

The Political Economy of Israeli Occupation: What is Colonial about It? In *Electronic Journal of Middle Eastern Studies*, No.8, Spring 2008

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Introduction

The Palestinian economy of the West Bank and Gaza Strip is on the verge of collapse. By end of 2006, real GDP per capita has fell by 40% compared to its 1999 levels, unemployment touched 20-38% of the working labor force, and poverty reached 67% of the population.² The Palestinian economy lost potential income worth of \$6.3 billion dollars between 2000 and 2003, the equivalent of twice the amount of its yearly GDP output. According to the World Bank, the Palestinian economy would have been destroyed were it not for donors' aid, which amounted to yearly sums of \$800 million, or an average of US\$ 258 per Palestinian person.³ The separation of Gaza from the West Bank in June 2007 only aggravated the economic disparity between the two Palestinian regions but did not alter their economic collapse.

The aim of this paper is to analyze the political economy of Israeli occupation and to explore the underlying structural mechanisms that brought about such a catastrophic result. It explores the way in which the Palestinian economy under occupation is a under a colonial structure of domination. The colonization perspective as an analytical framework for understanding the Israeli-Palestinian conflict has been addressed from a sociological point of view. However, it has not been dealt with seriously from a political and economic point of view. The work of Maxime Rodinson in 1973, of the "new Israeli sociologists" such as Baruch Kimmerling, Uri Ram, and Gershon Shafir among others, as well as of Ilan Pappé, among the "new Israeli historians", has been key in showing the importance of using the colonization perspective as a means for understanding Israeli society and history.⁴ They emphasize the centrality of analyzing the Zionist nationalist project as a colonial project that is tied to land acquisition and demographic control. They show how both the character of the Israeli State and the shape of its economy are the outcome of the specific forms of control over land, labor and demography that were pursued in order to create an exclusivist Jewish state. Palestinian academics, on the other hand, relied on the colonization perspective to explain the extent of Palestinian dispossession and exploitation under Israeli rule.⁵ They, like the Israeli new sociologists, also saw in the 1967 war a continuity, rather than a rupture, in Israel's colonization process. They, however, did not always frame the structural changes that occurred to the Palestinian economy specifically during the Oslo years within a colonial perspective, nor did they show how the colonial economic structure compromised all prospects for Palestinian statehood.

The literature that has focused on Israeli-Palestinian economic relations in the West Bank and Gaza Strip avoids describing the occupied territories as living under a colonial regime. It prefers to describe the Palestinian economy as distorted, stalled, skewed, under-developed or de-developed.⁶ There has been an underlying assumption that the Israeli occupation, albeit a relation of domination and exploitation at times, is somewhat ephemeral, that it will go away once Palestinians take control over their economy and build a viable independent state. The Oslo process and the establishment of an elected autonomous Palestinian authority brought hopes to that effect which were only shattered. While studies documenting the deterioration of economic conditions have only increased, be it by independent scholars, international agencies or local institutions, most assume that once the political problem is resolved the economic hardships will be reversed. The political problem has often been

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defined as the lack of Palestinian sovereignty and the solution is the establishment of a viable independent Palestinian state in the West Bank and Gaza Strip (WBGS).

This paper argues that the economics of Israeli occupation is not ephemeral, nor simply tied to the absence of a viable political solution. It is rather a structural relation of domination that transformed the prospects for a future political solution. The paper seeks to explore in what ways the political economy of Israeli occupation has been colonial, and how the form of colonial rule evolved over the course of the 40 years, and especially during the Oslo years. In this respect, the paper will also shed light on the analytical usefulness of using such analytical perspective, a quite unpopular one amongst scholars especially in the US and among economists. This unpopularity has often driven many researchers to avoid using it, even if they insinuated it, for fear of being accused of anti-semitism or unscholarly bias. Yet invoking it is particularly important in any attempt to incorporate the role of power and domination, and in this case Zionism, in explaining the unsustainable structure of the Palestinian economy, its predicaments as much as its implication for a viable solution to the conflict. It also allows for a new insight into the role of the international community, particularly after Oslo, in inadvertently perpetuating the colonial structure of domination.

The central argument of the paper is that Israel's management of the West Bank and Gaza Strip has been colonial in so far as it expropriated Palestinian land and disarticulated the Palestinian economy, making it fully dependent on the Israeli economy, even after Oslo. However, it is also different from other colonial experiences, in so far as it did not seek economic exploitation *per se*. It rather sought to appropriate the land without the people. More importantly perhaps is the fact that the occupation was situated within a peculiar international legal structure that was not meant to legitimize colonial domination. The Oslo peace process redefined, rather than demolished, the economics of the occupation. It did not bring about "partial decolonization", as some have argued,⁷ but rather sewed a new form of colonial domination. The Oslo agreements, and the process of their implementation, made the concept of Israeli security - and *not* its illegal occupation- the defining element of Palestinian political and economic life. The Al-Aqsa Intifada years further consolidated the dominance of Israeli security considerations. The institutionalization of Israeli security concerns has been colonial in two major ways. First, it allowed a continuous expropriation of Palestinian land as is best seen with the latest construction of the Israeli separation wall. Secondly, it sought to obtain an international endorsement, if not legitimacy, of the priority of Israeli security concerns over the illegality of its occupation

The first part of the paper will explore what is colonial about Israeli occupation. The second part will identify the important structural changes brought about by the Oslo peace process, which involved the institutionalized Israeli security concerns. Part three explores what is colonial about these changes and what their political implications are.

What is colonial about Israeli occupation?

According to Osterhammel (1997), colonialism is a relation of domination by which an invading foreign minority rules over an indigenous population, often to the interest of a metropolis.⁸ Originating with the age of exploration, colonialism has come in various types. As Elkin and Peterson (2005) have argued, 17th and 18th centuries new world colonies differed from settler colonial projects of the 19th and 20th centuries, in so far as they relied on a mercantile capitalist structure and succeeded in eliminating the indigenous population. Settler colonialism meanwhile came in various variants, as the experience of colonial Algeria was not analogous to Japan's colonization of Korea, and the South Africa settler colonial project was different from Israel's creation in 1948.⁹ What is colonial about all these projects is that they involved a settler community seeking to dominate, and in some case eliminate, the indigenous population in order to create an exclusive polity. They fundamentally sought to expropriate land already inhabited by others. What is different about them is how they dealt with the three central elements to any colonial endeavor, namely:

- 1- The relation to the indigenous population, where questions of subordination or elimination of the indigenous population, as well as the issue of their legal representation and rights in comparison to the settlers, were central.
- 2- The relation to the metropolis and the international political and legal system, where questions of independence from the metropolis, if there is one, were important as was the issue of the international endorsement, or not, of the colonial settler project.
- 3- Thirdly, the economic structure of domination, particularly the way the colonial project dealt with land and labor questions. Colonial projects have typically been conducted in pursuit of economic gains and wealth, seeking to appropriate rich land as much as to exploit cheap labor.

It is not necessarily evident that by using these criteria Israeli occupation of the West Bank and Gaza Strip is colonial for two main reasons. First, is the question of Israel's intention and the extent to which it wanted to occupy the West Bank and Gaza Strip in 1967 and exploit their land and labor. Second, is the more important issue of the legal framework governing the occupation.

In so far as intentions are concerned, the Israeli official discourse has insisted that the 6 days war was a pre-emptive war that sought to defend Israeli's precarious existence and deter Arab countries from invading it. The Israeli cabinet at the conclusion of the war debated whether or not to annex the occupied territories, but decided not to in order to protect the Jewish character of the Israeli state.¹⁰ The Israeli military and political establishment regarded the territorial acquisitions of the 1967 war as bargaining chips to be used for diplomatic gains, namely the Arab countries' recognition of Israel's right to exist. While this stand has been challenged by a number of scholars who argued that Israel had provoked and intended the 1967 war in order to expand its boundaries,¹¹ there is no evidence to support that Israel was in search of new markets or intentionally wanted to exploit economically the Palestinian population.

However, it is difficult to establish the colonial foundation of the occupation, or any other form of domination, on the basis of intention. Non-economic intentions do not prevent colonial processes from being unleashed and to have economic dimensions to them, as the experience of France in Algeria or the Boars in South Africa, among other, reveals. The Israeli economy benefited from the Palestinian economy which was, up until 1993, was the supplier of cheap labor and its second export and import market, after the US. As will be shown below, the key question is to identify the economic elements in the structure of domination and the extent to which they locked the Palestinians into an Israeli dependency.

On the other hand, the international legal framework governing Israel's occupation of the West Bank and Gaza Strip was key in distancing this occupation from a typical colonial experience. The international community was neither compliant nor legitimizing of the occupation, the way that the League of Nation was with regards to the European mandate of Middle Eastern states in the 1920s, for example. The superpowers, as well as the UN, condemned the 1967 war and reaffirmed the inadmissibility of the acquisition of land by war. UN Security Council Resolution 242 in November 1967 did not bestow any legitimacy on Israel's occupation of the West Bank and Gaza Strip and called on it to retreat from occupied territories in exchange for peace. Israel did not, and could not, claim sovereignty over the West Bank and Gaza, and although it annexed East Jerusalem, this annexation was never accepted by the international community. Moreover, the 4th Geneva Convention applied to the WBGS (UNSCR 237, June 1967). This meant that Israel was not allowed to change the demographic, political or economic structure of the land it took under its control. While Israel only accepted the principle of the Geneva Convention in its humanitarian dimension, the international community has refused Israel's interpretations and contested many of its actions in the occupied territories, the latest example being the July 2004 ruling of the International Court of Justice against the construction of the Israeli separation wall in the West Bank.

The international legal framework thus sought to prevent the creation of a colonial relation between Israel and the Palestinian occupied territories. This being said, it is important to note that the international community did not *ensure* that Israel will be complacent. UNSC Resolution 242, which became the main reference for peace negotiations, does not specifically address the Palestinian right to self determination or make the usual reference to a UN resolution on Palestine, including UNGA resolution 181 which calls for the creation of an Arab state in Palestine. It is also unspecific to the land that Israel occupied which meant that Israel could have a margin of maneuver in its redefinition of the 1967 boundaries in any peace negotiation. Moreover, Israel was not faced with any threat of action for any violation, since UNSC resolution 242 was written under Chapter 6, rather than Chapter 7 of UN charter, which meant it was without implementation force. The ambiguity of such an important international resolution made it relatively easy for Israel to pursue its territorial ambitions without fearing major political or military repercussions. In fact, while the international legal framework sought to distance Israeli rule from being a classical colonial endeavor, a re-examination of Israeli policy since 1967 reveals that Israel's occupation has been colonial in so far as it consisted of a foreign entity dominating a large indigenous majority for the sake of appropriating Palestinian land. It is, however, a *distinctive* colonial project because of the way Israel dealt with the three key elements to any colonial projects, namely the issue of land control, the relation to the indigenous population, and the economic structure of domination, in which the question of labor control was central.

Military Rule: Land without the people

The first distinctive element about Israel's colonial structure of domination is the way Israel dealt with the population that came under its control in 1967. In the aftermath of the 1967 war, the Israeli military came in control of nearly 1 million Palestinian, which formed 30% of the total population under Israeli rule then. The Israeli government did not intend on incorporating them into Israel for fear of jeopardizing the Jewish character of the state. At the same time it could not mass expel them nor force them to leave as many did in 1948.¹² According to the 4th Geneva Convention, the military was the only entity allowed to rule over the population of the occupied territories until their sort was to be determined. The military had the mandate to ensure security, but not to change the demographic and territorial character of the area it came in possession of.

As is well documented by now, the Israeli government opted for a system of rule that allowed for maximum incorporation of the land while maintaining a societal separation between Israelis and Palestinians. In this regard, the military played a central role since it became *de facto* the tool that allowed territorial and demographic changes to take place, and thereby sowed the seeds of a colonial relation between Israel and the Occupied Territories. The Israeli military produced over 200 military orders between 1967 and 1970 and established a large civil administration which created a structure that separated Israelis from Palestinians while facilitating the expropriation of WBGS land. While such a large investment of the occupier's resources is not unique to Israel and can be seen in Japan's colonization of Korea or Taiwan for example,¹³ it is original in so far as it was not conducted for economic purposes, but rather to expand Israel's 1948 The military became the conduit for land appropriation through its organization of the system of land expropriation and settlements construction. During the first decade of occupation, the military issued a number of decrees for acquiring land, mainly by declaring them state or absentee land, (military orders no. 58 and 59). It also established the high planning committee made of military officials that took control of land administration and planning in the occupied territories (military order no. 418), and created a special department for the transactions of land and registration of settlements (military order 569).¹⁴ Moreover, it prevented Palestinians from registering their land, and from investing in it without obtaining military approval. The military was thus able to take direct control of what was declared as state land, nearly 35-40% of the West Bank and Gaza Strip, declaring it as "public good". It was thereby able to supervise the whole settlement movement with whom it remains closely tied

As in other colonial processes, the Israeli military relied on settlements as a means to establish a territorial claim over an indigenously populated area. As Moshe Dayan put it in 1971, Israeli settlements in the occupied territories are essential “not because they can ensure security better than the army, but because without them ... the IDF would be a foreign army ruling a foreign population”.¹⁵ While illegal under the 4th Geneva Convention and numerous UN resolutions, Israel built over 178 settlements between 1972 and 2003, and allowed the transfer of 400,000 Israeli citizens into the occupied territories, half of which were transferred during the Oslo peace process years.¹⁶ The peculiarity of Israeli settlements as a central element in Israeli colonization of the WBGS stems in part from the fact that settlers did not come, or were brought in, to exploit the Palestinian or in search of economic gains. Unlike the settlers in Algeria, the whites in Kenya or Zimbabwe or the unionists in Northern Ireland, Israeli settlers did not make a living in the occupied territories as much as used it as a subsidized dormitory. Still in 2000, less than 48% of settlers worked in the settlements in the WBGS, with the majority commuting to Tel Aviv or Jerusalem.¹⁷

Yet, settlers remain a central pillar of Israeli colonial structure. They provide a means to create a claim over Palestinian land, as well as allowed the institutionalization of a legal system of segregation, which is a common feature of most colonial projects. The Israeli military instituted two different legal systems in the WBGS: one for the settlers and the other for the Palestinians. The settlers were governed by Israeli civilian law while the Palestinians were ruled by military law. The Israeli military ruled the Palestinians through a series of military orders that combined some aspects of international law governing populations in times of war with specific Israeli concern for settlements. The Israeli Military Governor allowed Israeli citizens to live and work in the West Bank after 1987, although the 4th Geneva convention forbids it.¹⁸ Israeli settlers were protected and accountable to Israeli law, while Palestinians were subject to military laws. Meanwhile, settlements became administered like any town in Israel, including rights to local planning, levy taxes, right of zoning and urban planning, which were all forbidden to Palestinians. Israel created a *de facto* institutionalised system of legal segregation between Palestinians and Israelis, albeit an original one. It was original in so far as Israel did not want, and could not from an international legal point of view, include the Palestinians into its polity as citizens or residents,¹⁹ even as second hand residents. At the same time, it kept their legal and political status unresolved, left to the outcome of the Israeli-Palestinian negotiations.

The Economics of Occupation

The way Israel dealt with the Palestinian economy, and particularly with Palestinian labor, is also at the heart of the peculiarity of Israeli occupation as a colonial project. As is well documented by now, Israeli economic policy in the area was not based on any grand strategy for economic exploitation or investment. Chief economists consulted by the military at the end of the 6 days war argued that economic integration, based on free movement of capital and labor across the 1967 borders, would be most beneficial to both Israelis and Palestinians, in the long run. This is because it would have allowed an efficient allocation of resources between two economies with different resource endowments. This suggestion though was rejected for political and economic reasons. Economically, it was feared that integration would harm Israeli workers and cause a capital flight towards cheaper labour and resources in the WBGS and be detrimental to the Jewish sector domestic development.²⁰ Politically, it would have threatened the interests of Jewish trade union and agricultural lobby as well as posed a complicated challenge to the issue of citizenship and its exclusivity.

Instead the military decided to incorporate, rather than separate, the Palestinian economy into Israel in a way that would facilitate maximum territorial incorporation of the land but without creating an Israeli dependency on Palestinian labor. One of the main factors that prevented Israel from undergoing a South African Apartheid or a Zimbabwean colonial experience was its reliance on an economic structure that refused to rely on indigenous labor. Before 1948 less than 30% of the

Jewish sector relied on Palestinian/Arab labor, and after 1948 the Israeli Arabs came to represent 15-20% of the Israeli labor force. After 1967, Palestinian labor from the WBS represented less than 7% of the Israeli labor force.²¹

Yet, the economics of occupation has been colonial in far as it was based on a system of economic integration that made WBS' economy and labor dependent on Israeli demand and regulations, and unable to respond to local demand or to create the basis of a viable economy and an independent Palestinian state. While Israeli occupation was not conducted for the *purpose* of economic exploitation, it was *structured* to ensure Israel's economic and territorial domination. The economics of occupation relied on 4 main pillars which included:

- 1- First, an economic policy that was guided by a concern to pacify the Palestinian population economically while keeping Israeli control over the land and preventing any competition from Palestinians goods or factors of production.
- 2- Second, the integration of the Palestinian economy into Israel through the creation of a "one-sided" customs union that allowed Israeli products free access to the Palestinian markets but restricted the entry of Palestinian goods, particularly agricultural one, into the Israeli economy. This custom made arrangement enabled Israel to collect and appropriate tariff revenues on good destined to Palestinian areas, which amounted to approximately 12-21% of WBS GNP between 1970 and 1987.²²
- 3- Third, restricted investment and capital flows, something that would have logically flow from Israel into the occupied territories because of their lower labor costs. The Palestinian population was also taxed heavily but investment in local infrastructure remained low.²³
- 4- Fourth, the flow of Palestinian labor into Israel while forbidding the flow of Israeli workers into the territories, as stipulated by the 4th Geneva Convention.

As is well documented by now, the economic effects of the occupation between 1967 and 1987 has been the "paradoxical" income of rising Palestinian per capita income but diminishing productive capabilities.²⁴ Per capita income doubled between 1970 and 1987 and GNP grew by an average of 3% per annum. The rise in per capita income has been sustained thanks to the flow of Palestinian workers into the Israeli economy. Palestinian labor migrants became the key structural link ensuring the flow of this economic system of integration. Palestinian workers employed in Israel represented 45% of the Gaza labor force in the mid 1980s and 32% of West Bank workers. Their income represented 25% of Palestinian GNP and financed the trade deficit formed with Israel. Israel remained the market for 70% of Palestinian export and the source of 90% of its imports. Palestinian migrant workers to Israel were the main anchor of the Palestinian economic growth, a growth that relied principally on access to Israel.

The Oslo Years

The Economic Protocol of the Oslo Peace Agreements sought to redress some of the inequalities imposed by Israel's economic management of the Occupied Territories. Its preamble clearly expresses the intention to have the Palestinian economy prosper and be guided by Palestinian interests. Yet, the Oslo agreements, just like UNSC Resolution 242, do not specify the right of Palestinians to a State or to economic independence. More importantly perhaps, it does not specify that its aim is to end the occupation. It rather promised to establish an interim Palestinian self-government authority that will work together with Israel on defining a final status agreement.²⁵

According to Arnon and Weinblatt (2001) the Economic Protocol was an incomplete contract in so far as it did not address the power imbalance between Israel and the Palestinians. It kept Israel in control of borders as well as of major economic decisions that would be of significant impact on the Palestinian economy, such as the scope of trade diversification, the size of labor flows to Israel and tax revenues that were to be refunded to the Palestinian authority. The literature on the

economic records of the Oslo years debated for long whether the prospects for Palestinian economic success hinged on the weak implementation of the Economic Protocol²⁶ or on its structural flaws.²⁷ It refrained though from situating the Oslo economic structure within a colonial analytical perspective.

A closer look at the Oslo agreement reveal that the peace process reshaped, not demolished, the political economy of occupation. It created a new colonial structure of domination that was based on three new foundations. These include the institutionalization of Israeli security concerns as a governing principle for Palestinian political and economic activity, the creation of the Palestinian authority with limited autonomy, and the subcontracting of Israeli responsibilities as an occupier to the international community, something that did not exist before 1993. The institutionalization of Israeli security concern, while present before 1993, is peculiar in so far as it was done with *de facto* consent of the Palestinian authority, something that did not exist before 1993. It was rationalized in terms of Israel's defense against the rise suicide bombers and the political opposition to Oslo. Yet, while this opposition strengthened the hold of military considerations, security was embedded in the agreements signed. It was structured in the scope of jurisdiction that the Palestinian authority was given, in the way the territorial question was handled, and in the pattern of trade and labor relations created. What is colonial about this new structure is its ability to enable Israel to expropriate more Palestinian land and to control Palestinian mobility and economic conditions. What is new about it is its attempts to obtain an international endorsement of the precedence of Israeli military laws and security concerns over international law, in the management and conclusion of the occupation.

Redefining Security and Military Rule

The military continued to play a central role in the colonizing process of the West Bank and Gaza Strip after 1993. While the Oslo agreements allowed devolution of Israeli rule to an elected Palestinian Authority (PA), it did not dismantle the Israeli military infrastructure. Unlike other cases where occupation ended, be it in East Timor, Kenya or Algeria, where the occupiers retreated, taking their troops, administration and laws, in the West Bank and Gaza the Israeli military did not retreat but redeployed. Israeli laws were not abrogated but combined with limited Palestinian legislation. The Oslo agreements' *modus operandi* was to create an infrastructure of co-operation between the PA and the Israeli military, through the medium of the Joint Israeli-Palestinian committees which became the agencies for the transfer of authority from the Israeli civil administration to the Palestinian authority. Among the first stipulation of Oslo was the creation of a Palestinian police force which will ensure public order and will cooperate closely with the Israeli side on security issues (DOP article VIII, X; Oslo II Chapter 2, article XIII). The implication of this structure was to allow the Israeli military to have a say in every aspect of Palestinian life. The declared rationale behind it was Israel's security and means to protect its civilians until a final status agreement is reached with the Palestinians.²⁸

Security concerns were best institutionalized with the way the Oslo agreements dealt with legal claims over land as well as with the issue of closures, checkpoints and permits, all of which are key to any prospect for economic growth, let alone independence, in the occupied territories. The Interim Agreement kept Israel in control of 59% of the West Bank land, which came under area C (Article XI.c of the Oslo II). It further gave a legalistic endorsement of Israel's claim over the land as the PA accepted to respect the legal rights of Israelis in areas under its control as well as of Israel's sole jurisdiction over the settlements.²⁹ This endorsement, combined with the fact that settlements were left out of the interim agreement made it possible for Israel to colonize more Palestinian land. Between 1993 and 2004 Israel expropriate over 120,000 dunums,³⁰ build over 72 new settlements outposts as well as transfer a total of 209,000 new settlers into the territories.³¹ While still illegal according to the 4th Geneva Convention, nothing in Oslo provides the Palestinians with the legal or political measures to stop Israeli expropriation

The institutionalization of Israeli security concerns is also seen in the way the Interim Agreement makes closure not a violation but an accepted prerogative of Israel. Article IX of the Protocol of Redeployment and Security Arrangements (PRS) clearly states that Israel alone has the right to close its crossing points, prohibit or limit the entry of persons into its areas, and determine the mode of entry of people into its areas (including areas C). It affirms Israel's right to intervene in any Palestinian area and at any time in case of perceived threat (including areas A and B). Between 1994 and 1999, Israel imposed 484 days of closures, the equivalent of 3 months per year and installed as many as 230 removal checkpoints that stalled all sustainable economic activity.³² While it is true that these closures were imposed as a result of growing number of suicide bombers into Israel by parties opposed to the peace process, the fact remains that the Oslo structure facilitated such restriction and offered no way out of them.

The institutionalization of Israeli security concerns has created a new form of colonial domination not only in so far as it facilitated the appropriation of Palestinian land but also in the ways it created new mechanisms for population control, creating thereby a situation that many described as analogous to the South African apartheid reality.³³ In contrast to the pre-Oslo years where population movements across the 1967 border line were still possible, after 1993 population movements became regulated by the permit system. First introduced with regards to workers from Gaza in 1988, the permit system became institutionalized in the Oslo Agreement, particularly with the Protocol of Civil Affairs. Any Palestinian seeking to enter Israel for work needed to apply for a permit issued by the Israeli civil administration after undertaking a security clearance (Article 11.2.3.4; Protocol III, Oslo II). The system was further extended in 1996, with every increase in suicide bombers inside Israel and after which the Israeli military made all movement contingent on having a permits. This applied to workers as much as to business men, to women as well as to men.

A Constrained Indigenous Authority

The Oslo agreement allowed the creation of an elected Palestinian Authority (PA) but tied its jurisdiction to Israeli considerations. The source of jurisdiction of the Palestinian authority did not emanate solely from the Palestinian electorate, or international law, but rather remained tied to the scope of Israeli redeployment. In this regard the PA was given mainly functional, rather than full territorial, jurisdiction. The PA could thereby run the civilian and economic affairs of 93% of the Palestinian people, but could not fully control Palestinian land. It could neither abolish Israeli laws on land which it had no direct control over. Up until 2000, the PA had direct control, but no sovereignty, over only 20% of the West Bank land and 70% of the Gaza Strip (areas A).

Within this framework, the Palestinian Authority was given the responsibility of managing the Palestinian economy. Its ability to fulfill this role though was constrained not only by its limited territorial jurisdiction but also by the nature of the trade relations established with Israel. The Economic protocol of the Oslo II agreement did not abolish the *de facto* custom unions set in place, nor established a free trade agreement for fear that it might insinuate notions of territorial demarcations which were left to the final status negotiations.³⁴ It rather set a new customs union which allowed for the free movement of capital, gave the Palestinians limited leeway in monetary and trade policy,³⁵ and allowed them to trade directly with Arab and foreign countries for a limited list of goods.³⁶ However, Palestinian trade remained bound by Israel's trade policy, as Israeli tax rates (both direct and indirect) remained the governing guidelines, as were Israeli standards and import regulations. Israel, though, accepted to remit to the Palestinian economy VAT and custom taxes collected on goods specifically destined to the WBGs, something it never did before 1994.

In other words, Oslo restructured the nature of Palestinian dependency on Israel. Despite the importance of Palestinian migration to Israel to the Palestinian economy, the Oslo agreement did not promise to protect it. At the same time, it did not guarantee the smooth movement of foreign and domestic capital that would generate domestic employment. Meanwhile the Israeli military and

its civil administration retreated from being the direct manager of the Palestinian economy to being the gatekeeper of Palestinian finance and access to the world. Custom revenues, collected by Israeli Ministry of finance on goods imported to the Palestinian economy, became the most important source of finance for the Palestinian authority. It represented 60-70% of the PA's revenues and 20% of Palestinian GNP.³⁷ The entity responsible for the transfer of fund was no longer the civil administration, but a committee composed of the Israeli Ministry of Finance, the Israeli Military and the Prime Minister's office. The Israeli National Security Council, not the Ministry of the Economy, was also directly involved in all meetings with the PA over custom revenues. Custom revenues became one of the major leverages that restricted the PA's scope of action, one solely in Israeli hand. This new pattern of economic relation is colonial in so far as it facilitates the appropriation of Palestinian revenues by Israel, controls labor movement, restrains Palestinian economic autonomy and ties Palestinian growth to Israeli military and territorial considerations.

The Donor Community

The third major structural change brought by Oslo is the central role it gave to the international donor community in managing of the Palestinian economy, something it did not have before 1993. The World Bank, IMF and the Ad Hoc Liason Committee (AHLC) become the advisor of the PA, helping it formulate its economic policy as much as manage it. The IMF effectively has oversight of the Palestinian Finance Ministry, helping it plan the Palestinian taxation system as much as supervise its internal accounts. It also has become the interlocutor with the Israeli Finance Ministry, ensuring that custom revenues are being transferred to the Palestinian authority. The World Bank is the manager of the donor's funds, deciding its allocation by sector as much as by ministry. Between 1994 and 2000 the donor community disbursed 3.2 billion dollars; the equivalent of an annual WBGS GDP. This money was put in generating employment projects as much as paying the salaries of the PA employees and sustaining the PA's budget.³⁸

The international community has advisory power over the Palestinian authority and thereby on the economic direction that the latter can take. In this regard the World Bank and the IMF have been emphasizing the importance of sound fiscal policy and the rule of law. With regards to the former, it has been concerned with the PA overspending, especially with regards to public employment, the majority of which is going to security and inefficient administration. While aware that such employment is necessary to prevent a total collapse of income in view of Israel's restriction on Palestinian labor movement inside the green line, the imposition of closure by Israel, and rise of poverty, it poses a challenge to the World Bank's recommendation of fiscal restraints and the development of a vibrant private sector. This sector has seen its growth curtained in part with the disintegration of the rule of law, especially after the second Intifada and with the rise of monopolies since 1994. The international donor agencies thus find themselves in a central, though, difficult situation of bailing out the PA and making it dependent on them while having to intervene with Israel as a central player. They have power over the PA, in so far as they can determine the amount and direction of the aid it gives. At the same time their ability to make the PA economically viable is constrained by Israel's willingness to cooperate. The international community meanwhile can neither dismiss nor challenge Israel, whose sovereignty is not called into question.

This strong international financial intervention raises the question of the extent to which the cost of the occupation is being subcontracted to the international community which has always refused to legitimize it. This can be all the more problematic if the international community leans towards accepting as given, rather than challenging, Israel's actions on the ground. The World Bank report on the Disengagement from Gaza, entitled *Stagnation or Survival? Israeli Disengagement and Palestinian Economic Recovery* (2005), does not mention the occupation as the source of Palestinian economic demise, but the issue of closure. It does not call for abolishing the closures but for finding ways to accommodate them. This is a significant development that reflects the way that the

international community might become compliant and indirectly legitimize a fundamental colonial relation based on land expropriation in the name of security.

Economic Implications

The economic implications of this new structural relation were massive. Income wise, the Palestinian economy and people suffered under Oslo. Real GDP per capita shrank by 18% between 1994 and 1996 and again by 36% between 2000 and 2004.³⁹ Poverty, defined as individual earnings of less than US\$2 per day, reached 23.2% of the total Palestinian population in 1998, touching 46% of those living in the Gaza Strip compared with 15.4% of households in the West Bank. It rose to cover 60% of the WBGS population between 2001 and 2006.⁴⁰ The economy became hostage to the closure and checkpoints system, growing when they are not in use and suffering when they are. It was prevented from collapsing thanks to donor's aid that amounted to 25% of WBGS GDP. Donor's aid replaced the role played by remittances from Palestinian employment in Israel in the pre 1993 era. As economic life became conditional on Israeli security consideration, three major trends developed.

First, public employment became important, especially in Gaza as workers could not access Israel. Public sector employment absorbed nearly 30% of the Gaza labor force compared with less 15% of the West Bank's between 1996 and 2000.⁴¹ It replaced the role played by the Israeli labor market for Gaza workers in particular. Public sector employment was dominated by security forces which represented between 60,000-80,000 employees out of a total of 110,000-140,000 public wage earners.⁴² Their wage bill represented a significant drain on the PA's finance, one that was often bailed out by international organizations, who ironically opposed public employment.

Second, the Oslo economic and security structure facilitated the creation of monopolies, especially as they were more successful than individual companies in claiming and centralizing custom clearance. These monopolies included PA and private sector actors closely tied with the procurement of security services and other goods, and firmly linked with Israeli military companies or para-statal Israeli monopolies such as cement or tobacco. The development of rent seeking activities of such sort was unavoidable but highly costly for private sector development the donor community is keen on developing. They indicate a restructuring of economic dependency on Israel rather than its elimination. Israel remained the main source of imports and exports as well as the gateway to the outside world, while contacts between Israeli and Palestinian businessmen became solely mediated through few monopolies with close ties to the security establishments.

Third, the economies of the West Bank and Gaza Strip grew further apart and related differently to the Israeli economy as a result of the effect of closures and restrictions on people's movement. Trade between the West Bank and Gaza fell by 30% between 1993 and 1998 while Gaza trade with Israel shrank by 25%.⁴³ Employment in Israel represented less than 8% of Gaza workers in 1999 and less than 2% in 2005, compared with 35% in 1992, indicating the separation of the Strip from Israel. The figures for the West Bank stood at 22% and 25% respectively. Still in 2006, and despite the Al-Aqsa Intifada, 55,500 Palestinians from the West Bank, or 12% of its employed force, worked in the Israeli economy, reflecting continuous integration of the West Bank into Israel.⁴⁴

The Economics of Disengagement

This institutionalization of Israeli security concerns that further fragmented Palestinian land was consolidated by Israel's response to the Al-Aqsa Intifada. The violence of Palestinian response to the failure of Oslo and the continuous occupation was met by the Israeli decision to further sophisticate their security measures. These measures intended to finalize the separation of Palestinians from Israelis while incorporating the largest amount of land into Israel. They are best encapsulated in the construction of the Separation Wall, the consolidation of the checkpoint system, and the disengagement plan.

In June 2002 Israel started to build a separation wall between it and the West Bank, but one which is not along the 1949 armistice line. By end of 2006, 408km of the Separation Wall have been constructed, mainly in the Northern part of the West Bank, and including 89 km around East Jerusalem. Military order 378 in October 2003 has declared all West Bank land between the security wall and Israel closed military zone, and thus prone to confiscation. So far 479,881 dunums of land is trapped West of the Wall and thus is prone to confiscation, and 44, 273 Palestinians have been trapped in 1149 localities. Upon completion the Wall would leave 395,900 Palestinians (including 220,000 living in the suburbs of East Jerusalem) isolated outside the Palestinian enclaves that the “Separation Wall” would have created. This is equivalent to 10% of the Palestinian population. Meanwhile, the Wall will integrate 90% of settlers into what would become the borders of Israel. It would establish an Israeli unilaterally defined border that violates the 1967 boundaries, and leaves the Palestinians with control over less than 53% of the West Bank.⁴⁵ Although the International Court of Justice and the Israeli Supreme Court ruled against the route of the wall, its construction has not stopped. It seals a colonial endeavor of land expropriation that has been going on for 40 years.

The construction of the separation wall in the West Bank was carried out in tandem with Israel’s Disengagement Plan from Gaza which was implemented in August 2005. This disengagement did not mean the end of occupation although Israel retreated physically from the Strip and removed the 8,500 settlers that were living in it. In fact, Israel still is in control of Strip’s borders, airspace and economic resources. Gazans are still not free to move outside of the Strip nor reach the West Bank, let alone the outside world, without a permit from the Israeli security forces. Internal checkpoints and closures have been eliminated but those along the border of Israel have been consolidated. Meanwhile in the West Bank, Israel further transformed the up until then movable checkpoints into large bureaucratized entrenched entry terminals that can cater for buses as well as cars, people as well as goods and out of which people cannot go in or out without an Israeli issued permit. These terminals, be it at edges of Nablus or Ramallah, are now reminiscent of the processing facilities between Israel and the Gaza Strip (in Karni and Erez crossings). They seek to guarantee security by relying on magnetized searches, cameras, and invisible supervision rather than direct searches, thereby reducing the contacts between Palestinians and Israeli soldiers. Israel cut the West Bank in 8 disconnected Bantustans that are unsustainable economically and at the mercy of the Israeli army.⁴⁶

The economics of Al-Aqsa Intifada and disengagement consolidated the structure imposed by Oslo. It was based on the institutionalization of Israeli security concerns, confirmed the limits of Palestinian autonomy and saw the enhancement of the role of the international community as a bailer of first, rather than last, resort. Checkpoints and disengagement further curtailed economic activity as trade and employment was further restricted. Unemployment by 2006 touched 40% of Gaza workforce and 23% of the West Bank’s, and economic activity remained focused on petty trade of what came to be known as checkpoint economic.⁴⁷ Real GDP in 2006 fell by 10% compared to 2005, and is already 40% lower its level in 1999. The raids on the PA’s offices in 2002 and the election of Hamas into power in 2006 led to a 61% fall in the PA’s revenues. In March 2006 Israel decided to withhold custom revenues due to the Palestinian Authority, worth of \$555 million, the equivalent of 2/3 of its total revenues and 10% of the WBSG’s GDP.⁴⁸

The Palestinian economy was saved from total collapse with the injection of over \$1022 million a year on average by the international donor community, double the yearly average donated before 2000.⁴⁹ Since the arrival of Hamas to power and the international boycott that was imposed thereafter, the international community actually increased its funding, but challenged it as emergency support to mainly to health employees and civil servants whose number increased to 160,000 employees. It reached a total of \$750million by end of 2006 compared with 380 million in 2005. Meanwhile, private sector activity is estimated to have shrunk by 60%.⁵⁰ Employment in Israel fell further to 44,000 workers on average, making a contribution of 7% to the WBSG’s GDP. The

position that the international community has taken, one of bailed of first resort has compromised its impartiality and inadvertently deepened the new pattern of colonial relation. Despite its commitment to Palestinian state building, as declared through the Road Map, the international community has neither stopped the fragmentation of Palestinian land nor is fostering Palestinian autonomous development. It has not upheld international law and continues to adhere to Israeli security priorities to the detriment of its own commitment to democracy and self-determination.

Conclusion

It has not been always evident to economists to situate Israeli occupation of the West Bank and Gaza Strip within a colonization analytical perspective, since the international legal structure governing the occupation sought to prevent a colonial relation from developing. It has also been politically inappropriate especially in the United States, to describe Israeli occupation as colonial. However, this incorrectness risks to accommodate, if not legitimize, a reality it is, or should be, critiquing. A careful consideration of Israeli territorial, legal and economic policies in the occupied territories indicate that Israeli occupation has been colonial, by default if not by design, by its consequences if not by explicit intentions, in so far as it is based on a structure of domination that enabled Israel to appropriate Palestinian land, maintain a political and economic hegemony over the Palestinian economic life, and prevent the Palestinians from becoming independent of Israel. This colonial structure witnessed an important transformation with the Oslo years, but was not brought to an end, even with the Israeli disengagement plan. It hinges today on the way Israeli security considerations has been institutionalized and dominate in every aspect of Palestinian lives, on the restraints put on the Palestinian authority, and on the subcontracting of Palestinian economic survival to the international donor community. The colonization perspective is analytically useful for its ability to explain the causes of the “distortion” in the Palestinian economy and to identify the structural factors that prevent Palestinian independence. Above all, it is particularly insightful in showing how Israelis and Palestinians are embedded in a dynamic relation of domination that continues to evolve and has so far foreclosed any viable two state solution to the conflict. It opens in turn the scope for analyzing what the new forms of power and resistance are and the inevitability of thinking of new alternative to the ongoing impasse.

¹ The author would like to thank Elaine Hagopian and C.Heike Schotten, as well as the anonymous reviewers, for their very valuable comments.

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³ World Bank, *The West Bank and Gaza Update*, (Ramallah: March 2007), and World Bank, *Four Years: Intifada, Closures and Palestinian Economic Crisis: An Assessment*, (World Bank, Washington D.C, November 2004).

⁴ see Maxime Rodinson, *Israel: A Settler- Colonial State?*, (New York: Monrad Press, 1973), Baruch Kimmerling, *Zionism and Territory: A Socio-Territorial Dimensions of Zionist Politics*, (Berkeley: Institute of International Studies, 1983), Baruch Kimmerling, *Zionism and Economy*, (Cambridge, MA: Schenkmen, 1983), Uri Ram, “The Colonisation Perspective in Israeli Sociology”, in Ilan Pappé (ed.) *The Israel/Palestine Question* (London, Routledge, 1999), Gershon Shafir, *Land, Labour and the Origins of the Israeli-Palestinian Conflict 1883-1914*, (Cambridge: Cambridge University Press, 1989), Gershon Shafir, “Zionism and Colonialism: A Comparative Approach” in Pappé (ed.) (1999).

⁵ See among others, Elia Zureik, *Palestinians in Israel: A Study in Internal Colonialism*, (London: Routledge, 1979), Nasseer Aruri, *Occupation: Israel over Palestine*. (Belmont: Association of Arab-American University Graduates, 1989), Adel Samara, *The Political Economy of the West Bank 1967-1987*, (London: Khamsin, 1988).

⁶ See, among others, Fawaz Gharaibeh, *The Economies of the West Bank and the Gaza Strip* (Boulder: Westview Press, 1985), World Bank, *Developing the Occupied Territories: an Investment in Peace*, 6 volumes (Washington D.C.: World Bank, 1993), UNCTAD (1993) *Prospects for Sustained Development in the Palestinian Economy of the West Bank and Gaza Strip* (UN: Geneva, 1993), Sara Roy, *The Political Economy of De-Development*, Second Edition, (Washington D.C: Institute of Palestine Studies, 2001), David Cobham and Noman Kanafani, *The Economics of Palestine*, (London: Routledge, 2004)

⁷ Shafir argues that the Oslo years represented a period of “partial decolonization” (see Shafir, “Zionism and Colonialism, p.94).

⁸ Jurgen Osterhammel, *Colonialism: A Theoretical Overview*, translated by Shelly Frisch (Princeton, N.J.: Markus Wiener, 1997), pp. 16-17.

⁹ Caroline Elkin and Susan Pedersen, *Settler Colonialism in the Twentieth Century* (London: Routledge, 2005).

- ¹⁰ See for example Shlomo Gazit, *The Carrot and the Stick: Israel's Policy in Judea and Samaria: 1967-1968*, (Washington: B'nai B'rith, 1995), Yigal Allon "Israel: The Case for Defensible Borders" *Foreign Affairs*, 55: 38-53, 1976, Baruch Kimmerling, *Zionism and Territory*, Geoffrey Aronson, *Creating Facts: Israel, Palestinians and the West Bank*, (Washington, D.C: Institute of Palestine Studies, 1987).
- ¹¹ See for example Ibrahim Au-Lughod (ed), *The Arab-Israeli Confrontation of June 1967: An Arab Perspective* (Evanston: Northwestern university press, 1970) and Norman Finkelstein, *Image and Reality of the Israel-Palestine Conflict* (London: Verso, 1995).
- ¹² A total of 300,000 have been expelled and displaced as a result of the 1967 war (see Nur Masalha, *A Land with a People: Israel, Transfer and the Palestinians, 1949-1996*, London: Faber and Faber).
- ¹³ see Jun Uchida, "Brokers of Empire: Japanese and Korean Business Elites in Colonial Korea", in Elkins and Pedersen, *Settler Colonialism*, pp153-170.
- ¹⁴ See Raja Shehadeh, *Occupier's Law: Israel and the West Bank*, (Washington, D.C Institute for Palestine Studies, 1988).
- ¹⁵ quoted in Aronson, *Creating Facts*, p. 4.
- ¹⁶ See Leila Farsakh, *Palestinian Labor Migration to Israel*, (London: Routledge, 2005), p.62-63 and FMEP, *Report on Israeli Settlements in the Occupied Territories*, at http://www.fmep.org/settlement_info/statistics.html.
- ¹⁷ ICBS (2003) *Labour Survey 2000-2001*, Jerusalem.
- ¹⁸ See Raja Shehadeh, *Occupier's Law: Israel and the West Bank*, (Washington, D.C Institute for Palestine Studies, 1988, pp. 79-93).
- ¹⁹ With the exception of East Jerusalemites who became residents, an act considered illegal from an international legal point of view (see UNSC Resolution 252, May 1968 and UNSC resolution 295, September 1971 and UNSC Resolution 478, August 1980).
- ²⁰ See for example Arie Arnon, I. Luski, Avi. Spivak, and Jimmy Weinblatt, *The Palestinian Economy: Between Imposed Integration and Voluntary Separation* (Leiden: Brill, 1997).
- ²¹ see Leila Farsakh, *Palestinian Labor Migration to Israel*, pp.80, 37-44, 188.
- ²² See among others, Hamid and Shaban, "One-Sided Customs and Monetary Union: The Case of the West Bank and Gaza Strip under Israeli Occupation", in Stanley Fischer, Dani Rodrik and Elias. Tuma (eds.), *The Economics of Middle East Peace*, (Cambridge: MIT Press.1993, p. 142).
- ²³ See World Bank, *The Occupied Territories: An Investment in Peace* (Washington: World Bank, 1993 vol 2: 35) and Jimmy Weinblatt and Arie Arnon, "Sovereignty and Economic Development: The Case of Israel and Palestine" *The Economic Journal*, vol 111, no. 472, pp. 291-308, 2001
- ²⁴ Sara Roy, *The Gaza Strip*, pp.4-8
- ²⁵ See Article 1 of the *Declaration of Principle on Interim Self-Government Arrangements* (Oslo I) and Background in *The Interim Agreement between Israel and the PLO* (Oslo II).
- ²⁶ For those arguing that the Economic Protocol failed because of poor implementation see Kleiman, E. (1999) "The Paris Protocol and the Future of Israeli-Palestinian Relations", in Philippe, B. and C. Pissarides (eds) *Evaluating the Paris Protocol: Economic Relations Between Israel and the Palestinian Territories*, (Brussels: European Commission, 1999).
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- ²⁸ See Yitzhak Rabin's speech to the Knesset, September 21, 1993, in *Ha'aratz*, 22nd September 1993.
- ²⁹ See Articles 12, 16, 22 and 27 from Protocol III.
- ³⁰ MAS (2001), *The Economic Monitor, 1994-2000*, Ramallah, p. 161.
- ³¹ FMEP, *Report on Israeli Settlements in the Occupied Territories*, at http://www.fmep.org/settlement_info/statistics.html.
- ³² see Stanley Fischer, Alice. Alonso-Gamo and Uli E.Von Allman, "Economic Developments in the West Bank and Gaza Strip Since Oslo" *Economic Journal*, 111, no. 472: 254-275, 2001.
- ³³ For a more detailed discussion of the apartheid analogy and its applicability to the Occupied Territories see Leila Farsakh, "Independence, Cantons or Bantustans: Whither the Palestinian State?" *Middle East Journal*, vol.59, no.2, Spring 2005 and Leila Farsakh, "Israel: An Apartheid State?" *Monde Diplomatique*, November 2003
- ³⁴ See Kanafani, "Trade a Catalyst for Peace", in *The Economic Journal*,
- ³⁵ In monetary policy, the PNA was not allowed to issue its currency, but was allowed establish a monetary authority. This was responsible for the management of banks and control of financial activity in the area. see Fischer et al, "Economic Developments in the West Bank and Gaza Strip Since Oslo", *The Economic Journal*,
- ³⁶ These include the lists A1, A2, B. Quantities to be imported under these lists are to be determined by some agreed estimates of Palestinian market needs. Imports of goods A1 and A2 were not subject to Israeli imports duties but were regulated by Israeli standards and regulations.
- ³⁷ World Bank, *Long-Term Policy Options for the Palestinian Economy* (Washington D.C: World Bank 2002)
- ³⁸ See World Bank, *Four Years*, pp. 12-40
- ³⁹ World Bank, *Four Years*, p. 2 ; Diwan, I. and R. Shaban, *Development under Adversity: The Palestinian Economy in Transition*. (Washington, D.C.: MAS-World Bank Joint Report, 1999), p.43.
- ⁴⁰ World Bank *Poverty in the West Bank and Gaza Strip*, (Washington D.C.: World Bank, 2002); World Bank, *West Bank and Gaza Update*.
- ⁴¹ MAS, *The Economic Monitor, 1994-2000*, (Ramallah: MAS, 2001) pp.xix-xx.
- ⁴² Fischer et al, *The Economic Journal*,

⁴³ Farsakh, *Palestinian Labour Migration*, p. 149.

⁴⁴ PCBS, *Labour Force Survey: Annual Report 2006*, (Ramallah: PCBS, 2007, Table 1.1).

⁴⁵ United Nations Office for Coordination of Humanitarian Affairs (OCHA), *The Humanitarian Impact of the West Bank Barrier on Palestinian Communities*, (Ramallah: UN, 2007), p5-7.

⁴⁶ For elaboration on the Bantustans comparison, see Leila Farsakh, “Independence, Cantons or Bantustans.

⁴⁷ Rema Hammami, “On the Importance of Thugs: The Moral Economy of a Checkpoint”, *Middle East Report*, vol.34, no.2, 2004

⁴⁸ World Bank, *West Bank and Gaza Update*, March 2007, pp.1-10

⁴⁹ UNCTAD, *Palestinian War Torn Economy: Aid, Development and State Formation*, (Geneva, 2006).

⁵⁰ World Bank, *West Bank and Gaza Update*, March 2007, pp.1-10.