

THE DUBAI INITIATIVE

برنامج دبي

Working Paper

Political Economics: The Challenges of Economic Development in Palestine

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BELFER CENTER
for Science and International Affairs

POLITICAL ECONOMICS: THE CHALLENGES OF ECONOMIC DEVELOPMENT IN PALESTINE

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December 2011

INTRODUCTION:

Since the Six-Day War and Occupation of 1967, economics, an area of study that affects social and political formulations and transformations, has entered the study of the Palestinian-Israeli conflict to a much larger extent: Palestinian workers in Israel, to an underdeveloped infrastructure in the Palestinian territories. More than four decades later, economic challenges continue to play a role in the affairs of the Palestinians: from affecting people's lives and their leadership on the one hand, and the relationship between the Palestinian and Israel on the other. Within Palestinian society itself, the dynamics of state-society relations have demonstrably been affected by economic transformations, but have yet to be fully studied in places of continuous occupation and conflict like the West bank and the Gaza Strip. This paper explores the challenges that have faced developmental attempts in Palestine since the occupation of 1967.

In Palestine today, institution building is central in the process of development. A growing body of scholarly literature documents the positive role of institution building on developmental purposes. But how does this work in the case of Palestine? These institutions need not only have social or economic role, but also need to reinforce the political identity of communities and peoples. In the context of Palestine, the Palestine Liberation Organization (PLO) was outlawed by the Israel. In 1974, the international community affirmed the role of the PLO as the sole legitimate representative of the Palestinian people then was recognized by Israel as such with the signing of the Oslo Accords of 1993. In recent years, however, and after the peace process further devolved, international demands pressured Palestinians to embrace 'development' as a goal in of itself, instead of continuing to adopt a nationalist movement for pursuing self determination and a future Palestinian state. How well has this model served the interests of the Palestinians in their ultimate goal of establishing a sovereign Palestinian state? How does economic development affect the political process and positively influence the cause of Palestinian independence? The following sections of this paper trace the process of development in Palestine since the 1967 occupation of the Palestinian territories, through the post-Oslo years, which were critical for providing a model of development during the short-lived absence of open conflict, and ends with the era of Salam Fayyad, the Palestinian Prime Minister, whose knowledge and practice of developmental economics have frequently been praised.

Who is responsible for "Development" in Palestine?

Today, tackling the developmental concerns of the Palestinian territories should be the responsibility of the Palestinian Authority, as it is the only non-Israeli political entity capable of passing laws and undertaking transformations that can allow for development

to gain momentum, according to the theoretical understanding of the role of the state in transformation.¹ However, the occupation continues to block, limit, and at times entirely eliminate the capabilities of the Palestinian Authority in the most basic sense. These limitations should seriously be considered when addressing the role of Palestinian Authority in undertaking developmental policies. These are inherent limitation, and without a political resolution to the Palestinian-Israeli conflict, it will remain as such.

Development goals of Palestine: security, economic prosperity and representation

How can positive and sustained development succeed in the Palestinian territories after so many years of military occupation? What can the Palestinian leadership, residents, and the private sector do now and in the future, through policy changes, legislative reforms, and social transformations, to encourage prosperous development?

While defining and implementing ‘development’ is far from easy, there is an almost universal agreement over its desirability. Viewed in the light of this universal notion, Palestinian aspirations for positive development are not unique. Nonetheless, the Palestinian question of development falls hostage to the political process, thus developmental policies are intertwined in the realm of the political in Palestine.

Increasingly, the concept of development has expanded beyond strictly economic terms. The Development discourse includes matters of societal interaction, as goals on their own, in addition to pursuing higher standards of living that yield higher real income (or GDP) per capita. In the search for a range of development options for the territories (or the future Palestinian state), I adopt Todaro’s and Streeten’s definitions of development as “a multi-dimensional process involving the reorganization and reorientation of entire economic and social systems.”² And “as a process [that].... embraces a change in fundamental attitudes to life and work, and in social, cultural, and political institutions.”³ Seen in this light, development is a process of improvement, which uniquely requires transforming economies, political and social structures to meet the ambitions of social welfare set by governments and societies. Even though Salam Fayyad, the Palestinian prime minister, focuses much of his energies on the role of the institutions, some successes are clear in some aspects, in other areas, his failures triumph, which are chiefly focused around political stagnation.

The vision of a ‘developed’ future Palestinian state that is shared by Prime Minister Fayyad, the Palestinian people, and the international community, includes three components: a functioning, legitimate, and capable legislative and executive bodies as a necessary mechanism for social development and progress, higher GDP per capita as means of

easing the long-lasting economic suffering of the occupied Palestinians, and security over Palestinian lives and private property from potential Israel invasion and reoccupation or from competing political factions within Palestine.

To reach these three development goals, various transformations become crucial. A workable and comprehensive political resolution to the ongoing conflict would enable Palestinians (and by extension, Israelis) to feel more secure as they realize potential economic gains through cooperation with Israel. There is a potential for a higher standard of living that can be realized through economic cooperation over the Palestinian labor force between the two nations. The question that remains unanswered is whether or not focusing solely on economic development could provide a solution to the political question of Palestine, especially since the social and economic conditions in which Palestinian found themselves after the Second *Intifada* have actually worsened.

This process of Palestinian development can be divided into three major time periods: 1967-1994 (reflecting the policies of Israeli occupation in the territories and ending with the signing of the Oslo Accords), the 1994-2002 period, which reflects the “informative years” when various processes of development were underway. The current and most recent period began after 2002 period, and has been characterized by violent confrontation between the Palestinians and Israelis, which has effectively ended the potential of progress socially, economically, and politically.

The following sections will address these time periods as they relate to development in the Palestinian territories.

PALESTINIAN DEVELOPMENT (1967-1994): ISRAELI OCCUPATION, THE *INTIFADA*, AND UNCERTAINTY

This period witnessed great structural transformations in the Palestinian community, due to the devastating socioeconomic effect of the Israeli occupation on the territories. The increasing level of Palestinian frustration (political and economic) led to the Second *Intifada* in 1987. To better describe this period, it can be divided into two distinct chronologies:

- 1967-1987: the role of the Israeli occupation: higher income and “policies of de-development”
- 1987-1994: the *Intifada* and the uncertain development

The West Bank and the Gaza Strip 1967-1987: the Israeli occupation, higher income and “policies of de-development”:

The occupation and its policies have been devastating for both Palestinian society’s long-term development and aspirations of political independence. For a relatively short period, however, real income increased following the occupation due to Israeli utilization, and at times, the exploitation, of the Palestinian labor force, which benefited both the Israeli and Palestinian economies. One can argue that had there not been an occupation, Israel would have not been able to develop like it did, especially that Israel systematically eliminated the potential of a meaningful Palestinian industry to develop in the West Bank and the Gaza Strip.

Like most other countries in the developing world, the Palestinian territories were plagued from the beginning with underdeveloped infrastructure, a dilapidated primary education system, an outmoded economic framework that bred a form of built-in vested interests and inefficiency, widespread poverty, and a host of other socio-economic problems. These predicaments, independent of the military occupation, have further compounded the difficulty of promoting development.

The Israeli occupation contributed greatly to the status of underdevelopment of the territories by using Palestinian resources for solely its own benefit. Israel, following the occupation of the Six-day War (1967), could have chosen to give the same rights to Palestinians, allow the Palestinian economy to prosper as much as its own by applying the same rule of law to the Palestinians, by advancing education in the territories, and by initiating key social and economic programs like those in Israel. Israel, instead, did not provide the opportunity for the Palestinian economy to be self-sufficient and independent, nor did it allow for integration between Israeli and Palestinian societies through an equitable legal structure for their mutual benefit.

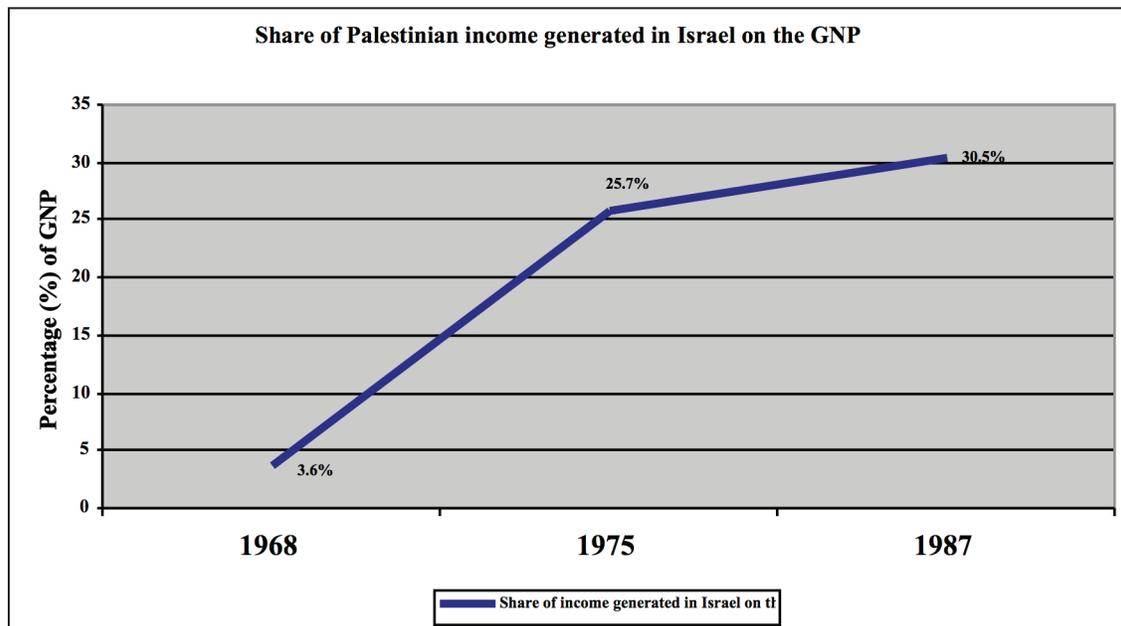
Israel used the Palestinian economy for the expansion of its own economy, and in doing so continuing the dependence of the Palestinian territories on Israel. As noted by Yezid Sayigh: “the evidence shows that Israel has attempted with determination to tie the economies of the occupied territories to its own economy, and has largely succeeded.”⁴ Tying the two economies together started with the regular use of relatively cheaper Palestinian labor, and through the use of the Palestinian market to clear and sell Israeli goods and services at cheaper prices than in Israel. Effectively, the occupation became a convenient tool for strengthening and eliminating the inefficiencies of the Israeli economy. With mechanisms in place to keep the Arab Palestinians of the territories and Israel at a lower class level of citizenry than those Jewish Israelis living within Israel, and the settlements in the territories, development is guaranteed to advantage Israel at the expense of the Palestinians inside Israel and the territories.

The number of Palestinian from the territories working in Israel was 109,000 workers in 1987, based on World Bank estimates.⁵ By 1987, Palestinian workers in Israel and settlements made up around 40% of the total workforce of the territories.⁶ By 1987, the Palestinian Gross National Income was primarily made up on monies transferred as remittances from the oil-rich Gulf and the income generated through working in Israel. Soon after, however, dependence on income from the Gulf dropped and was replaced with the growing economic dependence on income from Israeli jobs, due to the Gulf War of 1990 and the events leading up to the war.

Assuming that Palestinian workers had the option of leaving the territories to work in oil-rich countries in the 1970s, this was no longer an option the 1980s, when the “oil rush” subsided. This minimized options for supplemental income for Palestinians in the territories, further reinforcing Palestinian dependence on the Israeli jobs. Had job opportunities in the Gulf countries been more rewarding, the Palestinian may have been less dependent jobs inside Israel.

Figure 1 shown below provides a visual representation of the increasing share (as a percentage) of the Gross National Product of the Palestinian territories generated in Israel. The share of Palestinian income generated in Israel increased rapidly, while increasing dependence on jobs and wages from within Israel filled the declining share of income from the Gulf in Palestinian GNP.

Figure 1. Share of Palestinian Income generated in Israel on Palestinian GNP for selected years.⁷



Even though the Palestinians might have benefited in terms of income from their dependence on Israel, their National Domestic Product (production and domestic industries) decreased in relation to the Gross National Product. In other words, production inside the territories decreased during the occupation. The GDP's share in the GNP decreased from 88% in 1971 to 70% in 1987.⁸ This reflects the retreat of industrial and infrastructure growth in the territories.

The policy of the state of Israel vis-à-vis Palestinian development was pointed out by the late prime minister of Israel Yitzhak Rabin, who said “[that] there will be no development in the occupied territories initiated by the Israeli government, and no permits will be given for expanding agriculture or industry which may compete with the state of Israel.”⁹ The strength of Israel, at least economically, was partially a result of a deliberate weakening of Palestinian development.

The devastation of the Palestinian economy is directly associated with the effects of the occupation. Despite the fact that there exist inherent difficulties for development in the developing world, the Israeli occupation of the territories escalated these difficulties, blocking development in the Palestinian territories.

Scholars, like Sara Roy, have argued that the policies of the occupation were in fact destructive to the Palestinians. The dependency theory, as Roy argues, was not enough of a paradigm to describe and analyze the dependency of the Palestinians and the power relation between the two sides. Roy's analysis describes that the policies, which were mostly imposed and enforced by military decrees, were in fact more negative in scale to the Palestinians than the dependency theory could explain.¹⁰

Roy explains that the policies of the state of Israel's occupation of the Palestinian territories were exploitative and would be more appropriately characterized as policies of “de-development”. The idea of “de-development” is defined by Roy as a strategic program that “not only distorts development, but forestalls it entirely by depriving or ridding the economy of its capacity and potential for rational structural transformation and preventing the emergence of any self-correcting measures”.¹¹ These policies are justified as measures against the perceived security threat of Palestinians to Israel. These policies are, essentially, the fundamental cause of the perpetual underdevelopment of the Palestinians.

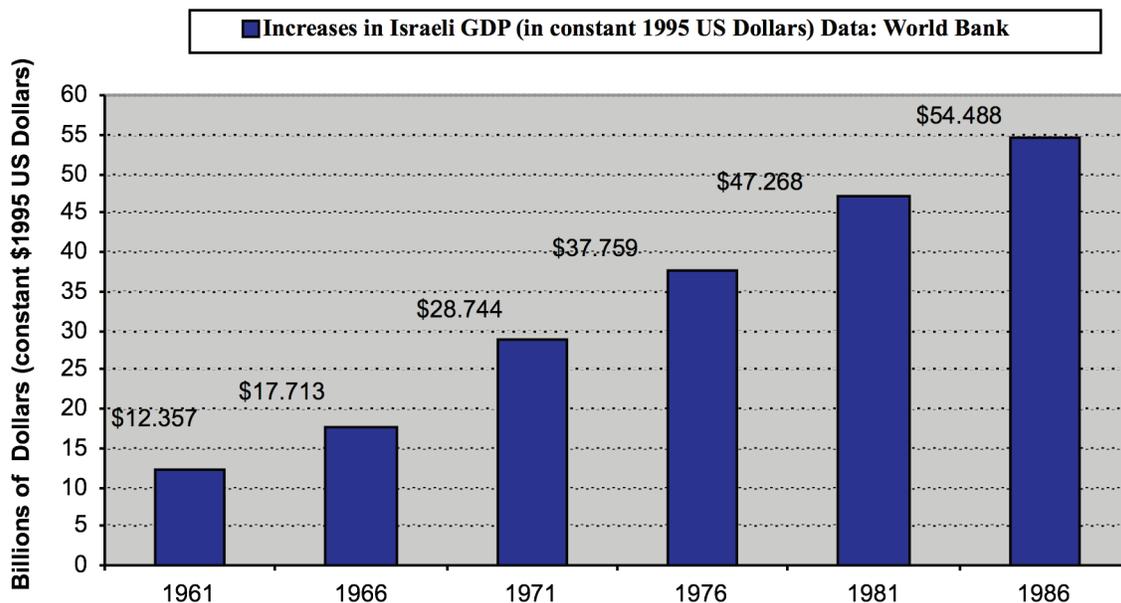
From an economic point of view, the policies of the 1967 occupation allowed a bigger market for Israeli products to exist, and provided cheap labor for Israeli production, since ‘Labor’ is a factor of production after all. This scenario is comparable to European colonial policies in Latin America, in Asia and Africa in the mercantilist era of the fifteenth and sixteenth centuries.¹² At least partially as a result of the occupation of the territories,

Israel's GDP jumped from US \$17.712 Billion in 1966 to US \$ 21.21 and US \$24.1 Billion in 1968 and 1968 respectively (Constant 1995 Dollars).¹³ Increased access to cheap labor cannot discount as a probable cause of this steady increase. The following Table (Table 1) and Figure (2 show the increases in Israeli GDP since 1961.¹⁴

Table 1. Israeli GDP for selected years

Year	GDP (constant 1995 US Dollars)
1961	US \$12.357 Billion
1966	US \$17.712 Billion
1971	US \$28.744 Billion
1976	US \$37.759 Billion
1981	US \$47.368 Billion
1986	US \$54.488 Billion

Figure 2. Visual representation of growth of Israeli GDP between 1961 and 1986.¹⁵

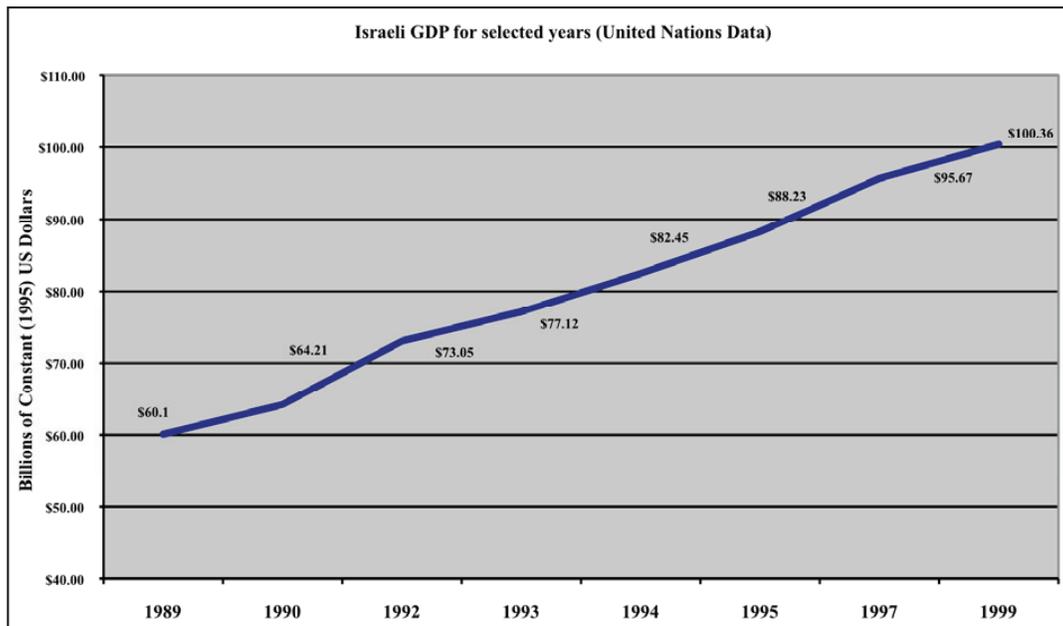


The West Bank and the Gaza Strip 1987-1994: the *Intifada* and the uncertain development

In 1987, a traffic accident, involving four Palestinian workers traveling home after finishing their workday in Israel and an Israeli military vehicle, sparked an uprising (the first *Intifada*) that continued for a few years. Why did the Palestinians react with such a magnitude to this accident when this accident was not unique by any means? It was due to the level of frustration of the Palestinians: they were exploited politically and economically, no end in sight for their suffering and self-determination. Had the Palestinian been able to exercise their political rights through representation, go to Israeli courts and actually have a fair judgment, there would have probably been no *Intifada*. Even though this may be an assertion that cannot be proven, nevertheless, it deals with the very relationship that existed between the Palestinians as a people occupied, and Israel as their occupier.

From 1967 to 1987, Palestinians moved freely within Israel and could hold jobs in Israel. 'A loaf of bread is not enough' was an often-shouted slogan in Palestinian society throughout the *Intifada*. The statement represented the idea that simple sustenance was no longer acceptable. Israel began limiting Palestinian workers' access to Israel, which resulted in more economic suffering for the Palestinians. This suffering was dramatically intensified after Israel initiated the closure policy prohibiting Palestinians of the territories from being in Israel (and East Jerusalem) without a permit.

This Israeli closure policy was initiated on March 29, 1993, completely limiting Palestinian access to Israel for any purpose, and thus blocking Palestinian laborers from working in Israel without a permit since that moment onward. Most of the justification of this closure policy is connected to the security of Israel; whereas, major violent attacks against Israelis started after this closure policy; the first suicide attack against Israeli civilians inside Israel was carried out in 1994, which was claimed to be in response to the Ibrahimi Mosque Massacre that took place in February 1994, when 29 Palestinians were killed by an Israeli settler. It seems that Israel no longer needed relatively cheap Palestinian labor to advance its economy, since the closure policy did not affect the Israeli economy. Figure 3 below shows an increasing trend in GDP before and during the closure policy that continues to this day.

Figure 3. Israeli GDP for selected years, before and after the closure policy of 1993

While the closure policy had no major effect on Israeli economy (at least in terms of GDP), the Palestinians, however, suffered greatly, due to the fact that the freedom of movement within Israel that Palestinians enjoyed was replaced by permanent checkpoints, and subsequently the inability of Palestinian workers to earn income. The Palestinian economy has been devastated ever since, except for the brief period after the 1993 Oslo Accords when the Palestinian economy seemed to recover, but still not without a substantial international aid to ease the suffering of crippled infrastructures and lagging industries.

The Oslo Accords represented the idea of “peace through separation” which would theoretically enable a two-state solution to materialize as a natural end to the Arab-Israeli conflict. This approach resulted in further loss of Palestinian employment opportunities in Israel, further decreasing the level of income of Palestinians. The effects of this separation were felt throughout the territories, as Israel sought an alternative workforce from Asia and Eastern Europe to replace Palestinian workers.

From unprecedented political resistance (*Intifada* of 1987) to decreasing levels of income for Palestinians between 1987-1993, the development of the Palestinian territories can be characterized during this period to be “uncertain”. The Palestinians workers lost their jobs in Israel, could no longer seek employment in the oil-rich Arab Gulf, and had no industries to absorb the labor force. Palestinian development went into deeper trouble with the inauguration of the peace process.

THE PALESTINIAN AUTHORITY AND THE PEACE PROCESS: THE INFORMATIVE YEARS FOR DEVELOPMENT, 1993-2002:

“Peace through separation,” as a slogan for the peace agreement was no less than a disaster for Palestinian economy. Although the Oslo Accords provided a short-lived sense of security for Palestinians and Israelis, the agreement contributed greatly to the misery of the Palestinians with regards to their political aspirations and economic prosperity, and also negatively impacted the long-term security of both nations. Furthermore, the ensuing situation set a precedent for the nascent Palestinian government-like institution to rule in an ad-hoc method that was proven to be more destructive than constructive. What can we learn from the failed peace process? How can a future peace agreement be devised to address the shortcomings of the Oslo Accords?

The Oslo Accords seemed to represent the beginning of an end to a conflict that had lasted for close to two and a half decades. It provided answers to the Palestinians’ demands for self-determination and moved in the right direction with respect to development. The Oslo Accords allowed Palestinians, for the first time, to identify and be identified as a nation with a sort of a representative quasi-state. The approach adopted to reach peace, however, lacked planning for long-term economic goals, and as we now see, political goals as well. Furthermore, the Palestine Liberation Organization negotiated a peace agreement with Israel without public acquiescence, which set a precedent with regards to the state-society relations in Palestine, highlighting an undemocratic action and unilateral governance carried out by the Palestinian Authority.

Disconnecting the Palestinian economy from that of Israel was translated into the loss of great economic opportunity for the Palestinian economy. On average, a Palestinian worker earned 75 New Israeli Shekels (NIS) per workday in Israel throughout the 1990s, compared to a Palestinian worker earning 41 NIS per workday in the territories, employed in the Palestinian agricultural and industrial sectors. In other words, Palestinian laborers working in the territories made 54% of what Palestinian workers working in Israel or on Israeli settlements made.¹⁶ Naturally, Palestinians preferred employment in Israel in the past, if given the option of working there, given the higher economic payoff. If “peace through separation” were to be the slogan, it would have been beneficial for the PLO to address this economic dependency from the beginning and devised ways to solve this problem, while ensuring that ‘peace’ be actually accomplished through ‘separation.’ This would have guaranteed less economic dependence on Israel, and would have set the stage for an economically healthy society, and a potentially much stronger future state.

In 1996, the United Nations Development Programme issued a report on the living conditions of Palestinians living in the territories.¹⁷ The report estimated that the Palestinian National Income dropped by 18.4% between 1992 and 1996, and that the standard of living of an average resident of the territories decreased by 36.1% over the same period. Furthermore, the annual inflation rate between 1993 and 1996 was, on average, 11.9%.¹⁸ Palestinian Authority—which employed at least 100,000 Palestinians of the territories soon after it was created, of whom 33,000 were employed in the security services¹⁹—had failed in providing the general public with the services necessary for their social and economic well being. Though the Palestinians seemed to have achieved their aspirations of self-determination, the socio-economic conditions faced by the people actually worsened.



An Israeli soldier inspecting Palestinian ID Cards at a checkpoint in the city of Hebron. The number of Checkpoints, which restrict the movement of Palestinian people and transportation of good, increased dramatically in the years after the Oslo Accords

Soon after the signing of the Oslo Accord, Palestinians began losing their jobs inside Israel. The number of work permits issued—the new measure in effect as a result of the Israeli closure policy of 1993—steadily decreased between the years of 1995-2000. The average monthly number of work permits granted by Israel to Palestinian workers residing in the territories dropped from 46,530 in 1997 to 8,083 permits in 2001.²⁰ According to estimates provided by the World Bank, the unemployment rate jumped from 18% in 1993 to 34.2% in 1996. Such statistics show the extent of Palestinian economic vulnerability to closures and the extent of their dependence on Israeli work opportunities (An additional 60,000-90,000 Palestinians worked in Israel without permits who are thus not included in these estimates).²¹ Figure 4 represents the drop in permits granted to Palestinian workers.

Figure 4. Average monthly work permits granted to Palestinian workers between 1994 and 2002.²²



Figure 5. Decline in Palestinian Gross Domestic Product between 1998 and 2002.²³

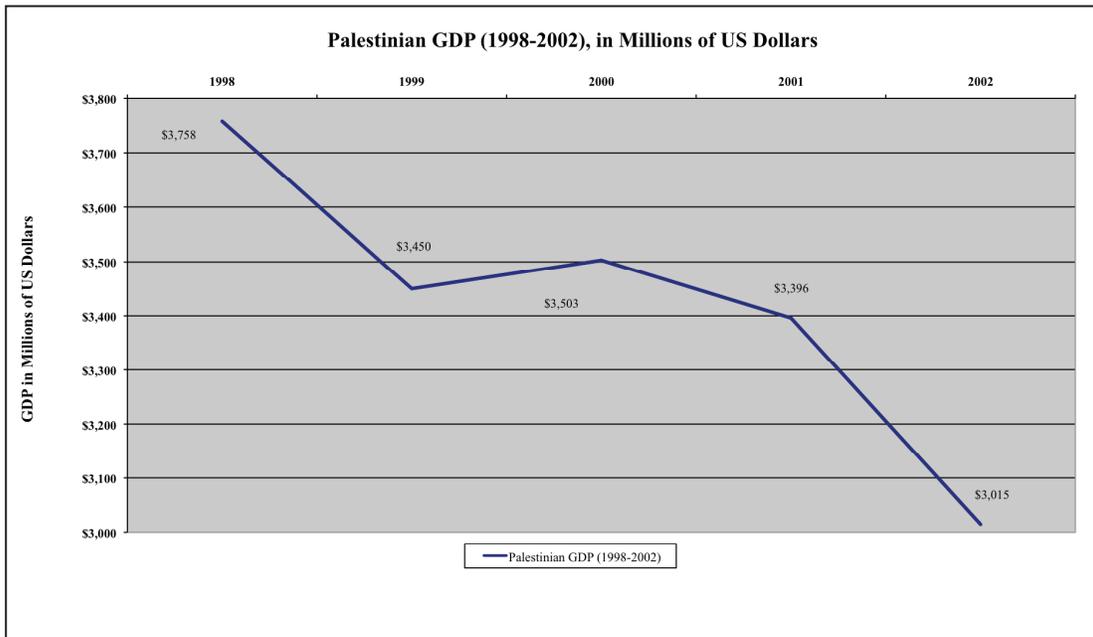
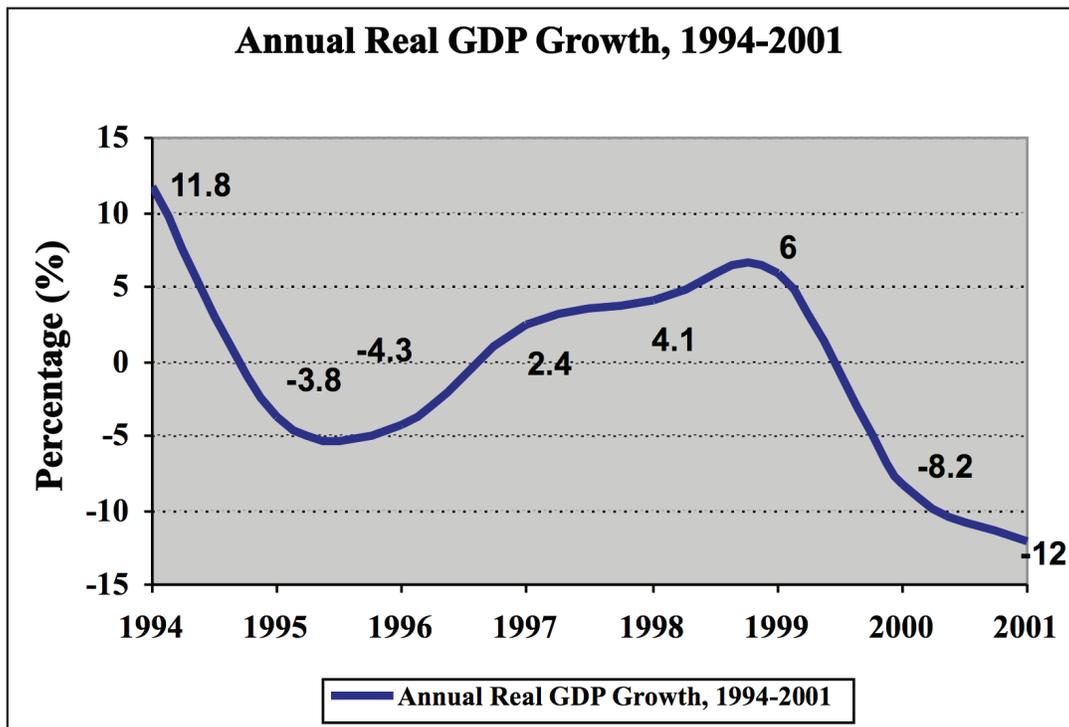


Figure 6. Annual Real GDP Growth Rate between 1994 and 2001.²⁴



The impact of the dramatic decline is reflected in the GDP of the Palestinian territories. For example, a sharp decline from 46,530 permits in 1998 to 32,018 a year later translated into a major decline of US \$308 million in the Palestinian GDP. The following Figures (5 and 6) show the impact of the decrease in work permits issued on the Palestinian GDP, and to the annual real GDP growth rate respectively.

Throughout what seemed to be the prosperous post-Oslo period, Palestinian industries were expanding, but until 2002, at least 23% of the Palestinian workforce remained unemployed.²⁵

In January of 1994, Israel granted 66,067 permits for Palestinians to work inside Israel and on Israeli settlements in the territories. This number dropped to 48,790 in December of the same year.²⁶ Apparently, the Palestinian Authority underestimated the importance of Palestinian employment in Israel, causing 23% of its working citizens to lose their sources of income as a result of the stalled negotiations—which was proven to be a huge price to pay.²⁷ The Palestinian Authority did seem to have taken into account the connection between its decisions regarding the peace process and the economic conditions of its citizens. Palestinian negotiators had little bargaining power, especially when the price of unemployment is the bargaining chip in hand.

On average, from 1997 until the outbreak of the *Intifada* of 2000, Palestinians employed in Israel contributed the amount of US \$1,092 million per year to the national income (21.7% of the GNP), which stood at US \$5,029 million per year.²⁸ Seen in this light, the Palestinian Authority was responsible for a major governmental failure by allowing their agreement with Israel to result in the loss of thousands of Palestinian jobs. Israeli policies towards the Palestinians became predictable: when violence broke out, tighter closures take effect impacting the lives of almost every Palestinian. Even though the Palestinian Authority is responsible for the dismal socio-economic conditions of the Palestinians, it is not the primary entity to blame for this economic failure. Donor countries, for example, did not follow through with their pledged grants to the Palestinian Authority according to the Oslo Accords.²⁹ Further, the Paris Protocol, which refers to the Palestinian-Israeli economic agreement signed in Paris in 1994, provided the state of Israel with economic benefits, and did not provide Palestinians with benefits equitable to those granted to Israel.³⁰ The Palestinians in the West Bank and the Gaza Strip were the biggest losers of the Oslo Accords, at least in developmental terms.

From 1994-2002, The Palestinian Authority's economic policy was best characterized as a series of various spontaneous, incoherent measures. Increasing governmental spending, a Keynesian mechanism designed to stimulate the economy, has been the primary tool of its economic policy, but it has not been coupled with correcting measures to balance that growth to serve as a check against inflation.³¹

Although the Palestinian Authority increased expenditure to stimulate the economy, this expenditure led to a deficit of US \$112 Million in 1996, following an initial surplus of US \$23 million in 1993, which again, shows that an incoherent economic policy was adopted.³² These deficits may have been a result of the Palestinian Authority's interest in creating a political base, as argued by Samir Barghouthi, who explains that the Palestinian Authority established an extensive bureaucracy to lobby stronger support for its political base by showing the international community that it was capable of providing security for Israel as stipulated in the Oslo Accords. The Palestinian Authority expanded its bureaucratic structure, especially the security branches.³³ Barghouthi also argues that the Authority used the government system as a quick solution for the unemployment caused by repeated Israeli closures internal and external to the territories. An example of this is the fact that the number of government employees administering the affairs of the territories soared from 20,000 in 1993 to 100,000 employees in 1996.³⁴

With the emergence of the Palestinian Authority as a quasi-state concerned with representing and serving the Palestinians, this newly created institution targeted non-governmental organizations and attempted to co-opt their individual powers. The Authority perceived itself as an alternative to NGOs that have in some cases existed for decades. With this perception came the PA's competition for donor funds that were previously used for the empowerment of the civil-society. NGOs lost substantial amounts of funding to the Palestinian Authority, primarily because of donors' commitment to fostering the new political institution. The United Nations Development Programme in the territories was under pressure from its headquarters to direct more funds to the Palestinian Authority than to NGOs. As the manager of the project explained in 1995, "Our [UNDP] mandate is to work directly with governmental authorities. We are constantly under pressure by our bosses to give our money to the Authority. But we employees are not happy about this because we've worked closely with NGOs; we know what they can do. And we know that PNA [Palestinian National Authority] can't replace NGOs."³⁵ The Welfare Consortium, established by the World Bank as a mechanism to allocate funds to NGOs, conducted a "Needs Assessment" in which the impact of the shift of funding was highlighted. The Needs Assessment highlighted that "after the establishment of the PNA.... the reduced funding to the PNGO [Palestinian NGO] sector was a major determining factor in the shift [of the sector's] role, structures, mode of operation and program priorities."³⁶ According to Sullivan, the services that were damaged were "health, early childhood education, and rehabilitation."³⁷

In the summer of 2000, the failure of the Camp David negotiations between the Palestinians and Israel, and the constantly growing economic and social frustration within the ranks of Palestinian society ultimately precipitated the highly violent and militarized second Palestinian *Intifada* in September of 2000. The worsening level of employment

and income in the territories increased the intensity of Palestinians' dissatisfaction with their government, and felt that the Palestinian Authority had not delivered the fruits of peace with Israel.

Increasing violence, yet again led to increased security measures and tighter closures by Israel within the territories. As Figure 4 showed, the average monthly number of work permits dropped from 35,354 permits in 1999 to 23,282 and 8,083 issued in 2000 and 2001, respectively. Figure 6 shows the drastic impact of the *Intifada* on the real GDP growth rate, which dropped from 6% in 1999 to (-8.2%) and (-12%) in 2000 and 2001, respectively.

Israeli internal and external closures between 2000 and 2002, coupled with repeated incursions into the territories to battle Palestinian militias, resulted in destructive losses for the Palestinian economy. Table 2 below, shows the calculated losses and breaks them into their respective categories. It is worth noting that the total losses to the economy are at least twice the GDP of 1998, which was a relatively peaceful and economically prosperous year for the Palestinians.³⁸

Table 2. Losses of the Palestinian Economy, September 2000-April 2002³⁹

<i>Nature of Losses</i>	<i>US \$ Millions</i>
Losses of production sector	4,625
Disruption in transactions (nationally and internationally)	2,193
Destruction of assets (governmental and industrial)	545
Lost Investment	260
PA revenues held by Israel	395
Additional costs (infrastructure, health, education...etc.)	251
Total	8,269

Poverty reached its highest level ever in the Palestinian territories in the period following the *Intifada* of 2000. In September 2002, the unemployment rate was 41.5% in the territories. A survey was conducted in July of 2003 by the Development Studies Programme of Birzeit University to evaluate the living conditions of Palestinians in the territories. The survey showed that 41% of Palestinian households had no current income generation, and that 44% of those surveyed viewed their economic condition to be "bad."⁴⁰ Due to the failure of the peace process, reflected in the repeated curfews and closures internal

and external to the territories following the outbreak of the 2000 *Intifada*, the movement of the Palestinians has been highly restricted and employment has become a privilege.

The Fayyad Policy of Institution Building and Economic Development:

An internationally recognized economist, Salam Fayyad had a mission of building economic institutions as vital first steps in building a state. The unique context of the Israeli-Palestinian conflict in which these institutions are being created, however, will greatly hinder this mission.

Starting in June 2002, Fayyad started working with the Palestinian Authority in June 2002 as the finance minister, and eventually was appointed by the President of the Palestinian Authority Mahmoud Abbas in 2007 as prime minister.

Fayyad's policy is almost entirely focused around institution building in the Palestinian territories. The goals of this policy have three components: strong security, economic growth and a representative government. While the Salam Fayyad government may be able to achieve the economic growth part of the formula, establishing a truly non-factional security infrastructure is a challenging task, given the various divisions that have taken place in Palestinian society in recent years. These divisions are not exclusive to the Fatah-Hamas division, but also include internal divisions within Fatah itself (i.e., Muhammad Dahlan vs. Mahmoud Abbas). In addition, the Gaza Strip now is more than geographically separated from the West Bank, as it is becoming its own political and social entity, as a result of the two competing authorities.

Even though Hamas and Fatah are attempting to bridge their differences, the potential of creating a representative government in Palestine has yet to materialize. Further, the democratically elected Palestinian government in 2006, brought Hamas into power, but only to be faced by international community's dissatisfaction with Hamas, and the Palestinian people who made the decision to vote for Hamas, not thinking into the reasons as to why Palestinians voted for Hamas, which was more of a protest vote: against the Fatah-dominated Palestinian Authority, which was perceived to be corrupt. The international community should respect the wishes of the Palestinian people vis-à-vis who they decide to vote for, and instead focus on the real problems that face Palestinians: the Occupation and its policies.

As it stands, Salam Fayyad's vision has provided an easement of movement and a certain level of economic growth, but these 'successes' can easily be unraveled, if Israel decides to severely restrict the movement of Palestinians, which could happen at any moment. As of 2011, checkpoints are manned with Israeli soldiers, but traffic flows relatively

freely in the West Bank with much hassle. This, however, can change very quickly, if Israel decides to freeze Palestinian movement and decide to fully utilize these checkpoints in the West Bank.

Achieving economic prosperity in the West Bank and the Gaza Strip, divorced from a political process that addresses the political rights of Palestinians, would only take Palestinians back to the first two decades of Israeli occupation, from 1967-1987: economic prosperity, without political rights that Palestinians have been attempting to achieve. This is what the Palestinian experienced right before the first *Intifada*. Peace through separation, relatively increased income and economic growth, without a political formula to include a political solution, may lead to something similar to the *Intifada* of 1987, but this time, it would be directed towards both Israel and the Palestinian Authority, especially after the events of the Arab world of 2011, and the new political mood of Arab societies regarding rights and unrepresentative governments.

Though institution building in Palestine is of vital importance, these institutions must be part of a comprehensive plan with a focus on a political process and a long-term vision. Addressing the role of economic growth in the political process provides us with little insight in the case of Palestine, due to the single most important determinant of development and de-development in the Palestinian territories: Israeli Occupation. We simply cannot ignore the destructive role of the Israeli occupation, which is effectively in control of the Palestinian economy. Otherwise, “*A loaf of bread is not enough*” will be resurrected as a slogan for dissatisfaction for the lack of a political solution. This time, however, the frustration would expand to include all three political powers that affect the lives of Palestinians: Israeli Occupation, the Ramallah-based Palestinian Authority, and the Gaza Strip Hamas Government.

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