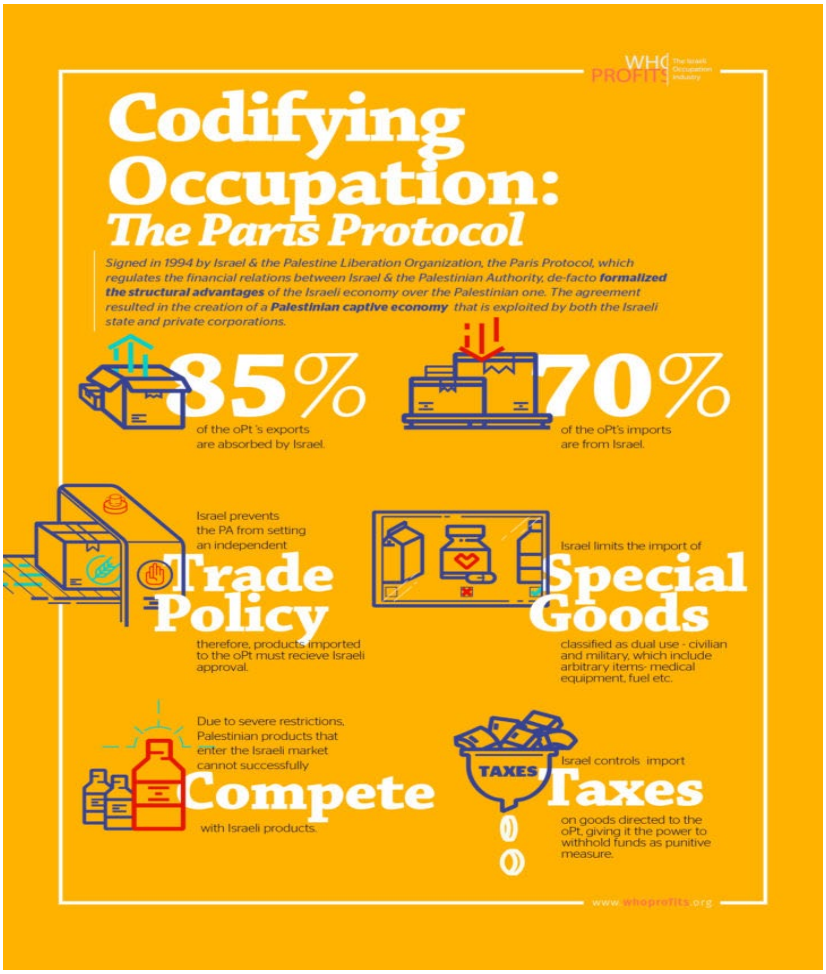
52 Human Rights Watch, 2021b.

53 For an updated assessment of the humanitarian toll of the Israeli blockade on Gaza, see OCHA, 2022.

54 For a critical assessment of the Paris Protocol, see Samhouri, 2016, pp. 579–607. For a scathing assessment of the Paris Protocol, see Husseini and Khalidi, 2013. Other studies focused on the "fiscal leakage" problem which is one of the most serious flaws in the Paris Protocol, annually costing the Palestinian Authority a hefty portion of its revenues. For a more detailed discussion on this topic, see Elkhafif and others, 2014; World Bank, 2016a, pp. 12–23; State of Palestine, 2016.

55 For example, according to the provisions of the Paris Protocol, Israel is obliged to transfer, *on a monthly basis*, the tax money it collects on behalf of the Palestinian side through a "clearance revenues" mechanism. These revenues constitute the largest source of Palestinian Authority income, amounting to over two-thirds of its total revenues, and covering about 50 per cent of its recurrent expenditures. On several occasions, however, and in violation of the terms of the Paris Protocol, the Israeli Government arbitrarily suspended the transfer of clearance revenues and used it as a tool to politically pressure the Palestinian Authority. This happened in August and September 1997; then, for 24 consecutive months, from December 2000 until December 2002; and again in March 2006 until July 2007. In 2011, Israel withheld the revenue transfer twice, in May and in November. This happened again in December 2012 and during the first four months of 2015. More on the Israeli violations of the Paris Protocol as they relate to the *clearance revenues* is cited in Part Four of this report.

was implemented, the Paris Protocol was exceedingly damaging to the Palestinian economy. Furthermore, although it was originally intended as a five-year transitional arrangement due to end by mid-1999, the Paris Protocol continues to function as the formal framework governing Palestinian-Israeli economic relations.



Israeli policies have resulted in the continued erosion of Palestinian productive capacity,[56] continued suppression of Palestinian economic growth,[57] the increased reliance of the Palestinian Authority on international aid for fiscal survival, and the continued chronic dependence of the occupied Palestinian territory on the Israeli economy.

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56 Factor productivity and industrial capacity utilization in the occupied Palestinian territory has been greatly undermined by the Israeli restrictive policies and practices. According to World Bank, average capacity utilization in the occupied Palestinian territory in 2007 was only 50 per cent (57 per cent in the West Bank and 47 per cent in Gaza). See World Bank, 2007b, p. 11.

57 UNCTAD, for instance, estimated that, without the occupation, the Palestinian economy could have doubled its current GDP, with unemployment and poverty levels significantly reduced, and its large trade and budget deficits receded. See UNCTAD, 2016, p. 14.

C. Distortions, de-development and dependence

As Israeli policies and practices became more entrenched and institutionalized, their restrictive impacts were further crippling and led to the de-development of the Palestinian economy and its chronic dependence on Israel and, after 1994, on foreign aid. The consequences of the economic evisceration of the occupied Palestinian territory will now be analysed, starting with the pre-Oslo Accords period and then followed by the tumultuous and politically volatile post-Oslo Accords era.

1. Distortions, de-development and dependence, 1967–1993

Israeli policies and practices during the first twenty-five years of its military occupation led to structural imbalances and distortions in the Palestinian economy, stunting its performance and prospects for future growth.

During the 1970s and early 1980s, the occupied Palestinian territory experienced relatively high economic growth rates coupled with rising per capita income levels.[58] These income gains, however, were not internally generated; they mostly originated from external sources that provided employment opportunities for the Palestinian workforce in Israel and in the oil-rich Arab Gulf region, both of which led to high levels of remittances to the occupied Palestinian territory.

Private investment subsequently rose during this period. However, as a result of restrictive Israeli policies, most of this investment was residential,[59] with very little allocated to productive investment. The limited productive investment predominantly related to small-scale or cottage industries, rather than large businesses with high employment and export potential.

The industrial sector in the occupied Palestinian territory during the period 1967–1993 remained very small and largely underdeveloped, contributing to the gross domestic product (GDP) in single-digit figures – a rate far below that of neighbouring countries or developing countries with comparable, or even lower, income levels at that time. Industries in the occupied Palestinian territory during this period were traditional, family-owned and family-operated, and typically small in terms of their working and fixed capital and the number of employees. Israeli firms subcontracted work to local Palestinian businesses, but this trend had a minimal impact on the productive capacity of the occupied Palestinian territory's economy.

58 Despite the rise in money incomes during this time period, the Palestinians in the occupied Palestinian territories were also facing higher prices than the regional average, especially for tradable goods, which resulted in a reduction of the purchasing power of their incomes. That was also the case in the 1990s when a World Bank study, using 1998 data for seven Arab countries, found that while GNP per capita in the occupied Palestinian territory was higher than the regional averages, it was *lower* than *all* other countries in the sample, except for Yemen, when per capita incomes were adjusted for their purchasing power. See World Bank, 2000b.

59 Despite the rise in residential investment during this time period, the investment multiplier and the contribution of the construction sector to the GDP in the occupied Palestinian territory remained low since Israel retained total monopoly over the import of cement into the occupied Palestinian territory.

As a result of the imposed integration of the Palestinian economy into the Israeli economy during the 1970s and 1980s, it was expected that the former would have open access to the Israeli market. However, merchandise trade mostly favoured Israel. For example, while heavily subsidized Israeli products were freely marketed in the occupied Palestinian territory, Palestinian goods – especially agricultural products – were not given equal access to the Israeli market. The heavy regulatory restrictions on the domestic Palestinian private sector severely limited its ability to compete, both in Israel and within the occupied Palestinian territory.

Trade is an engine of growth through which economic integration with Israel could have yielded positive results for the Palestinian economy. However, the imposed one-sided customs union regime diverted Palestinian trade away from cheaper external sources of consumer, capital and intermediate goods towards the more expensive Israeli products, while producing very little trade creation – especially in areas where the occupied Palestinian territory had a clear competitive advantage. The result was a growing trade deficit with Israel that ranged between 25 to 30 per cent of GDP in 1991,[60] which was mostly financed by exporting Palestinian labour services to Israel and to the Gulf States.

Another feature that characterized the Palestinian economy during the 1967–1993 period was its structural inability to generate adequate jobs for young people amid a rapidly burgeoning labour force. In the 1970s, the labour surplus of semi-skilled workers in the West Bank and Gaza Strip was primarily absorbed through employment in Israel, whereas skilled and educated workers were predominantly employed in the Arab Gulf region as demand for such labour was high during a decade of economic boom.

When the Israeli and Gulf economies faced obstacles in the 1980s due to stagflation[61] and declining oil prices, respectively, external demand for Palestinian labour services slowed. At the same time, the Palestinian economy was unable to provide alternative domestic job opportunities due to the highly constrained business environment within which it was operating. By the early 1990s, around one-third of the Palestinian workforce was unemployed.[62]

Economic underdevelopment was thus exacerbated by internal and external shocks in the late 1980s and early 1990s, including the breakout of the first Palestinian *intifada* (uprising) in December 1987; the severance of all administrative and legal ties between Jordan and the West Bank in July 1988; the sharp devaluation in 1988 of the Jordanian Dinar, which was widely used in the West Bank and Gaza Strip; the 1990–1991 First Gulf War and its negative impact on remittances from Palestinian expatriates; and the slowdown in demand for Palestinian labour in Israel and the Gulf.

By the start of the 1990s, the Palestinian economy was thus largely underdeveloped, suffering from structural distortions and imbalances, and was consequently heavily dependent on Israel for trade and wage employment.

Writing on the impacts of Israeli policies, Israeli economists Arie Arnon and Jimmy Weinblatt noted:

> "*Whether it was a premeditated long term protectionist policy on the part of the Israeli government to restrict productive investment in the West Bank and Gaza, […], or a caving into short-term pressure from the Israeli business to prevent such potentially competitive development and to maintain their market share in the Palestinian areas, the end result was the same.*"[63]

60 World Bank, 1993b. Statistical appendix, table 10, p. 144.

61 Stagflation occurs when economic recession is coupled with high rates of inflation. In Israel, this happened during the first half of the 1980s when annual GDP growth rates fell from 6.29 per cent in 1979, to 1.81 per cent in 1982, to 0.9 per cent in 1984, with annual inflation rates in these three years, respectively, jumping from 78 per cent, to 120 per cent, to 373 per cent. Figures are taken from World Bank country data, available at http://data.worldbank.org.

62 By mid-1993, the jobless rate in Gaza was over 55 per cent (75 per cent in Gaza's refugee camps) and about 35 per cent in the West Bank. See UNCTAD, 1993, p. 16.

63 See Arnon and Weinblatt, 2001.

Palestinian economist Yusif Sayigh opined, rather, that Israeli policies were designed to keep the Palestinian economy underdeveloped:

> "*From the nature and extent of Israel's policies and actions, and more pragmatically by the results achieved, a three-faceted intention emerges to severely restrict the expansion and diversification of the occupied economies to keep the two areas [West Bank and Gaza] as largely non-communicating entities; and to further fragment and segment each of them internally. In this way the stunted economies both complement the Israeli economy and are also heavily dependent upon it*."[64]

Deliberate or not, two and a half decades of Israel imposing the integration of the Palestinian economy into the Israeli economy from 1967 to 1993 stunted the former irrecoverably. After the Oslo Accords were signed, Israeli eviscerating policies and practices intensified.

2. Deepening of de-development and dependence, 1994–2022

The Palestinian Authority was established in May 1994. It was expected that this development, along with the willingness of the international community to provide financial and technical support to jump-start the Palestinian economy and the signing of the Paris Protocol, represented a new setting within which the ailing and largely dysfunctional Palestinian economy could grow and prosper. This, however, did not come to fruition.

The lack of development was largely due to the extremely unfavourable political-territorial-security setting that defined, and continues to define, the entire post-Oslo Accords period. This period saw the constant dispossession and evisceration of the Palestinian economy, which deepened its dependence on Israel for trade, wage employment and the provision of basic infrastructure services, and on foreign aid to meet the growing fiscal and humanitarian needs in the occupied Palestinian territory.

Statistics from 2021 on the occupied Palestinian territory's anaemic economic growth rates, stagnant per capita income levels, eroded production capacity, persistent budget and trade deficits, sharp fall in foreign aid, rising public debt, and high rates of poverty and unemployment (especially among college-educated young people), demonstrate that the Palestinian economy is not viable or fiscally sustainable.[65]

Almost thirty years after the Oslo Accords were signed, the Palestinian economy has been fragmented into three geographically disconnected subeconomies, namely, the West Bank, the Gaza Strip and East Jerusalem. Minimal economic ties connect these subeconomies, all of which are dominated by Israeli policies. This situation was further complicated by the internal Palestinian political divisions that peaked after Hamas triumphed in the 2006 parliamentary elections, forcefully

64 Sayigh, 1998, p. 265.
65 For data on all these socioeconomic indicators, see World Bank, 2022c; World Bank, 2021a.

took over the Gaza Strip in June 2007, and then formed a *de facto* Government in the coastal enclave.

In the fragmented West Bank, productive capacity has been continuously eroded and the contribution of the manufacturing and agriculture sectors to GDP has shrunk. Economic growth has thus increasingly been driven by donor-financed public spending, domestic bank-financed private and public consumption, wage employment in Israel and Israeli settlements, and tax-clearance revenue transfers from Israel to the Palestinian Authority coffers, none of which are sustainable, stable or risk-free.

Foreign aid has steadily declined over recent years (figure 6 in Part Three of this report). Concurrently, the banking sector has experienced increased credit exposure, particularly to the Palestinian public sector and its employees.[66] With Israeli security considerations and the conditions governing Palestinian workers' access to Israel, the frequent interruptions and delays in Israeli transfers of Palestinian tax revenues and the unilateral deductions, GDP growth, trade and budget deficits have been negatively impacted. Socioeconomic conditions have severely worsened,[67] resulting in further de-development and dependence.

In the Gaza Strip, the intense restrictions Israel has imposed on movement, access and trade since the eruption of the second *intifada* in September 2000, followed by the blockade and repeated military campaigns since 2007, have decimated the economy, eroded its production base and further weakened the private sector.[68] Recent data show that the combined contribution of the manufacturing and agriculture sectors as a percentage of GDP in Gaza went down from 27 per cent in 1994 to 17 per cent in 2021.

With an average annual economic growth rate of 1 per cent since 1994, the contribution of Gaza to the economy of the occupied Palestinian territory declined from 36 per cent in 1994 to only 18 per cent in 2021.[69] The severe decline of the economy in Gaza widened the socioeconomic gap between the Strip and the West Bank. By 2021, unemployment and poverty rates in Gaza reached 45 per cent and 60 per cent, respectively, with 80 per cent of the population dependent on foreign handouts and 62 per cent of young people in Gaza (aged 15–29) unemployed. The situation is even starker for educated young people, with unemployment rates reaching 75 per cent.[70]

East Jerusalem Palestinians are also suffering from a similar deterioration of socioeconomic conditions, where the continued expansion of Israeli settlements in and around the occupied city,

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66 By the end of 2021, the Palestinian Authority and its employees had a total debt of $4.3 billion, amounting to 40 per cent of the total banking sector credit. See World Bank, 2022a, p. 4.

67 Again, for data on these socioeconomic indicators, see World Bank, 2022c; World Bank, 2021a.

68 For a summary of a two-decade Gaza economic performance see World Bank, 2021a, chapter II, pp. 16–37. Also see UNDP, 2017.

69 World Bank, 2021a, chapter II, pp. 16–37.

70 UNCTAD estimated the cumulative economic cost of the Israeli blockade along with three military operations on Gaza over the 2007–2018 period, at $16.7 billion. This figure, according to UNCTAD calculations, is about six times Gaza's GDP in 2018 or 107 per cent of the total Palestinian GDP. See UNCTAD, 2020.

the construction of the separation wall, land confiscation, home evictions and demolitions, and strict restrictions on Palestinians building, have all led to a decline in the city's total contribution to Palestinian GDP, from 15 per cent in the late 1990s, to below 8 per cent after 2010.[71] Palestinians in East Jerusalem have also experienced a steady increase in poverty rates, reaching more than 77 per cent of the city's Arab population.[72] A survey by the Palestine Central Bureau of Statistics (PCBS) in 2018 showed that 81.4 per cent of households in occupied East Jerusalem are in need of cash assistance and 45 per cent require food assistance.[73]

71 See Palestine Economic Policy Research Institute and Palestine Liberation Organization Negotiations Affairs Department, 2019, p. 7.

72 Ibid., p. iv.

73 See PCBS, 2020, p. 62; UNCTAD, 2013.

2. The failure of the "development-as-usual" economic model

Key points

- *The past three decades have shown that the post-Oslo Accords, donor-supported "development-as-usual" model cannot address the Palestinian economy's two major structural challenges, namely, de-development and dependence.*
- *This development model was based on overly-optimistic assumptions about the peace process and lacked contextualization. It has been implemented within a setting that prioritizes territorial, political and security dimensions and operates under the asymmetrical Paris Protocol-based economic and trade regime.*
- *The failure of the Paris Protocol economic model was inevitable as it relied on applying technical solutions to a politically-rooted economic situation.*
- *There is an urgent need for a shift towards a contextualized route to address the critical challenges the Palestinian economy is facing.*

This report proposes an alternative approach to the critical challenges that the Palestinian economy has faced for nearly three decades and explores possible policy directions to mitigate the consequences of de-development and reduce the dependence of the Palestinian economy on Israel. The proposed policy framework provides a rights-based approach as an alternative to the Oslo Accords-based, donor-supported "development-as-usual" framework, which was launched in the early 1990s.

In the early 1990s, donors and international development and financial organizations presented the nascent Palestinian Authority with two policy choices aligned with a "development-as-usual" approach to reviving the Palestinian economy. By 2022, Palestinian policymakers were still facing the same challenges of mitigating de-development and reducing the asymmetric Palestinian dependence on the Israeli economy. A key difference between the two periods of time is that the continued evisceration of the Palestinian economy has further intensified the economic challenges and diminished the options available to Palestinian policymakers. It is important to analyse why the "development-as-usual" model proved so ineffectual in the Palestinian context.

A. Developing the Palestinian economy: lessons from the 1990s

After the Palestinian Authority was established in May 1994, debates arose as to the development of the economy in the occupied Palestinian territory and how best to address the structural economic challenges the nascent entity faced as it assumed limited powers in parts of the Gaza Strip and the West Bank. Israeli policies and practices in the occupied Palestinian territory during the preceding 25 years had resulted in a heavily distorted and largely dysfunctional economy.[74] The Oslo Accords did not provide an environment conducive to the revival of the Palestinian economy. Major donors and development actors advocated for a "development-as-usual" approach to the structural economic challenges. Other actors did not challenge this approach because it was considered to be a short-term solution. It was expected that an independent State would be established within the next five to eight years. There was thus limited consideration of the constraints inherent to the political, security and territorial context in the occupied Palestinian territory.[75]

The "development-as-usual" approach relied on technical solutions and donor funding and failed to revive the Palestinian economy. Three decades later, the Government continues to grapple with the same development challenges it faced then and is still seeking a viable development strategy to redefine its economic ties with Israel. This experience can provide valuable lessons for policymakers today.

At the time of its inception, the Palestinian Authority faced two major economic challenges, namely, rebuilding the eroded production capacity of the Palestinian economy and redefining its unequitable economic relations with Israel. These two challenges can be articulated in terms of mitigating the impacts of the occupation and its eviscerating policies. The first requires halting and consequently reversing de-development in the occupied Palestinian territory, and the second reducing Palestinian economic dependence on the Israeli economy. The available options were an open, outward-oriented growth strategy or an import-substitution paradigm. The policy options for trade ties with Israel were between maintaining – and formalizing through bilateral negotiations – the pre-Oslo Accords quasi-customs union regime, or the adoption of a free trade agreement (FTA).[76] For both economic and political reasons, the preferred policy choices of Palestinian officials at the time were an export-led development strategy and an FTA with Israel.[77]

An outward-oriented, private sector-led economic growth model seemed the most viable option. The Palestinian economy is small and, as such, cannot afford a costly, inward-facing State-centred

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74 On the state of the Palestinian economy in the early 1990s and the nature of economic challenges that faced the Palestinian Authority at the outset of the post-Oslo period, see the six-volume study by the World Bank (World Bank, 1993b, chapter 2). Also see UNCTAD, 1996. For a concise summary of the state of the Palestinian economy on the eve of the creation of the Palestinian Authority and the challenges facing it, see Samhouri, 2018.

75 Implicit in the adoption of the "development-as-usual" approach was the mistaken assumption by the international community that, with the signing of the Oslo interim agreements, the Israeli occupation of the occupied Palestinian territory was ending, and that peace was a real possibility. See Roy, 2001b.

76 See World Bank, 1993b; UNCTAD, 1996. Also see Nashashibi and Kanaan, 1994; Kanafani, 1997.

77 These were also the recommendations of a study group of Palestinian, Israeli and international economists organized by Harvard University in 1992–1993. For the complete report of their work, see Fischer and others, 1994.

development model. Trade and openness represented the only feasible and economically sound approach for economic revival and future growth.[78,79]

A strong Palestinian private sector was seen as crucial for creating productive employment; it could provide tax revenues to finance the Palestinian Authority's recurrent expenditure and could constitute a major source of foreign exchange to pay for its imports bill.

Unlike in many developing countries where the transition from a State-dominated to free-market mode of production and trade led to serious political and social hurdles, it was argued that the occupied Palestinian territory had the advantage of being a newcomer to the world economic scene. It had no entrenched bureaucracy, no bankrupt or inefficiently run State-owned enterprises, and no mounting external debt services to consume its foreign exchange earnings. International efforts thus aimed to provide the Palestinian Authority with the financial and technical means to address the economic challenges of the 1994–1999 period and to assist in the implementation of a trade-based, private sector-led development strategy.[80]

The potential for the private sector to revive the Palestinian economy hinged on the following two critical conditions: free and unfettered access to external markets, including the Israeli market, for the purchase of raw materials and the export of goods; and the ability of Palestinian entrepreneurs to compete domestically and externally on price, quality and timely delivery. These requirements proved to be immensely difficult to secure within the setting that followed the Oslo Accords.

The donor-championed approach of opting for a private sector-led development strategy for the Palestinian economy proved unrealistic as it did not take into account the context delineated by the occupation and the corresponding restrictive policies imposed by Israel, or the nature of the Oslo Accords framework. This led to a setting in which the economic space available to Palestinian private businesses was squeezed. Profitable opportunities were limited, the investment horizon was short, and most private capital investment remained locked up in the non-tradeable, non-productive construction and services sectors.

Concurrently, the inexperience of the newly established Palestinian Authority in economic management resulted in incidents of corruption and mismanagement of public funds and in multiple commercial monopolies. Under these conditions, neither the building of new public

78 The "development-as-usual" approach to the economic revival of the occupied Palestinian territory was influenced by the rich literature on the advantages of outward-oriented development strategies vis-à-vis inward-looking ones. See, for example, Dollar, 1992; Krueger, 1997; Berg and Krueger, 2003.

79 That choice was also evident in the policy recommendations of the international development and trade organizations that worked to assist the Palestinian Authority in the post-Oslo period. See World Bank, 1993b; UNCTAD, 1996.

80 In this regard, the number and the frequency of international meetings that were held over a relatively short period of time, both in the region and beyond; the various committees and subcommittees that were formed, at different levels and for different tasks; and the close involvement of donor countries along with other international development and financial institutions in the planning, implementation and monitoring of donor-funded "development" projects in the West Bank and Gaza Strip, were both impressive and complex at the same time. On the nature of the role of the donor community during the 1994–1999 period, see the comprehensive study by Brynen, 2000.

institutions nor the rehabilitation and expansion of physical infrastructure in the occupied Palestinian territory – both of which received international financial and technical assistance – could trigger private sector-led development or generate the desired levels of economic growth. Foreign aid during the 1994–1999 period thus proved to be ineffective in boosting the economy.[81]

The Palestinian Authority's preference for an FTA deal faced similar hurdles that led to its inapplicability, given the Israeli restrictions on Palestinian access to natural resources and external markets. These restrictions severely impeded the ability of the Palestinian private sector to grow and compete freely within the framework of a market-based export-led strategy, which never materialized for the reasons explained above. Within this context, Palestinian economic relations with Israel – irrespective of the type of trade deal that might have been negotiated in 1994 – could not yield positive results for the weaker Palestinian economy.[82]

Political, territorial and security considerations guided the Israeli position during the negotiations of the 1994 Paris Protocol. During the negotiations, for example, Palestinians sought an FTA deal that would provide more independent access to regional and world markets while maintaining free access to the Israeli economy.[83] Israeli negotiators rejected this proposal because an FTA requires the delineation of physical borders as a base for economic borders. Israel also refused to commit to allowing the Palestinian labour force free access to Israel, something Palestinian representatives wanted to maintain during the interim period.[84]

The Palestinian representatives opted for an FTA deal that would provide more independent access to regional and world markets while maintaining free access to the Israeli economy. Free access would have elevated the trade arrangement to a common market agreement, which Israel did not want to enter into. The resulting compromise embedded in the Paris Protocol was a quasi-customs union deal with elements of FTA and common market agreements embedded into it.[85]

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81 On the effectiveness and limitations of foreign aid during the interim period, see, Balaj, Diwan and Philippe, 2000; Hooper, 1999; World Bank, 2000a; Barsalou, 2003. For a very critical assessment of foreign aid to the Palestinian Authority, see Le More, 2005; Keating, More and Lowe, 2006.

82 This point was never fully understood in the literature on Palestinian economic relations with Israel. For more on this topic, see Samhouri, 2016.

83 According to one member of the Palestinian negotiating team of the economic protocol, "our goal was clear from the beginning: to use the interim [economic] agreement as a vehicle or a means to restructure our economic relations with Israel, to separate as much as was possible in an interim period, and to link our economy, as much as we could, to that of the international community and to the Arab world". See Huleileh, 1999.

84 The interim period was designated in the Oslo Accords 1994–1999, after which the Palestinian independent State would be established.

85 Although the term "customs union" was never mentioned in the protocol, that was in effect the type of arrangements that were agreed upon and signed between the two sides. For more on this, see Kleiman, 1994.

B. The Palestinian Authority's perennial dilemma: growing challenges, limited policy tools

The failure of the donor-supported "development-as-usual" approach to addressing the economic challenges the Palestinian Authority faced during and after the interim period, and the persistence of these challenges over nearly three decades, demonstrate the extremely hostile context within which the Palestinian economy has been operating.

Given the persistence of the Israeli military occupation, the fragmentation of the territorial and economic landscape in the occupied Palestinian territory, the limited policy space available to Palestinian officials, and the vast asymmetry in power between Israel and the occupied Palestinian territory, finding sustainable solutions to the chronic economic challenges will require a shift in the approach adopted by relevant development actors.

Improvements are dependent on multiple political sovereignty-related conditions that are prerequisite for the Palestinian economy to achieve high and sustained rates of economic growth and to provide for its constituency.[86] At the present time, these essential conditions are virtually non-existent.

Given the continued and ever-evolving restrictive context, Palestinian policymakers are left with limited choices as to ways in which to slow down the ongoing deterioration of socioeconomic conditions and to reduce the Palestinian economy's chronic dependence on the Israeli economy.

The shifting narrative among national and international human rights organizations and bodies – some of which have argued that when considered cumulatively, the nature and impact of Israeli practices and policies amount to the crime of apartheid[87,88] – could provide an opportunity for a dramatic shift in approach to the Palestinian economy. This shift would entail a rejection of the Israeli-imposed prioritization of the security-political-territorial dimensions that has defined the past thirty years and a move towards a rights-based approach.

In the present context, the right of self-determination – a prerequisite to development and the attainment of other individual and collective rights – remains unfulfilled.[89] The international community can play a role in supporting the Palestinian Authority to define and adopt a rights-based approach to economic development.

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86 These basic conditions or requirements were briefly detailed in Part One of this report.

87 United Nations, 2022.

88 Also see the following landmark reports: B'Tselem, 2021; Human Rights Watch, 2021a. For a critical assessment of these reports and their potential leverage to Palestinian advantage, see Baconi, 2022. In addition to the above reports, one should also mention the following two recent less-publicized publications: International Human Rights Clinic (IHRC), Harvard Law School, and Adameer, 2022; Al-Haq and others, 2022.

89 This rights-based approach to the Israeli-Palestinian conflict has been the subject of a recent report by United States-based think tanks calling on the United States Administration to place this rights-based approach at the centre of its Middle East strategy. See Carnegie Endowment for International Peace and the U.S./Middle East Project, 2021.

Policymakers require a clear understanding of the opportunities and constraints when attempting to design and implement policies and interventions aimed at countering the economic evisceration of the occupied Palestinian territory. Without such contextualization and understanding, policy planning and strategizing will fail to yield positive results.

Previous strategies, policies and interventions that lacked contextualization produced little in terms of tangible and sustained positive impacts. These include the international community's early plans to revive the stagnant Palestinian economy during the 1990s;[90] the Palestinian donor-supported State-building endeavour from 2008 to 2013;[91] and the reconstruction plans to rebuild the besieged Gaza Strip following the recurrent military offensives that destroyed its infrastructure and economy.[92]

Given the protracted Israeli military occupation and the dimming prospects of reaching a negotiated political settlement in the foreseeable future,[93] the challenges of designing and implementing effective evisceration-countering policies and intervention measures are immense. However, the Palestinian Authority must act in order to minimize, halt and eventually reverse the ongoing evisceration of the Palestinian economy.

90 For a rights-based assessment of the role of the international community in the development of the occupied Palestinian territory, see Lynk, 2022; Khalidi, 2016; Samhouri, 2019a.

91 See, Palestinian National Authority, 2009. For a critical assessment of the Palestinian Authority state-building project see Brown, 2010; Springer, 2015; Samhouri, 2021.

92 For more on this, see the following two articles: Samhouri, 2014; Samhouri, 2017. Also see Barakat and Masri, 2017; Barakat, Milton and Elkahlout, 2021; Al-Hallaq, 2021.

93 For more on this, see International Crisis Group, 2022.

3. Breaking the vicious cycle of de-development and dependence: a rights-based approach to the Palestinian economy

Key points

- *The policy framework proposed in the present report entails a shift away from the "development-as-usual" approach to the Palestinian economy towards one that is rights-based and aims to reduce the Palestinian economy's chronic dependence on Israel.*
- *A rights-based policy framework entails contextualized analysis, policies and interventions and prioritizes international law and the attainment of rights over security-political-territorial considerations.*
- *The policy framework is three-pillared, as follows: (1) disengaging, or reducing, economic dependence on Israel; (2) empowering the Palestinian private sector; and (3) advocating a rights-based approach to achieving the first two pillars.*
- *A two-track policy agenda operationalizes the policy framework by addressing short-term issues of immediate concern and long-term strategic issues.*

> *"The Paris Protocol established a customs union between Israel and the OPT [occupied Palestinian territory], while Palestinian external trade remains under the full control of Israel. Israel also effectively regulates large parts of the Palestinian economy, both indirectly and directly, including by restrictions on the movement of people and goods. This results in an asymmetric interdependency of the Palestinian economy on the Israeli economy."* [94]

Over the period during which the "development-as-usual" approach was implemented, the process of eviscerating the Palestinian economy continued unabated, resulting in further de-development and dependence and worsening socioeconomic conditions. International funding has increasingly been diverted to finance the State's recurrent fiscal deficits and to provide humanitarian relief to alleviate the suffering of an ever-increasing percentage of the population, leaving little to fund development.

As the Palestinian economy is so defined by political constraints, ready-made packages of technical solutions cannot produce tangible or sustained improvements in the absence of a supportive political framework. The post-Oslo Accords political-security-territorial setting – in which the

94 United Nations Special Coordinator for the Middle East Peace Process (UNSCO), 2022.

occupied West Bank is cantonized and many parts are annexed; occupied East Jerusalem is walled and severed from the rest of the West Bank; and the Gaza Strip is besieged and periodically subjected to major military offensives – renders current development models ineffective.

There is an urgent need to move towards a more contextualized, rights-based development path. Such a path should also be aligned with the emerging international discourse that views the dire conditions in the occupied Palestinian territory from a legal and rights-based perspective, particularly in relation to the military occupation, Israeli policies and practices, and the absence of accountability for violations of international law.

The urgent issues that must be addressed include the following: the grim short-term outlook for the Palestinian economy;[95] the crippling fiscal crises that have engulfed the Palestinian Authority in recent years, leaving almost no policy options remaining;[96] and the steady decline, since 2008, in donor financial support to the occupied Palestinian territory.[97] A new approach is required that can reshape Palestinian economic ties with Israel.

A. A rights-based policy framework

The proposed framework is a contextualized, integrated policy response to counter the economic evisceration of the occupied Palestinian territory. It constitutes a shift away from the largely ineffective approach that has prioritized political-security-territorial dimensions towards one rooted in international law and the inalienable rights of the Palestinian people, including the rights to development and economic emancipation, for which the attainment of self-determination is prerequisite.

The policy framework constitutes action-oriented economic guidelines which, if successfully implemented, can contribute to breaking the decades-long cycle of de-development and dependence.

As figure 2 shows, the proposed policy framework includes specific policy goals and a number of related target variables to guide Palestinian officials and policymakers in addressing the critical challenges the Palestinian economy is currently facing. The policy framework is based on the following three main pillars: disengaging, or reducing, the Palestinian economy's dependence on Israel; empowering the Palestinian private sector as an engine of growth and development to mitigate and eventually reverse de-development; and advocating a rights-based approach that prioritizes and supports the application of international law and the attainment of Palestinian rights, particularly the right to development and the right to self-determination.

95 See IMF, 2022, pp. 9–12.

96 For a concise analysis of the recurring Palestinian Authority fiscal crises, their origin, and policy options, see Samhouri, 2019b.

97 Donors support to the Palestinian Authority, mainly for direct budget financing, has seen a dramatic decline over the past decade, falling from 27 per cent of GDP in 2008 to 1.8 per cent of GDP in 2021. See World Bank, 2022a, p. 4.

Figure 2. A proposed policy framework to counter the evisceration of the Palestinian economy

Disengaging Redefining Palestinian-Israeli economic relations	Empowering A more assertive role for the private sector	Advocating A rights-based approach to the Palestinian economy
Objective: To reduce Palestinian dependence on the Israeli economy for employment, trade and infrastructure. Policy: Address all the short-term problems with the current Paris Protocol-based trade regime. Renegotiate a new and more equitable long-term trade deal to govern Palestinian economic relations with Israel.	Objective: To mitigate the adverse impacts of economic evisceration on key socioeconomic indicators. Policy: In the short-term, ease/remove all external restrictions on private-sector productive activities. Also, assess long-term (local and global) competitiveness of the private sector.	Objective: To realize the Palestinians' basic right of self-determination as a prerequisite for economic and social development. Policy: All development policies and programmes of development cooperation, policies and technical assistance should further the realization of Palestinian rights, especially the right to self-determination.

Source: ESCWA.

The first pillar revolves around reducing the chronic dependence of the Palestinian economy on Israel through the adoption of policies that redefine the highly unequitable and asymmetric economic ties with Israel. The Palestinian Authority has already adopted a strategic direction towards "economic disengagement from Israel".[98] Similarly, international development actors have recognized the need to revisit the outdated Paris Protocol and its associated economic framework.[99]

The second pillar focuses on mitigating the continued de-development and its consequences through policies and intervention measures to empower the private sector and facilitate its active engagement in sectors that can restore the eroded productive capacity of the Palestinian economy.

The third pillar advocates a rights-based approach to Palestinian development, whereby the right to self-determination is positioned as the priority and the goal which all development policies and programmes of development, cooperation, policies, and technical assistance should seek to achieve. This pillar defines and directs the proposed framework. Self-determination is the main prerequisite for development and must be the driving force behind the key policy goals addressing Palestinian dependence on the Israeli economy and empowering the Palestinian private sector, ensuring that policies are contextualized and aligned with the Charter of the United Nations and the 2030 Agenda for Sustainable Development.

98 دولة"فلسطين،"وزارة"الاقتصاد،"الاستراتيجية"القطاعية"للاقتصاد"2021 ̊2023؛"وزارة"الزراعة،"خطة"تنمية"العنقود"الزراعي.

99 See UNSCO, 2022; UNCTAD, 2012; UNCTAD, 2021.

The first two pillars of the proposed policy framework are inextricably linked and mutually reinforce each other given that the chronic dependence of the Palestinian economy on Israel is a direct outcome of economic de-development resulting from the evisceration of the Palestinian economy. The continued de-development – both under the imposed integration prior to the Oslo Accords and under the restrictive Paris Protocol-based trade regime – and the inability of the Palestinian economy to achieve sustained rates of growth throughout both periods, have further deepened dependence on Israel.

This interlinkage between the first two pillars necessitates that any future strategy that aims to break the cycle of dependence or to escape the de-development trap has to include policy elements related to both. For a strategy to succeed, it must incorporate the crucial third pillar of advocating a rights-based approach.

The third pillar effectively constitutes a compass for the first two by repositioning international law and the attainment of rights as non-negotiable and inalienable. The lack of recognition of Palestinian collective and individual rights, as per international law, and the prioritization of political-security-territorial dimensions at their expense, were among the main causes of the failure of the Oslo Accords to achieve development, statehood and peace.[100]

The proposed policy framework does not aim to provide a ready-made set of recommendations or policies. Rather, its main goal is to articulate crucial short- and long-term issues that need to be addressed by policymakers through the lens of a rights-based approach to the Palestinian economy. The proposed framework should be regarded as offering the first stages of a longer-term development shift.

Solutions to the issues raised by the proposed policy framework should be based on solid and rigorous technical work to minimize dependence and empower the private sector. Comprehensive studies on the advantages and potential costs of implementing policies on the ground are required. This work must be Palestinian-owned and led by Palestinian institutions from the outset, with technical support from relevant international organizations that have long been involved in matters related to the Palestinian economy and development.

The current report will now discuss the three policy framework pillars. A two-track policy agenda for each pillar is proposed for operationalizing the framework. Track I of each agenda deals with policy issues of immediate and short-term concerns, while track II focuses on long-term strategic issues.

1. Pillar 1: Disengaging, or reducing, the dependence of the Palestinian economy on Israel

The first pillar of the proposed policy framework is related to the chronic dependence of the Palestinian economy on Israel in four major areas, namely, merchandise trade, wage employment, the provision of basic infrastructure services, and, after 1994, the transfer of tax clearance revenues

100 See Oxford Famine Relief Organization (OXFAM), 2019; Carnegie Endowment for International Peace and the U.S./Middle East Project, 2021.

to State coffers. This dependence is the direct result of the imposed integration of the Palestinian economy into Israel shortly after the occupation of the West Bank and Gaza in June 1967. This highly asymmetric relationship between two vastly different economies, both in terms of structure and development level, was further cemented and formalized in 1994 after the signing of the Paris Protocol.[101]

For five decades, Israel has dictated the terms of its economic relations with the occupied Palestinian territory, favouring its own interests. Israeli control of the Palestinian economic landscape was complete before the Oslo Accords, and the 1994 Paris Protocol did little to change this.[102] The Protocol's provisions left the Palestinian Authority without the basic policy tools necessary for economic management and added constraints on its ability to deal with the structurally weak and strained Palestinian economy.[103]

Palestinian dependence on the Israeli economy in trade, employment, infrastructure, and clearance revenues has been extremely damaging. The occupied Palestinian territory has been trapped in a cycle of low levels of output, with a highly erratic and unsteady performance far below its growth potential level.

Regarding trade, both before and since the Paris Protocol-based regime, Israel has dominated the Palestinian trade sector by acting as the principal trading partner of the occupied Palestinian territory. Recent data show that 55 per cent of Palestinian merchandise imports come from Israel and 84 per cent of Palestinian merchandise exports are directed to the Israeli market (figure 3).

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101 See UNCTAD, 2012; UNSCO, 2022.

102 On this point, a number of Israeli economists observed: "After researching the Palestinian economy for several years, we are convinced that its links with the Israeli economy were the most important factor in determining the course of its economic development. The formation of these links, and the nature of the labor, goods and capital flows between the Palestinian and Israel economies, *were determined almost exclusively by Israel* [emphasis added]." See Arnon and others, 1997, p. 1.

103 On this point, a report by the Aix Group put it bluntly: "Although the PNA was created to give the Palestinians a say in the economic regime, in practice most of the fundamental tools of economic policymaking […] were left in Israeli hands." See Aix Group, 2013, p. 11.

Figure 3. Israeli share of Palestinian merchandise exports, imports and trade balance, 2020 (Millions of dollars, percentage)

Source: PCBS, 2021c, by group of countries for 1996–2020.

With the strict Israeli restrictions on movement and access, the erosion of Palestinian productive capacity, and the reorientation of the private sector towards non-tradeable economic activities, a major structural trade balance deficit developed, where Palestinian imports in 2020 (estimated at $6.06 billion) were six times the value of exports (at $1.06 billion), resulting in a total trade deficit of over $5 billion, or 32 per cent of GDP.[104] Furthermore, 49 per cent of the Palestinian Authority’s total trade deficit that year was with Israel, accounting for 23 per cent of Palestinian GDP.[105]

Because the Paris Protocol-based trade regime did not provide the Palestinian Authority with any of the traditional economic policy tools needed to correct such a trade imbalance, every year a substantial transfer of financial resources from the occupied Palestinian territory goes to Israel to finance this massive trade deficit.[106] As the World Bank stated:

104 See PCBS, 2021c.

105 UNCTAD, 2021, p. 6.

106 A skewed trade structure between the occupied Palestinian territory and Israel was shown by an UNCTAD study to be responsible for this outcome. In 2002, for example, trade deficit with Israel amounted to 70 per cent of total Palestinian trade deficit and 45 per cent of Palestinian GDP. As a result, UNCTAD analysis showed that some 70 per cent of donor funds to the Palestinian Authority in that year were used to pay for imports from Israel, and 45 cents of every dollar produced in the occupied Palestinian territory was channeled to the Israeli economy. See UNCTAD, 2003, p. 4. This argument on the substantial *resources leakage* from the Palestinian side to Israel was reemphasized in another UNCTAD report, namely, UNCTAD, 2006 p. 4.

> *" … after 22 years of failure, and given deteriorating social and economic conditions, it is clear that the trade arrangements under the Paris Protocol must be reexamined, and the efforts to alleviate the resultant existing constraints should be intensified."* [107]

Palestinian wage employment in Israel is another core aspect of Palestinian dependence on the Israeli economy. Recent data show that, by the end of 2021, about 153,000 workers, or 16 per cent of the Palestinian workforce, all from the West Bank, were working in Israel and Israeli settlements, mostly in the construction and agriculture sectors. They accrued close to $2.2 billion, or 12 per cent of Palestinian GDP, that year.[108]

Palestinian access to the Israeli labour market represents a vital source of employment and income to a large segment of the West Bank workforce; Palestinians working in Israel and settlements amount to 18.8 per cent of employed individuals from the West Bank. However, three important qualifying factors need to be taken into consideration when analysing Palestinian wage employment in Israel. Firstly, the restrictive Paris Protocol-based economic and trade regime, which diverted private-sector investment away from domestic productive sectors,[109] could not have been sustained without the provision of alternative job opportunities in Israel to the fast-growing and largely young Palestinian workforce.[110]

A well-designed strategy that could replace the current trade regime with a less-restrictive economic agreement, such as an FTA deal, could lead to a gradual reduction in the Palestinian need for continued employment in Israel.[111]

Secondly, a significant proportion of the remittances from the work of Palestinians inside Israel finds its way back into Israel because of the need to finance the massive trade deficit. The multiplier effect of the earned wages is thus felt in the Israeli economy and not in the occupied Palestinian territory.

Thirdly, the seemingly high wages earned by Palestinians working in Israel need to be measured against the high cost of living in the occupied Palestinian territory, which is closely tied to the price levels in Israel because of the imposed integration into the Israeli economy. Assessment of earned

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107 World Bank, 2018b.

108 PCBS, 2022a.

109 Palestinian gross investment in recent years averaged 26 per cent of GDP, but most of it, however, went to non-tradable sectors rather than productive sectors which could have contributed to growth, employment and exports. See World Bank, 2021b.

110 The Palestinian population is among the youngest in the World, with 38 per cent of the total population under the age of 15 years by the end of 2021 (36 per cent in the West Bank and 41 per cent in Gaza). See PCBS, 2021a. Palestinian labour force, however, has been growing at a rate of 5 per cent per year, higher than the average population growth of 2.8 per cent in the occupied Palestinian territory.

111 A 2015 study advocated a shift from the Paris Protocol-based *customs union* arrangement to an advanced FTA between Israel and the State of Palestine. The study showed that such a shift, under certain conditions, would result in substantial improvements in the Palestinian GDP, merchandise exports and employment. See Nashashibi, Gal and Rock, 2015.

income, thus, should use a purchasing power parity-adjusted method to account for the real value of workers' wages in Israel, which will be much lower than their nominal value.[112]

The transfer of tax clearance revenues constitutes another area of dependence of the Palestinian Authority on Israel. According to the Paris Protocol provisions, Israel is supposed to collect tax revenues on behalf of the Palestinian Authority and is obligated to transfer the money to the State treasury on a monthly basis. Clearance revenues come from three main sources, namely, import duties, value-added-tax (VAT) on trade with Israel and income tax collected from Palestinian workers in Israel and Israeli settlements. These clearance revenues constitute a major source of income for the Palestinian State, accounting for over two-thirds of its annual total revenues and covering half of its expenditure. In 2021, these revenues amounted to a monthly average of $220 million, totalling $2.65 billion a year, or about 16 per cent of Palestinian GDP.

Due to the inherent flaws in the Paris Protocol, however, and frequent Israeli violations thereof, the transfer of the clearance revenues to the Palestinian treasury has been very problematic. With the Paris Protocol leaving Israel in total control of the collection and transfer of clearance revenues, and given the importance of these revenues to the Palestinian State budget, Israel has used this mechanism for political leverage. On several occasions, Israel took measures – mainly withholding the transfer of these revenues for political motives – that triggered crippling fiscal crises for the Palestinian State, with severe impacts across all aspects of the Palestinian economy.

The problems with the clearance revenues emanate from fiscal leakages, interruptions to the transfer of funds and Israeli unilateral deductions.

Fiscal leakages constitute a substantial portion of the clearance revenues that rightfully belong to the Palestinian State, but are instead siphoned off to the Israeli coffers.[113] The sources of fiscal leakages are many and well documented,[114] and their monetary value is estimated at hundreds of millions of United States dollars. A recent report by the International Monetary Fund (IMF) estimated the magnitude of the fiscal leakages at 2 per cent of Palestinian GDP annually.[115]

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112 Purchasing Power Parity is a method that is used to adjust the *nominal* incomes in a certain country to the cost of living in the same country in order to arrive to the *real* value of the income which, then, allows for an accurate comparison between countries.

113 These include the following: (1) taxes collected by Israel from businesses operating in Area C; (2) exit fees collected on Allenby Bridge; (3) Israel's deducting of 2.5 per cent of the salaries of Palestinian workers in Israel; (4) the revenues lost due to continued reliance on a paper-based system to collect VAT to merchandise trade between Israel and the Palestinian Authority; (5) the exaggerated 3 per cent that Israel charges to handle Palestinian Authority imports through Israeli ports; and (6) the taxes lost on Palestinian Authority *indirect* imports from Israel, estimated to be about 38 per cent of Palestinian Authority trade with Israel. For a more detailed discussion on the fiscal leakage problem, see World Bank, 2016a, pp. 12–23; State of Palestine, 2016; Elkhafif and others, 2014.

114 Ibid.

115 See IMF, 2022, p. 9.

The frequent and politically motivated suspension by Israel of transfers of clearance revenues[116] and its unilateral deductions from Palestinian funds (estimated by the World Bank at $104 million in 2021 or 1.3 per cent of GDP by IMF estimates)[117] both constitute a violation of Israeli obligations under the provisions of the Paris Protocol and demonstrate Palestinian vulnerability to Israeli political and economic considerations.

Two-track policy agenda to reduce dependence

To operationalize the proposed policy framework, a two-track policy agenda is proposed to address short-term issues of immediate concern and long-term issues of a strategic nature, both of which are related to disengaging the Palestinian economy from its dependence on the Israeli economy. Unlike previous unsuccessful attempts to correct problematic aspects of the current, Paris Protocol-based, economic and trade regime, this two-track policy agenda should be implemented in the context of a rights-based approach to the Palestinian economy. Work on these two tracks should be done in parallel, not in sequence.

Track I – Addressing pressing short-term issues

Almost all periodic reports by international financial and development organizations with offices operating on the ground in the occupied Palestinian territory contain policy recommendations for addressing some of the short-term pressing issues related to resolving the innate shortcomings of the Paris Protocol. There is unanimous agreement among these organizations that the economic and trade regime in place since 1994 is largely responsible for the continued stagnation of the Palestinian economy, the severe fiscal problems it faces and the State's persistent trade and fiscal deficits.[118]

Short-term remedies to alleviate the consequences of the Paris Protocol-based trade regime are usually presented by these organizations in the form of to-do lists. Since 2016, the World Bank has kept a record of progress on the implementation of recommendations, published as an annex to its biannual reporting on the Palestinian economy, which it presents to the donor community. Of the 45 recommendations, 22 are addressed to the Palestinian Authority and are mainly related to fiscal sustainability (expenditures, revenues and public financial management) and the business climate.

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116 Since the signing of the Paris Protocol in April 29, 1994, and on a number of occasions, Israel has suspended the monthly transfers of clearance revenues to retaliate against the Palestinian Authority for taking political decisions, or after political events, both deemed hostile by Israel. Examples include reaching an internal Palestinian reconciliation agreement (May 2011), Palestine's admission to the United Nations Educational, Scientific and Cultural Organization (UNESCO) (November 2011), a vote in the United Nations General Assembly to recognize Palestine as a non-member observer State (December 2012), and following Palestinian Authority application to join the International Criminal Court and other international organizations (2015). Israel also suspended the transfer of clearance revenues for 24 months on end following the outbreak of the second *intifada* in late September 2000, and again during the period from April 2006 to June 2007 following the formation of a government by Hamas after winning the legislative elections in January 2006.

117 World Bank, 2022a, p. 4; IMF, 2022, p. 9.

118 In addition to top international organizations, there are a number of independent studies that have proposed few technical recommendations to amend the Paris Protocol, fix its inherent shortcomings and enhance its implementation. See for example, Aix Group, 2013; Office of the Quartet, 2013; Toaldo, 2013.

Thirteen recommendations are addressed to Israel and mainly relate to easing movement, trade and construction restrictions and allowing increased Palestinian access to land. The rest are addressed to both States as well as to donors.

Direct technical talks between Palestinian and Israeli experts from line ministries have been taking place intermittently since 2012, discussing minimizing the fiscal leakage problems. There have been no tangible outcomes to date. Very little progress has been made on the recommendations.[119]

Neither policy recommendations from the politically neutral international organizations nor the bilateral technical talks between the two States (which were heavily tilted in favour of Israel as the stronger side) have delivered meaningful change on the issues arising from the Paris Protocol-based trade regime.

Track I of the policy agenda proposes framing discussions and negotiations over short-term issues related to reducing the dependence of the Palestinian economy on Israel within a rights-based approach. Palestinian institutions and the international community should use international law as the basis for resolving issues such as fiscal leakages; Israeli unilateral deductions from clearance revenues; the suspensions of clearance revenues transfers; Israeli restrictions on Palestinian imports and exports shipments through Israeli-controlled border crossings and ports; the absence of Palestinian officials at Israeli-controlled customs stations; and the outdated A-1, A-2 and B lists of items for which the Paris Protocol allows the Palestinian Authority to set customs duties independently from Israel.[120]

Figure 4. A proposed two-track policy agenda to reduce economic dependence on Israel

Track I: Short-term pressing issues

Revisit and ensure the alignment of the following with a rights-based approach:

- Issues related to fiscal leakages.
- Unilateral deductions from and frequent suspension of customs revenues.
- Mechanisms for Palestinian imports and exports through Israeli-controlled points of entry/exit.
- Expansion of outdated A-1, A-2 and B lists.

Track II: Long-term strategic issues

Analyse alternatives to the current trade regime (enhanced customs union; FTA; or MFN agreement) based on their ability to do the following:

- Reduce Palestinian dependence on Israel.
- Rebuild Palestinian economic productive capacity to engage in regional and international trade.
- Align with a rights-based approach to the Palestinian economy.

Source: ESCWA.
Note: FTA stands for free trade agreement; MFN stands for most favoured nation.

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119 See World Bank, 2022b.

120 These three lists include imported goods for which the Paris Protocol (in article III) allowed the Palestinian Authority to set customs duties independently from Israel. A full description of goods in lists A1, A2 and B can be found, respectively, in annexes I, II and III of the Protocol. For a critical assessment of these three lists, see Kanafani, 2001. In June 2000, Israel and the Palestinian Authority signed an agreement to expand the items included in list A1 of the Paris Protocol. The agreement, however, was never implemented. See Office of the Quartet, 2015, p. 15.

Track II – Addressing long-term strategic issues

The main focus of track II is on redefining the future of the Palestinian-Israeli economic relations. The principal task is to analyse, both in technical and legal terms, possible alternatives to the current Israeli-controlled Paris Protocol-based economic and trade regime which has proved so damaging to Palestinian interests.

Three such alternatives exist, and their relative merits should be considered even in the absence of a political settlement to the prolonged Israeli occupation of the occupied Palestinian territory. These alternatives are an enhanced customs union trade regime, an FTA or a most-favoured nation (MFN) agreement. These three alternatives should be analysed, and their advantages and disadvantages gauged and compared based on their capacity to effectively address the current structural challenges the Palestinian economy is facing; to reduce, and eventually eliminate, chronic dependence on Israel; and to rebuild the Palestinian economy's productive capacity and enable it to recover, achieve high rates of economic growth and actively engage in regional and international trade.

Analysis of possible alternative trade regimes should neither be based on the assumption of a substantial positive change to the current political *status quo*, nor should it be constrained by it. Rather, analysis should contribute to challenging the *status quo* by being conducted in the context of a rights-based approach to the Palestinian economy.

2. Pillar 2: Empowering the domestic private sector

The second pillar of the proposed policy framework focuses on the need to mitigate the consequences of the de-development of the Palestinian economy in five main areas, namely, the erosion of productive capacity, the massive structural trade deficit, the chronic budget deficit, the high rates of unemployment, and rising poverty and food insecurity. There has been persistent deterioration in all these areas over the past 55 years, and increasingly so since 1994.

The matrix of Israeli policies and practices implemented across the occupied Palestinian territory and the highly restrictive Paris Protocol-based economic and trade regime have hindered all donor-supported attempts to revive the captive Palestinian economy.

The failure of development plans in the occupied Palestinian territory came from their being technical in nature and devoid of political contextualization. The willingness of the international community to proceed with the implementation of these plans within the parameters set by the extremely prohibitive and restrictive Oslo Accords-based framework compounded existing issues because the framework had lost sight of the imperative of applying international law, including the attainment of Palestinian self-determination.

The main problem with the donor-supported plans was not the adoption of a development vision based on a private sector-led export-oriented strategy. Rather, it was the post-Oslo Accords political and territorial setting and the Paris Protocol-based trade and economic regime within which this strategy was attempted that ultimately led to its failure to have any sustained impact on socioeconomic conditions in the occupied Palestinian territory or to stop their continued decline.

The policy framework proposed within the current report is not against the private sector-led, export-oriented strategy; this strategy is needed to develop the Palestinian economy when the conditions necessary for its implementation are present. The Palestinian economy is small, and its future potential and long-term growth and prosperity depend on its ability to reconstruct its eroded manufacturing and exports base, upgrade its human capital and actively engage in trade with the rest of the world. Under the current hostile political and territorial setting and trade and economic regime, however, these advancements seem unlikely.

In addition to instability and uncertainty, a range of other impediments, including Israeli-imposed restrictions on movement, construction and import, and outdated Palestinian legislation, form a very restrictive context that has characterized the business environment in the occupied Palestinian territory, particularly since 1994. This has discouraged the Palestinian private sector from operating efficiently or taking a long-term view in investment and production decisions.[121] These impediments have eroded the production base and severely fragmented the Palestinian economic landscape and markets. They have also significantly increased the time and costs of commercial transactions,[122] deprived Palestinian businesses from the benefits of economies of scale, adversely affected factor productivity and capacity utilization,[123] and rendered Palestinian exports less competitive. Under the current circumstances, a private sector-led, export-oriented strategy is inconceivable.

Instead of a private sector-led strategy, what took place was an economic growth model largely based on donor-financed government consumption and bank-financed private consumption, coupled with injections of tax clearance revenue transfers from Israel. This model, with its inherent limitations, has now reached a dead end.

The budget deficit in 2021 reached $1.69 billion (about 10 per cent of GDP), with a financing gap of $1.16 billion (figure 5). Policy options to deal with the current crisis have all been exhausted. Palestinian domestic bank borrowing has reached a hefty $2.5 billion (23 per cent of total bank credit), exceeding the legal limits set by the Palestine Monetary Authority by 15 per cent.

Accumulated arrears to private sector suppliers are nearing the $1 billion mark, and the accumulated arrears to the pension fund is estimated at $3 billion.[124] Foreign aid to budget financing has been in sharp decline (figure 6), and the persistent loss of the tax clearance revenues caused by

121 These impediments were outlined in some details in Part One, and again in Part Two of this report. For more elaborated discussion based on surveyed field work in the occupied Palestinian territory, see World Bank, 2014; World Bank, 2007b.

122 For both exports and imports, Palestinian firms face significantly higher transaction costs and considerably longer processing time – almost three times as high – than the Israeli companies. See World Bank, 2014b, pp. 193 and 229.

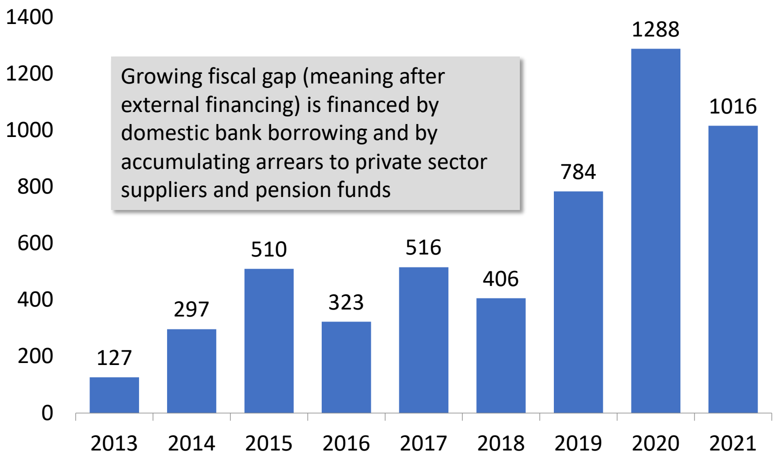
123 In 2007, the average capacity utilization in the occupied Palestinian territory was about 50 per cent (57 per cent in the West Bank and 47 per cent in Gaza). See World Bank, 2007b, p. 11.

124 World Bank, 2022a, p. 4.

Israeli unilateral deductions and large leakages to the Israeli coffers have squeezed what little remained of the Palestinian fiscal buffer. Concurrently, the structural trade balance deficit was estimated, in 2020, at over $5 billion, or 32 per cent of GDP. The Palestinian Authority – bound by the terms of the Paris Protocol-based economic and trade regime – does not have the fiscal and monetary instruments needed to manage this fiscal crisis.

Regarding production, restrictive Israeli policies and practices have caused a sharp fall in the combined contribution of the manufacturing and agriculture sectors to GDP, from 34 per cent in 1994 to 19 per cent in 2020 (figure 8).[125] These are the two sectors with the highest potential to contribute to economic growth, employment and exports. The hollowing out of the productive base of the Palestinian economy has also adversely affected private investment decisions, which in recent years averaged 26 per cent of GDP but went mostly to non-tradable sectors rather than productive activities.[126]

Figure 5. Palestinian Authority recurrent budget deficit, 2013–2021, financing gap (Millions of dollars)

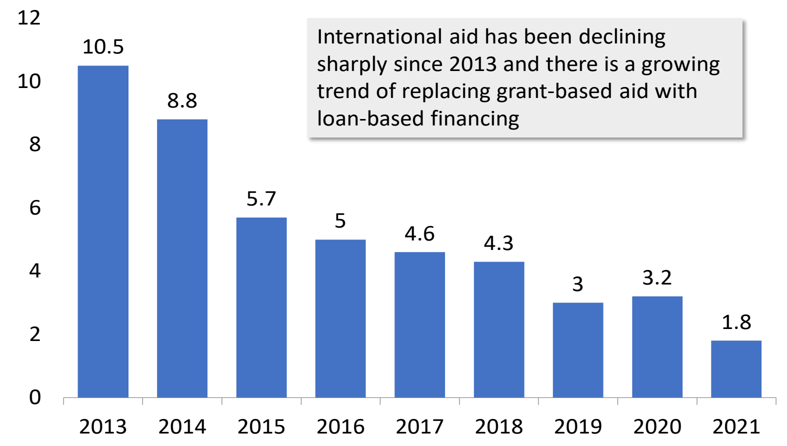


Source: World Bank. *Economic Monitoring Report to the Ad Hoc Liaison Committee*, various reports (2017–2022).

125 PCBS, 2022b.

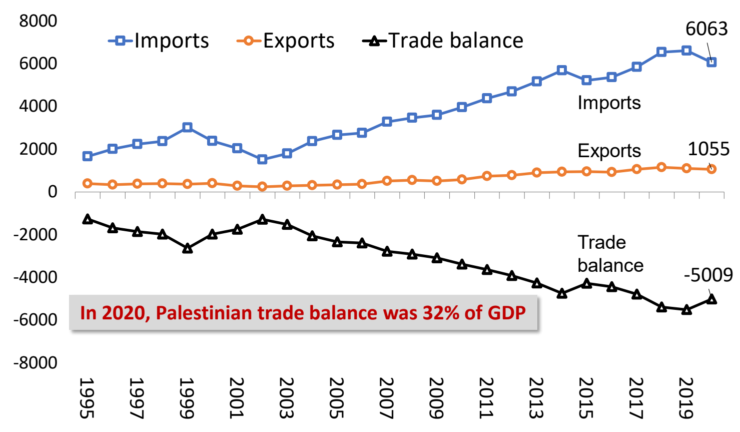
126 World Bank, 2021b.

Figure 6. International aid (grants) to the Palestinian Authority, 2013–2021 (Percentage of GDP)



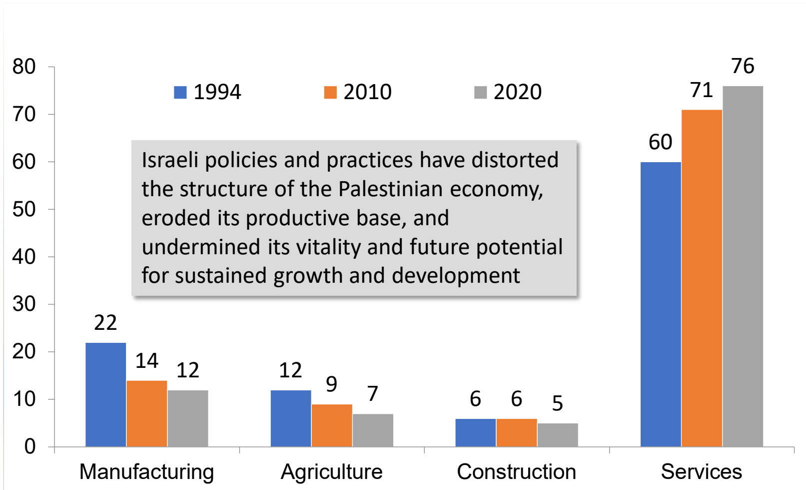
Source: World Bank. *Economic Monitoring Report to the Ad Hoc Liaison Committee*, various reports (2017–2022).

Figure 7. Palestinian merchandise exports, imports and trade balance, 1995–2020 (Millions of dollars)



Source: PCBS, 2021c.

Figure 8. Changing structure of Palestinian economy, 1994–2020 (Sectoral percentage share of GDP)



Source: PCBS, 2022b.

These developments on the fiscal, trade and production fronts have resulted in the continued deterioration of socioeconomic conditions in the occupied Palestinian territory, as reflected in data on unemployment, poverty and food insecurity rates. By the end of 2021, as figure 9 shows, a quarter of the Palestinian workforce was unemployed (13.2 per cent in West Bank and 44.7 per cent in Gaza). Youth unemployment in 2022 stood at 34.9 per cent (over 20 per cent in the West Bank and a staggering 61.1 per cent in Gaza).[127] The poverty rate in 2020 was estimated at 28.9 per cent (rising 7 percentage points from its 2016 level), with 13.9 per cent of the population in the West Bank and 59.3 per cent in Gaza living below the poverty line.[128] Food insecurity is also rising, affecting 31 per cent of occupied Palestinian territory residents (9 per cent in the West Bank and 64.4 per cent in Gaza), with 17.6 per cent characterized as severely food insecure, mainly in Gaza, where 40.7 per cent of the population are classified as such.[129]

127 See World Bank, 2022a, p. 8.

128 World Bank, 2021a.

129 PCBS and Palestine Economic Policy Research Institute (MAS), 2020, pp. 4–5.

Figure 9. Unemployment, poverty and food insecurity, 2021 (Percentage)

	West Bank	Gaza Strip	Occupied Palestinian territory
General unemployment	15.5	46.9	26.40
Men	12.4	41.9	22.4
Women	28.9	65	42.9
Youth unemployment *	24	65	38
College graduates	43.9	64	53
Poverty rate **	16.4	59.4	35.6
Food insecurity	9	64.4	31
Severe food insecurity***	2	40.7	17.6

Source: PCBS, 2021a.

* PCBS 2022c.
** World Bank, 2021a.
*** PCBS and MAS, 2020, pp. 4–5.

This situation has been compounded by two main factors, namely, the failure of the donor-supported "development-as-usual" approach to addressing the structural challenges facing the Palestinian economy and the Paris Protocol-based trade and economic regime since 1994. The first proved ineffective in the absence of proper contextualization, while the second must be amended to allow for the process of private sector-led recovery and the revival of the Palestinian economy.

The second pillar of the proposed policy framework is based on the argument that empowering the private sector can mitigate de-development. Empowering the private sector and developing policy measures to achieve this should be done in parallel with work on the first pillar so as to provide a conducive setting for private-sector activities to flourish. This should be done within the context of a rights-based approach to the Palestinian economy.

For the Palestinian private sector to mitigate the dire socioeconomic consequences of economic evisceration, it would need to operate within a different setting than the one provided by the Israeli-controlled, Paris Protocol-based trade and economic regime. An empowered private sector would be incentivized to engage and invest in the tradable sectors of the economy, generating more productive jobs, increasing manufactured exports, and becoming an increasingly significant source of revenue to finance Government spending. Over time, and in the context of a rights-based approach, this could potentially reduce dependence on the Israeli economy. However, such a transition is not possible within the highly strained current context.

Two-track policy agenda to empower the private sector

Work to empower the Palestinian private sector should address both short-term concerns and long-term strategic issues. Given the interlinkages between the policy framework pillars suggested in this report, the work on the two-tracked policy agendas should be done in parallel.

Track I – Addressing pressing short-term issues

Almost all the obstacles to the successful conducting of private business activities in the occupied Palestinian territory emanate from Israeli policies and practices that contravene international humanitarian law and international human rights law. The Palestinian Authority should change the way it addresses these obstacles in order to challenge the *status quo* instead of working within its heavily restrictive parameters. Economic reforms and new business laws enacted and promulgated by the Palestinian Authority to facilitate and encourage private-sector investment and business operations will have little impact on the private sector as long as it continues to be constrained by the existing conditions. A rights-based approach should be adopted in order for the private sector to lead in the development of the Palestinian economy.

The policy recommendations presented by the donor community regarding Israeli impediments to private-sector development in the occupied Palestinian territory – such as allowing economic access to the resource-rich Area C, including the Jordan Valley; substantial modifications to the “dual-use” items list; increasing the volume of trade between the West Bank and Gaza; better treatment of Palestinian imports and exports through Israeli ports and border crossings; removal of restrictions on access to agricultural activities west of the separation barrier, inside the so-called “seam zone”; ending the blockade of Gaza; unrestricted entry of building materials needed for reconstruction in Gaza and the rehabilitation of its debilitated infrastructure – all need to be approached from a legal perspective and in the context of a rights-based approach rather than in the form of accommodating Israeli interests at the expense of international law and Palestinian rights.[130]

130 An example of the procrastination by the Israeli Government is shown in the “stock-taking record” of World Bank recommendations presented to the Ad-hoc Liaison Committee meetings over the years. Out of 20 policy recommendations presented by the World Bank to Israel, since 2016, concerning the Palestinian economy, only three recommendations achieved *some progress*, with the rest showing no progress at all. See World Bank, 2022b.

Figure 10. Two-track policy agenda to empower the private sector

Track I: Short-term pressing issues

Reframe policy recommendations regarding Israeli impediments to private-sector development in the occupied Palestinian territory as rights-based within a binding legal framework.

- Allow access to land, markets and natural resources.
- Lift the Gaza blockade and other restrictive measures.
- Halt and reverse measures related to settlements and the wall in the West Bank.

Track II: Long-term strategic issues

Assess private-sector competitiveness, both at home and globally, in the context of a rights-based approach not within *status quo* conditions.

There are well-established techniques to conduct this exercise at country, region and enterprise levels.

The main objective is to explore possible intervention measures that can enhance the prospects of the Palestinian economy.

Source: ESCWA.

Track II – Addressing strategic long-term issues

In parallel to addressing short-term issues, the future prospects of the Palestinian economy must be analysed based on careful assessment of its private-sector competitiveness. This assessment should be conducted in the context of developing the Palestinian economy without accommodating Israeli-imposed constraints that are in violation of international law and Palestinian rights.

Techniques for conducting analysis are well-developed in the literature on competitiveness at country, district and enterprise levels and can be usefully adapted and applied to the Palestinian case. The main objective behind this assessment is to identify areas of strength and weakness, along with existing constraints and future opportunities in order to explore possible intervention measures that can improve chances of success.

Analysis should build on the numerous well-researched studies undertaken by international organizations and respected think-tanks at both the macro and sectoral levels. Work on the future of the Palestinian economy should commence now, rather than waiting until a political settlement is reached. The status quo must be challenged and work should not be conducted within or constrained by the Israeli-imposed parameters.

3. Pillar 3: Advocating a rights-based approach to the Palestinian economy

A rights-based approach is a framework where all plans, policies and processes are centred around a system of political, economic and social rights. Within a rights-based framework, the right to human development is considered an inalienable human right, firmly anchored in the principles of international humanitarian law and international human rights law, and in the 1986 United Nations General Assembly resolution, 'Declaration on the Right to Development'.

A rights-based approach to development recognizes the right of peoples to self-determination, which includes their inalienable right to full sovereignty over their national wealth and natural resources as a prerequisite to the enjoyment of other collective and individual rights, as well as a prerequisite to social and economic development. It calls on all members of the international community to take firm steps to eliminate flagrant violations of the human rights of those affected by discrimination, colonialism, foreign domination, and foreign occupation.

> "*The human right to development also implies the full realization of the right of peoples to self-determination, which includes, subject to the relevant provisions of both International Covenants on Human Rights, the exercise of their inalienable right to full sovereignty over all their natural wealth and resources.*"[131]

One reason for the failure of the internationally-supported development paradigm to address the right to self-determination may be a lack of experience. In most parts of the world, peoples have attained self-determination and have addressed development and other challenges after this prerequisite was met. When the right to self-determination was realized in other parts of the world, the international development community provided support that was effective, albeit to various degrees. Exceptions occurred in situations where the question of self-determination was the main objective of international efforts. The Palestinian case differed from former experiences, and hence the framework used for development was decontextualized and lacking precedence.

A rights-based approach to economic development in the occupied Palestinian territory prioritizes the full attainment of the right to self-determination along with all collective and individual rights of the Palestinian people over any other consideration and is the ultimate goal for every policy, plan and strategy.

Previous frameworks and parameters for development made too many compromises that ignored or sidelined Palestinian rights and international law, with the view that highlighting violations might hinder the achievement of a final status agreement. The results have been damaging to the Palestinian people and to the credibility of international law given that the final status agreement, the establishment of an independent and viable Palestinian State, and the achievement of peace seem further away than ever.

131 United Nations General Assembly, 1986.

Human rights-based approach in the 2030 Agenda for Sustainable Development

"The human rights-based approach (HRBA) is a conceptual framework for the process of human development that is normatively based on international human rights standards and operationally directed to promoting and protecting human rights. It seeks to analyse inequalities which lie at the heart of development problems and redress discriminatory practices and unjust distributions of power that impede development progress and often result in groups of people being left behind.

Under the HRBA, the plans, policies and processes of development are anchored in a system of rights and corresponding obligations established by international law, including all civil, cultural, economic, political, and social rights, and the right to development. HRBA requires human rights principles (universality, indivisibility, equality and non-discrimination, participation, accountability) to guide United Nations development cooperation, and focus on developing the capacities of both 'duty-bearers' to meet their obligations, and 'rights-holders' to claim their rights.

While there's no universal recipe for a human rights-based approach, United Nations agencies have nonetheless agreed a number of essential attributes in the 2003 Common Understanding on HRBA to Development Cooperation, which indicates that:

- *All programmes of development co-operation, policies and technical assistance should further the realisation of human rights as laid down in the Universal Declaration of Human Rights and other international human rights instruments.*
- *Human rights standards contained in, and principles derived from, the Universal Declaration of Human Rights and other international human rights instruments guide all development cooperation and programming in all sectors and in all phases of the programming process.*
- *Development cooperation contributes to the development of the capacities of 'duty-bearers' to meet their obligations and/or of 'rights-holders' to claim their rights."*

Source: United Nations Sustainable Development Group, n.d.

The main goal of a rights-based approach in the Palestinian context is to challenge the *status quo* that was formed through prioritizing political-security-territorial considerations above all else. The parameters of the *status quo* were defined and are controlled by Israel as an occupying power, based on it interests. The attainment of Palestinian rights and development in the occupied Palestinian territory will likely come at the expense of Israeli interests, as Israel maximized its benefits through the occupation and the denial of Palestinian self-determination.

A rights-based approach does not seek to work within Israeli-defined and Israeli-controlled parameters. This change in approach to development comes after the failure of the donor-supported post-Oslo Accords economic paradigm and the inability of the peace process to produce meaningful change for the Palestinians living in the occupied Palestinian territory.

The contradictions involved in attempting to build a sovereign economy under the prolonged occupation and the matrix of policies and practices without the prospect of genuine self-determination are evident. The peace process allowed the principles of international law, including that of self-determination, to be overshadowed by political-security-territorial considerations. The result was an eviscerated Palestinian economy and de-development. The realization of inalienable rights, especially the right to self-determination, has been shown to be a prerequisite for sustainable and equitable economic development.

Currently, there is a shift in the narrative among national and international human rights organizations. Institutions are arguing for the need to assess the nature and impact of Israeli policies and practices in their entirety; this has led to some of these entities concluding that, cumulatively, these policies and practices amount to the crime of apartheid.[132,133]

The current report argues that this shift in the nature of the debate concerning Palestinian human rights should be extended to emphasize the Palestinian right to self-determination as a prerequisite not only for development, but also for peace. This principle has long been recognized by international law and various United Nations resolutions.

The proposition of a rights-based policy framework for developing the Palestinian economy is an attempt to capitalize on the growing awareness at the international stage of Israeli violations of international law, which have resulted in ever-worsening conditions in the occupied Palestinian territory. This awareness constitutes an opportunity to design and institutionalize policies to address the structural challenges emanating from the continued de-development and dependence, ensuring that they are drafted from an approach based on internationally recognized rights.

For the rights-based approach to be effective, the endorsement of the Palestinian people and their institutions and the willingness of international actors to invest political capital in support are key.[134]

Palestinian policymakers must clearly identify the short- and long-term priority issues that they want to address in the following two main areas: future economic ties with Israel and decreasing economic dependence (pillar one of policy framework), and the external (Israeli-imposed) impediments that heavily restrict Palestinian private-sector activities in the occupied Palestinian territory and prevent them from mitigating the debilitating impacts of the continued economic evisceration (pillar two).

Once identified, these top priority issues should be articulated within a rights-based development policy agenda. This agenda should be developed in close coordination with the international community to ensure a shift in their development approach.

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132 United Nations, 2022.

133 Also see the following three landmark reports: B'Tselem, 2021; Human Rights Watch, 2021a; Amnesty International, 2022. For a critical assessment of these reports and their potential leverage to Palestinian advantage, see Baconi, 2022. In addition to the above reports, one should also mention the following two recent less-publicized publications: International Human Rights Clinic, Harvard Law School, and Adameer, 2022; Al-Haq and others, 2022.

134 A recent piece by the International Crisis Group argued that "[T]he U.S. has little interest in confronting Israel... As for European states, they appear to have largely washed their hands of the Israeli-Palestinian conflict, divided internally, [and] under little domestic pressure to act." In the same piece, a senior European diplomat said about the current situation in the occupied Palestinian territory: "We know that the status quo is not satisfactory, and that it can only get worse. But the situation here [in OPT] is no longer among the top European priorities". See International Crisis Group, 2022.

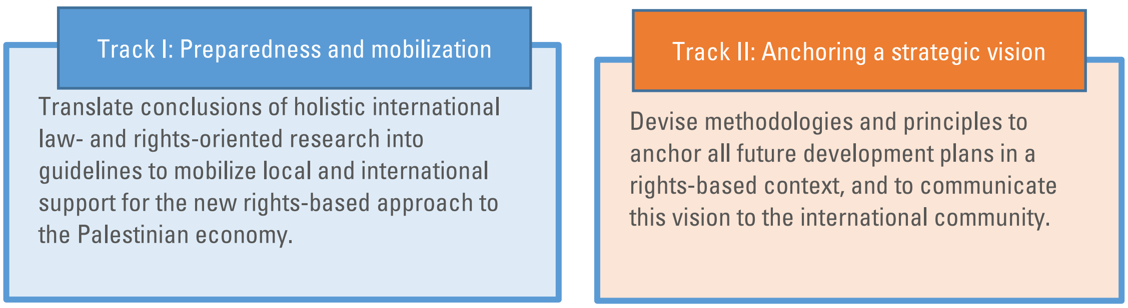
(a) Two-track policy agenda to advocate the rights-based approach

The main goal of the two-track policy agenda is to operationalize the third pillar of the framework introduced in this report as a means to counter the economic evisceration of the occupied Palestinian territory and as an alternative to the failed “development-as-usual” paradigm that has shaped policymaking for almost 30 years. Both short- and long-term measures are needed (figure 11).

Track I – Short term steps: preparedness and mobilization

The first step in advocating a rights-based approach to the Palestinian economy is to conduct a review of up-to-date research and on Israeli violations of international law. This review will be conducted from the lens of the denial of the Palestinian peoples’ right to self-determination and socioeconomic development, based on the principles of international humanitarian law and human rights law. The review should prompt a shift in discourse that places the attainment of Palestinian self-determination as the priority, above all other considerations including political and territorial arrangements that do not to support this goal. Consequently, this will assist in the formulation of development interventions, policies and strategies that are geared towards this end. This shift should be translated into clear guidelines to be followed in Palestinian development planning, diplomatic efforts and resource mobilization.

Figure 11. Two-track policy agenda to advocate a rights-based approach



Source: ESCWA.

Track II – Anchoring a long-term strategic vision

Given the restrictive post-Oslo Accords political context and the asymmetry in power between the occupying power and the occupied people, efforts to enact strategic change in discourse and embark on a path to developing the Palestinian economy will face multiple challenges. However, continuing to work within the “development-as-usual” approach is no longer an option. The eviscerated Palestinian economy has faced crisis after crisis and is currently on the verge of collapse. What is now required is determination on the part of Palestinian policymakers to shift course and anchor all future plans for the Palestinian economy in a different way of thinking and to communicate this vision to the international community.

B. Assessing the policy framework: potential and limitations

Assessment of the potential impediments and limitations of the proposed rights-based policy framework should be conducted in the following three main areas: the overall context within which the policy framework is implemented; the key players central to its implementation; and the ability of the plan to have a tangible impact on the major structural challenges crippling the Palestinian economy, namely, dependence and de-development.

The Palestinian economy operates within a highly complex setting: the restrictive political, territorial and security arrangements of the early 1990s, and the Paris Protocol-based and Israeli-controlled economic and trade regime in place since 1994. This context has frustrated all national and international plans to revive the Palestinian economy and was the main reason behind the failure of the Oslo Accords-based donor-supported economic model. The complexities of this context pose a major impediment to the implementation of the rights-based approach to the Palestinian economy proposed by this report. The policy framework has thus been constructed in a way that challenges the *status quo* rather than being limited to working within the Israeli-dictated terms.

Three major parties are central to the implementation of the proposed approach, namely, the Palestinian Authority, Israel and the international community.

The support and endorsement of the institutions of the Palestinian Authority for the policy framework and its implementation are central to its success. However, the restrictive context under which the Palestinian Authority is operating, along with the 15-year-old internal division that characterizes the political setting in the occupied Palestinian territory, could constitute a significant impediment to the proposed approach and limit its potential success.

Israel could also pose a major impediment to the proposed approach, which is designed to address the structural imbalances that have resulted from its continued military control of the occupied Palestinian territory. A five-decades-long history has shown that developing the Palestinian economy has not been a priority or of strategic interest to Israel. Rather, improving Palestinian living conditions within the context of continued dependence on the Israeli economy has seemingly been the prevalent Israeli approach. Palestinian rights have been ignored in the Israeli political landscape especially since, contrary to international consensus, Israel does not consider that the Fourth Geneva Convention relative to the Protection of Civilian Persons in Time of War of 1949 is applicable to the Palestinian territories occupied by Israel since 1987, including East Jerusalem.[135] This constitutes a major barrier to the possible adoption and implementation of the proposed policy framework. However, if Palestinian institutions, policymakers and civil society take firm positions, they can become a crucial countering force.

The role of the international community in politically endorsing and funding the policy framework could contribute significantly to its success. Since the beginning of the peace process in the early

135 A/56/440, para. 6–7. Also see State of Israel, Office of the Attorney General, 2019, para. 39; Gold, 2002.

1990s, donors have invested heavily in their efforts to revive and develop the Palestinian economy only to see their investments squandered with the failure of the peace process to bring about a negotiated political end to the Israeli occupation and the *de facto* annexation of parts of the occupied Palestinian territory.

The sharp decline in foreign aid to the Palestinian Authority since 2017 is a clear indication of donor fatigue. The recent geopolitical changes regionally and globally, along with the crises that have rocked the global economy, may stand in the way of the international community playing an influential role on the Palestinian-Israeli front. Firm international support for the Palestinian right to development in the context of attaining self-determination is crucial for the implementation of the proposed policy framework and its potential success. Palestinian people and their institutions having ownership and providing support to the proposed approach should contribute significantly to its gaining international endorsement.

Given the entrenched dependence of the occupied Palestinian territory on Israel, the total control Israel has over the Palestinian economy under the Paris Protocol-based economic and trade regime, and the fruitlessness of the technical discussions between Palestinian and Israeli officials, reducing this economic dependence will be challenging. This is particularly true within the Israeli-dictated terms of the *status quo*, which the rights-based approach is designed to challenge.

There may be doubts as to the potential capacity of the Palestinian private sector, which has been operating under severe Israeli-imposed restrictions and high political instability, to play a more assertive role in developing the economy. Based on past experience, within the constraints of the *status quo* conditions, the outlook may not seem positive. However, this is where the proposed rights-based approach can provide hope.

4. Concluding thoughts

Fifty-five years of the continued economic evisceration of the occupied Palestinian territory have fundamentally weakened the Palestinian economy. After nearly 30 years of donor funding, the “development-as-usual” economic model has failed to make a dent in the structural challenges the Palestinian economy has faced because it did not prioritize addressing the denial of Palestinian self-determination. The time has come for a major change in course.

For real change to take place, policymakers and the donor community need to amend their approach to development in the occupied Palestinian territory, especially in light of the sharp decline in aid in recent years. Palestinian policymakers handling economic affairs must find alternatives to reliance on aid. Israel must commit to regularly transferring the Paris Protocol-based clearance revenues, in full, to the Palestinian Authority coffers.

Israel continues to implement its eviscerating policies and practices with total disregard of international law. Its occupation of Palestinian territory remains the single largest obstacle to Palestinian development. The Israeli matrix of policies and practices has entrenched its economic interests within the occupied Palestinian territory, irrespective of international law and the rights of the Palestinian people.

This report intends to provoke a constructive debate and to provide fresh thinking by proposing a rights-based approach to the Palestinian economy.

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The report analyses how Israeli policies and practices have eviscerated the economy in the occupied Palestinian territory, resulting in de-development and asymmetric dependence. It examines the failure of the "development-as-usual" approach to development in the occupied Palestinian territory, which compounded the economic evisceration. The report also explores options to mitigate the consequences of economic evisceration and advocates a shift towards an approach to the Palestinian economy that prioritizes international law and the attainment of rights over security-political-territorial considerations.

The report proposes a three-pillar rights-based policy framework that seeks to decrease Palestinian economic dependence on Israel; mitigate the ongoing de-development in the occupied Palestinian territory and its social and economic effects; and reprioritize the attainment of Palestinian rights – especially the right to self-determination – and the application of international law as prerequisite to development and peace. The report also proposes operationalizing the framework using a two-track policy agenda for each pillar: a track for short-term issues of immediate concern and a second for long-term strategic issues.

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