The Occupation of the Palestinian Economy

Economic relations between Israel and Palestine after the Oslo Accords and the formalization of economic dependence.

Abstract

In this thesis I will review the dynamics of economic relations between Israel and Palestine, in the context of its corresponding policy framework and the institutional arrangements (the Oslo Accords) that cover the implementation and management of those relations. I focus on the effect of the agreements on Palestine's capacity to generate revenue, and will analyse this from three economic domains in which revenue can be generated: trade, taxation and labour. I will argue that the Oslo peace process has formalized and institutionalized economic relations that foster serious economic dependency, and that the agreements have failed to address the core economic weaknesses the Palestinian economy has had to deal with as a consequence of prolonged occupation and colonial structures.

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Foreword

It was in the last couple of weeks before finishing this thesis that I sat down with a friend of a friend who was travelling through the Netherlands and needed some guidance and tips. He was from Israel and was making a trip through Europe. In conversation he told me that he lived in a kibbutz roughly ten kilometres away from Jerusalem. Upon realisation that I knew more about the Middle East than he had expected, we started discussing the region. Soon enough, Palestine and their relationship vis-à-vis Israel became the topic of conversation. When we spoke about where he stood on peace with the Palestinians, he answered: "We cannot negotiate with a non-existing state. They don't have a government, they don't have a functional justice system or police force, they don't have a functioning *economy*." There might be some truth in the statement he made, in the sense that these institutional issues are problematic for the development of Palestine. It also made me think of my own thesis. His statement is a summary of the vicious circle that Palestine finds itself in. They are denied peace because they are not developed enough, and they are denied genuine development because they are not peaceful enough. With the agency in the hands of Israel, the Palestinians (and their justice system, police force and more importantly their economy) are held captive in this circle. It is often only the violence that reaches the news, emphasizing the fact that Palestine does not comply with Israel's security standards. It is however the other side of the coin that I wish to shine light upon. If there ever will be peace, it needs to incorporate genuine restructuring of the economic relations between Israel and Palestine that can foster a relationship based on equal opportunity, equal dependence and a more equal power-balance.

Upon that note, some words of gratitude are in place. First and foremost, I would like to express my deep gratitude to Dr. Crystal Ennis. She has been the kind of supervisor everyone wishes for and has offered me outstanding support when things did not turn out as planned. Secondly, I would like to thank Dr. Sai Englert for inspiring me and teaching me so much more than I could have hoped for; it was for his courses that I realised I was in the right spot and chose the right programme. In a similar vein, I would like to thank the department of Middle Eastern Studies at Leiden University for having created such as wonderful and diverse programme, for it has been proven that doing a second master's degree was worth every second (including writing a second thesis).

In these strange times some words of thanks to my immediate surroundings are also in place, as 'immediate' became more literal than anyone could have foreseen. I would like to thank Elske Verwiel for being the most patient and understanding boss, but most of all for letting me use her house as a private library during the last leg of this thesis-journey. A massive thank you to my friends, especially those who were with me studying the entire summer – a special shout out to Kisha Wooding, Esin Erdogan and Esmée van Weenen. Lastly, I want to thank my parents for always trusting me and having supported every (academic) decision I have made so far.

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1. Introduction

When the Palestine Liberation Organization and the government of Israel in 1993 entered into a series of negotiations that would finally lead to the Oslo Accords, a new era for the peace process started. The 'Oslo process' was thought to be able to bring about peace, partially through fulfilling the right of the Palestinian people to self-determination. The Oslo Accords conceived the idea that the solution to the Palestinian question was going to be a 'two-state' solution. Explaining what the aim of the negotiations would be, Article I of the Declaration of Principles (DoP) states that a "Palestinian Interim Self-Government Authority" was to be established, "leading to a permanent settlement based on Security Council resolutions 242 (1967) and 338 (1973). Article V (DoP) again confirms this aim, stating that "Permanent status negotiations will commence as soon as possible, but not later than the beginning of the third year of the interim period, between the Government of Israel and the Palestinian people's representatives."

The new narrative of a future independent Palestinian state next to the independent state of Israel was widely accepted as the new road to peace in the region. However, this focus on two separate states obscured a very important aspect of the ability of the peace process to succeed. The envisioned two-state narrative failed to adequately address the problem that for Palestine to attain statehood and be one of the states of the two-state solution, they required sovereignty and control over their economy.[1]

Economic policy did play a role in the peace negotiations leading up to the Oslo Accords. Besides the fact that the need to induce economic development for the Gaza Strip and the West Bank was recognized in the DoP (see Article XI, Annex III and Annex IV), a separate protocol was designed to govern economic relations and their implementation: the Protocol on Economic Relations, better known as the Paris Protocol (signed April 29th, 1994). Despite the fact that the two-state solution was one of the envisioned end-goals of the Oslo peace process, the protocol failed to account for the fact that at the point of entry, the two parties were not equal; one was a sovereign state, the other was not. Since the protocol was drafted without taking asymmetrical power relations between Israel and Palestine into account, Israel was able

[1] 'The Palestinian economy' (or in any other phrasing) throughout this document refers to both the economy of the West Bank as well as the economy of the Gaza Strip. This does not however include those areas where settlements were built, or Palestinian villages within Israel. Whenever relevant, differences between the Gaza Strip economy and the West Bank economy will be discussed.

to exert significant influence on the provisions and regulations in the protocol (Haddad, 2016). It affected Palestine's ability to protect their economic interests and has consequently provided Israeli economic policymakers with free reign to protect their own economy and at the same time, expand their control over the economy of the Occupied Territories (Arnon & Weinblatt, 2001). Despite the fact that Israel has signed the Oslo Accords, knowing its supposed aim was an independent, sovereign Palestinian state, they have implemented policies that limit and even in some areas erode Palestine's government's ability to achieve any form of economic independence, essential to the process of state formation. It deprived Palestine from the opportunity to free itself from the occupational and colonial economic dependence on Israel, that resulted from the decades of direct occupation. This has brought about severe consequences for the Palestinian economy, that has not been able to develop into a well-functioning economy with its own trade relations, control over its revenue, and a sustainable growth rate (UNCTAD, 2011; Roy, 2001). Oslo's supposed aim to bring prosperity to the Palestinian economy with its regulations has thus in fact worked out quite differently and ironically enough caused a severe economic crisis in the years after its implementation (Arnon & Weinblatt, 2001).

1.1. Structure and argument

The decades prior to the Oslo peace process fostered a relationship of heavy dependence on the Israeli economy, and the Palestinian economy does not seem to have been able to undo itself from that reliance successfully. Nothing meaningful has changed in the economic relations with Israel after the Oslo peace process, other than a re-articulation of those relations. As such the path to economic sovereignty and statehood still seems long. This warrants the question in what way the Oslo Accords could have contributed to Palestine's economic dependence on Israel. The question that I attempt to answer in this thesis is thus as follows:

How did the Oslo Accords affect economic relations between Palestine and Israel and to what extent have they contributed to the continuation of Palestinian economic dependency on Israel?

The central argument in this thesis is that the Oslo process, and with it the Paris Protocol, have ultimately led to the formalization and continuation of one-sided economic dependence. I intend to show this by looking at how economic dependence was formalized through economic regulations and arrangements that were part of the Oslo Accords. In order to do so, I focus on the capacity of the Palestinian Authority to generate revenue. Efficient revenue mobilization is a vital feature of (economic) sovereignty (Tilly, 1992). To narrow down the scope of this thesis, I will solely focus on three major economic domains in which revenue can be generated, that at the same time are covered in the Oslo Accords: trade, taxation and labour.[2] In making this distinction, I roughly follow the framework used in Zagha & Zomlot (2004). I will argue that the imposed economic dependence is ultimately rooted in the economic and fiscal control that Israel has had over Palestine's means to generate revenue. The argument is however not complete without an analysis of the economic relations prior to the Oslo process, as I argue that the evolution of economic relations between Israel and Palestine between 1967 and 1993 played a pivotal role in setting up the mechanisms of dependence. The resulting power-imbalance consequently affected the way the Oslo agreements were shaped during the negotiations. The normative side of this power-dynamic influenced every dimension of the Oslo Accords, including the economic dimension, and will thus also be discussed.

1.2. Relevance of the study

Thinking about and researching the possible solutions to the ongoing conflict in the area where Israel and Palestine both seek (full) sovereignty, remains important and relevant as long as the conflict has not been resolved. Assessing the degree to which there is tension between on the one hand the Oslo-envisioned Palestinian state, and on the other hand the economic dependency that it possibly formalized is important, for it questions the relevance and viability of the two-state solution. It could prevent the two-state solution from being presented in the media, academic literature and by government officials as the preferred outcome, when that outcome might not be viable at all. The perpetual discourse on the two-state solution by many Western states and the United States might become less of a priority if it is indeed not viable and could make way for a new discourse on solutions that recognize the economic dimension of the occupation and the power-inequality between the two adversaries.

It is thus important to shine light on the economic dimensions of the two-state solution and how the occupation has, in the past and in the present, influenced Palestinian economic agency. Not many scholars have focussed specifically on revenue generation, but those who have (see for example Zagha & Zomlot, 2004; Hamed & Shaban, 1993), have not (thoroughly) linked it

[2] I thus leave out other economic domains from which revenue flows in to the Palestinian economy (such as foreign aid).

to the viability of an economically sovereign Palestinian state and the two-state solution as purported in the Oslo Accords. Other scholars (e.g. Halevi, 1998; Hilal & Khan, 2004; Dumas, 1999; Samara, 2000; Cheong, 2009) have focussed on both the external and the internal constraints to Palestinian economic sovereignty or independence. I do acknowledge that internal circumstances such as fiscal leakage and revenue mismanagement on the side of the Palestinian National Authority are important and have a significance influence on Palestine's economy. Yet, that would require an analysis at a different level. As Zagha and Zomlot (2004, p. 121) held: "An evaluation of the economic viability of the PNA's route to state formation has to distinguish between problems due to its own internal governance institutions and those due to external constraints." Furthermore, the internal mismanagement is often an indirect result of restrictive or predatory economic policies, or otherwise a way to divert those. In my thesis, I will thus solely focus on the external constraints presented by Israel's economic policies, the Paris Protocol and the Oslo Accords in general.

2. Conceptualizing revenue generation in an occupied economy

In the following chapter I elaborate on the argument I make in this thesis, by first explaining how I conceptualize the link between economic dependence, economic sovereignty and revenue generation. Following that, I will explain how I approach my analysis and how it will be structured.

2.1. From economic dependence to economic sovereignty

Due to poor economic results in the Occupied Palestinian Territories, Israeli policy makers already realised the need for economic restructuring prior to the signing of the Oslo Accords (Arnon, 2007). The Palestinian economy had been subordinated to the Israeli economy for decades and lacked control or sovereignty over it, due to the military and institutional hold Israel had over Palestine during the direct occupation (El-Musa & El-Jafaari, 1995; Arnon & Weinblatt, 2001; Roy, 1999, 2001). Through colonial economic structures and policies, Israel had controlled Palestinian resources (largely territorial), its labour power and thus also their means to generate revenue. As a consequence, the Palestinian economy saw little to no development, or any improvement in the standard of living. The Oslo Accords even recognized the need for economic growth in the territories in the DoP, Article XI (see also Annex III and Annex IV of the DoP). According to Molkner (1996, p. 1420), the successful implementation of Palestinian self-determination and the development of viable statehood relied on i.a. substantial economic growth "that is rapid, profound, and sustained." Economic growth was not only needed to alleviate the Palestinian people out of poverty, it would also stimulate their economy to become less dependent on that of Israel. Economies that are geographically this close to each other are inevitably linked to each other. However, for both economies to function on a sovereign basis, the one-sided dependence of Palestine on the Israeli economy was problematic.

The ability to undo itself from the structures of dependency, and to regain control over their economy lies, for a large part, in their capacity to generate revenue. As mentioned in the introduction, efficient revenue mobilization can induce economic growth, and increases control over one's economy (Tilly, 1992). Revenue generation thus played (and still does) a central role in any attempt to decrease or undo Palestinian economic dependence on Israel. In the following section I will elaborate more on the link between revenue generation and economic sovereignty.

2.2. Revenue generation and economic sovereignty

For any state to be able to cover its expenditures, state income is necessary. Revenue generation is an important policy concern for any state, but especially for a state that is in the process of formation (Fjeldstad & al-Zagha, 2004). It links (state) capital to the ruler of that state, and therefore both informs a polity of who is in control, but also proves the existence of that polity (see for example Kaufman, 2002). Several authors have held that the efficient collection of revenue is central to the building of state capacity, the ability of the state to deliver services and goods to its people. With that, it plays a crucial role in shaping the relations between the state and society (Levi, 1988; Moore, 1998; Steinmo, 1993). Effective revenue generation is thus inextricably linked to a degree of economic control. It creates a contract between the government and the governed within an area delineated by borders, or in other words: it creates fiscal and economic control over a polity. If the government possesses that control over the polity, it is in the position to create economic policies and regulations, and raise revenue without the interference of other actors (Christians, 2009). Assuming that a state that enjoys that level of control acts rationally in the pursuit of revenue, it can design those policies to maximize economic growth (Tilly, 1992; Moore, 1998). Roughly following the Westphalian notion of domestic sovereignty (as opposed to interdependence sovereignty), the ability to raise revenue facilitated by fiscal control over the polity thus amounts to the concept of economic sovereignty (Krasner, 1999).

Of course, in reality, economic sovereignty is a relative concept. It is restricted by a multitude of factors such as the trade-off between autonomy and cooperation (think for example the European Union), or the behaviour of other sovereigns concerning trade (Arnon & Weinblatt, 2001; Christians, 2009). But chiefly, economic sovereignty can be understood as the (relative) freedom of a state to choose their own economic, fiscal and monetary policies, without the interference of other actors. For a state in the process of formation this is thus paramount. Regardless of the type of strategies and policies a state implements to generate economic growth, the freedom and independence of that choice is what makes a state sovereign from an economic perspective.

There has been little to no improvement in Palestine’s freedom to choose and implement policies with the aim of inducing economic growth, nor has there been any significant economic development. This seems to indicate that there is a discrepancy between the stated goals of the Oslo Accords to establish a future Palestinian state, with complementary economic growth and development and the actual outcome of the relations between Israel and Palestine (at least the economic dimension). Following the link between revenue generation and economic dependence as described in the previous sections, the question how the Oslo Accords could have contributed to the continuation of economic dependence, and the lack of economic growth and development requires an analysis of the way revenue generation is incorporated in the Accords. In the following section I will elaborate how I will approach aforementioned analysis.

2.3. Parameters of revenue generation

Loosely based on the division used by Zagha & Zomlot (2004), my analysis of the relevant regulations that cover revenue generation directly or indirectly, is divided into three categories: trade, taxation, and labour and employment. All three categories constitute major economic bases in which revenue can be generated:

i. Trade can induce economic growth and generate in several ways. I will focus mostly on how the Oslo Accords regulate import and export policy. Not only is the import of certain goods (think for example computers) of vital importance for (economic) development, the import and export of goods can substantially contribute to state revenue.

ii. Taxation is a straight-forward category to include, as it directly generates revenue from the tax base. It must be noted, however, that I will not incorporate any regulations or articles concerning domestic taxation. The focus of this category largely lies on tax collection, which is done through the revenue clearance system with Israel. It thus covers areas of taxation in which the relationship between Palestine and Israel is of importance.

iii. Labour is one of the main pillars of the economic relationship between Palestine and Israel. In my analysis, I mostly focus on the labour flows between the two economies, and to a lesser extent the effect of relevant regulations on domestic employment generation (which in itself induces domestic revenue accumulation). I will also include structures of demand and supply. The integration of the two labour economies, if in a fair and efficient way, can also be a way to integrate capital. It furthermore simply brings in revenue through both remittances and deductions on income.

2.4. The Oslo Accords – 'the interim agreements'

For the purpose of defining the scope of my thesis and general clarification, the following section describes which agreements I consider belonging to the "Oslo Accords". Following Hassan (2011), the following nine agreements are those that generally speaking came to be known as the Oslo Accords:

1. Letters of Mutual Recognition between Israel and the PLO, signed 9 and 10 September 1993.
2. Declaration of Principles on Interim Self-Government Arrangements (more commonly known as "DoP" or "Oslo-I"), signed 13 September 1993.
3. Protocol on Economic Relations (more commonly known as "the Paris Protocol"), signed 29 April 1994.
4. Agreement on the Gaza Strip and the Jericho Area (more commonly known as the "Cairo Agreement"), signed 4 May 1994.
5. Agreement on Preparatory Transfer of Powers and Responsibilities, signed 29 August 1994.
6. Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip (more commonly known as "Oslo-II"), signed 28 September 1995.
7. Protocol Concerning the Redeployment in Hebron, signed 15 January 1996.
8. Wye River Memorandum, signed 23 October 1998.
9. Sharm el-Sheikh Memorandum, signed 4 September 1999.

These nine agreements together fall under the category of "Interim Agreements" that were to deal with the status of the Gaza Strip and the West Bank. The Paris Protocol is the chief document covering economic relations (specifically trade, taxation and labour relations), and will thus have a central role in the analysis.[3] Some of the agreements do not cover economic relations and will therefore not directly be referred to.

[3] The Protocol on Economic Relations was later annexed to the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, or Oslo II, and can thus also be found there.

A note must be made on the interim nature of the agreements, as it has a bearing on how the regulations purported in them can be interpreted and should be analysed. They are considered interim, as continued negotiations were to take place to eventually reach a decision on the permanent status of these territories. During the first stages of negotiating, it was decided that the two parties were not ready to settle a permanent deal about the large amount of contentious issues. Consequently, an interim period of five years was installed, in which both parties had to continue negotiating and show their good faith during the process (Lieberfeld, 2008). Issues that were postponed included the status of Jerusalem, the issue of Palestinian refugees outside of the Occupied Territories and the Israeli settlements. Despite the clear time-mark of five years, the end goal (or rather: a settlement on those issues) of this interim period was left undefined (Hassan, 2011). As it was never made clear what a settlement of those issues would have to include or what they would entail, any ambiguity in those agreements, that was meant to serve the transition into a permanent agreement on the status of the territories, could be used to serve a party's own interests as this would not directly counter the purpose of the agreements. In this case, Israel, which enjoyed military and political dominance, was able to impose its interpretation of those ambiguous clauses. According to Zagha and Zomlot (2004),

> given the balance of power between Israel and the PNA, the incompleteness in the arrangements was advantageous for Israel as the meaning of particular clauses or the response to changed circumstances could be interpreted by Israel in line with its strategies at that time (p. 123).

Shlaim (1994) even held that "the Oslo Accords are guilty of 'creative recalcitrance', of formulations that intended to be vague and subject to various interpretations that would give Israel free hand in doing what it wants" (p. 32). In sum, the interim nature of the agreements and the lack of a concrete final status for the Palestinian state served the interests of Israel.

2.5. A note on methodology

As the purpose of this thesis is concerned with the economic relations between Israel and Palestine and the economic dependence of the latter, this research will inevitably take the form of a single-case study. The history, the present and the future of the conflict between Israel and Palestine are unique and beg research that focuses on the particular features of the conflict. Though the theoretical link between revenue generation and economic dependence concerns virtually every state, its application to the case of Israel and Palestine makes the case study a unique one (Bryman, 2012). The idiographic approach that taken in this case study research will allow me to build on and contribute to knowledge on the complex and particular nature of the occupation (Bryman, 2012).

It could be argued that a similar research question could be asked, where the two concepts of (one-sided) economic dependence and state formation are linked that could incorporate a larger group of case studies, of which Palestine could be part. However, to satisfyingly answer my research question, the element of the (military) occupation is vital to my analysis. To my knowledge, there has not been a similar situation in history where an occupation has taken the duration nor such a complex form to the extent that it could be compared with the chosen case study. It is therefore, that I chose to treat this as a unique, single, case.

2.6. Structure of the analysis

In this thesis, I argue that the freedom to create economic policies and the possibility to achieve economic sovereignty by decreasing economic dependence on Israel are undermined. Firstly, the years of occupation created a highly confined policy space for the Palestinian leadership and subjugated Palestinian economic policy to that of Israel. I provide a contextualisation of that dependence, and how it was structured prior to 1993, in Chapter 3. Secondly, their economic relations are now governed by the Oslo Accords, which did not take into account the unequal power-balance (normative as well as economic) at the time of negotiating the agreements. This took away their agency and autonomy in creating economic, fiscal and monetary policy – a necessary feature of economic sovereignty. The intricacies of the negotiation phase are covered in Chapter 4. Despite the fact that the Oslo process introduced the idea of a future statehood for Palestine, I hold that its agreements have not contributed to any more economic autonomy or independence, which I show in Chapter 5.

3. Economic relations prior to the Oslo peace process

The economic relations between Israel and Palestine, as they were shaped post-1967, were the most important factor in laying the groundwork for the course of Palestinian economic development and structure up to the Oslo period. Economic policies dictating the relationship between the two were unilaterally imposed by Israeli governments and were overseen and managed by the Civil Administration of the Israeli army (Israel Defense Forces) (Arnon & Weinblatt, 2001; Khalidi & Taghdisi-Rad, 2009). A multitude of military orders were issued from the beginning of the occupation, of which roughly half pertained to economic matters (Samara, 1988). They concerned matters such as taxations, trade, banking, insurance, industries, water and land, labour – areas which were to be slowly integrated into the Israeli economy, and thus needed to be harmonized with Israel's national and regional policies and interests. Samara (2000) similarly argued that these policies were reflective of the 'principle aim' of the post-67 Israeli occupation to submerge the Palestinian economy into the Israeli economy and to 'adjust' it to the interests of the latter. The military orders pertaining to economic relations effectively isolated the Occupied Territories from the rest of the region and the world, making Israel its only possible market for the import and export of goods and labour (Samara, 1988). This also meant that Israel took on the role of the main (almost sole) supplier of goods into the Occupied Territories. The integration of the Palestinian economy was further facilitated by policies that slowed down local development and weakened economic infrastructure. In 1985, the position of Israel on the development of Palestine was clarified in the official stance on the territories by then Defense Minister Yitzhak Rabin, stating that "there will be no development initiated by the Israeli Government, and no permits will be given for expanding agriculture or industry, which may compete with the State of Israel" (UNCTAD, 1986, p. 3). Arnon et al. (1996) argued that the implementation of such policies "transformed important parts of the Palestinian economy into a captive market for Israeli producers." Whilst depriving the Palestinian economy from the means to develop, the policies were at the same time aimed at carefully absorbing its labour force and productive resources.

3.1. Selective integration and a quasi-customs union: 1967 – 1980s

In the period following the 1967 war, economic policies were shaped with the aforementioned aim of the (selective) integration of the Palestinian economy. A committee referred to as 'the Bruno Committee' was assigned with the task to examine possible economic policies for the newly 'gained' territories under Israeli control. Amongst other policy recommendations, they proposed that "Palestinian labour not be permitted into the Israeli economy while allowing free passage for goods and services between the Territories and Israel" (Arnon, 2007). Contrary to the recommendations of the Bruno Committee, the Israeli government decided to allow free movement of labour and restricted trade. There was still relative free movement of goods between the Occupied Territories and Israel, yet with regulations and structures in place to protect the productive sectors of Israel. The agricultural sector serves as an illustration of how such protectionist policies affected the productive capacity of the Palestinian economy.

Palestinian farmers had been substantially disadvantaged as around 60 per cent of the cultivable land had been confiscated in the years after 1967. They faced water access restrictions[4], were forced to adhere to crop patterns (those in demand on the Israeli market), and their agricultural exports were heavily restrained. Their products were crowded out by highly subsidized agricultural imports from Israel (Khalidi & Taghdisi-Rad, 2009). Small, local farmers could not compete with the high production volume and were slowly forced into unemployment. Consequently, the surplus rural labour force (as well as the unemployed in other sectors) had to look outside of the domestic economy for employment.

As wages lay higher in Israel and the employment generation potential was low in the Palestinian economy, a large share of the Palestinian labour force looked for employment outside the domestic economy. Though the ratio between the wage in the Palestinian labour market and the wage in the Israeli labour market did not remain as favourable as it was in 1968 (a ratio of about 2:1), approximately 30% of labourers from the Gaza Strip and 40 % of labourers from the West Bank had entered the Israeli labour market by 1972 (Arnon & Weinblatt, 2001). For the Palestinian working class, Israel thus increasingly became the main outlet for employment.

In a similar vein, the business or capitalist class also integrated into the Israeli labour market. As Israeli businessmen started to invest in certain sectors of the Occupied Territories (though not necessarily the productive ones), they integrated the Palestinian capitalist class in such a way that they functioned as subcontractors for the commercial goals of the Israeli investors. According to Samara (2000) this distorted the "natural equation of labor to capital found in most societies," as "both the working class and the capitalist sectors became integrated,

[4] The total annual water supply of the Palestinian territories at the time lied at around 800 million cubic metres, of which the Palestinians were only allowed to use 110 million. The scarcity of fresh and clean water forced many farmers to resort to water with a much higher salinity degree (brackish water), thereby reducing the quality of their products and reducing their competitiveness (Khalidi & Taghdisi-Rad, 2009, p. 6).

separately, in the Israeli center" (p. 22). The duality of a protected Israeli economy and an underdeveloped Palestinian economy set in motion the absorption of the Palestinian labour force for the coming decades as it forced virtually all Palestinian social classes to interact with the Palestinian economy (Samara, 1988).

Meanwhile, the higher wages in the Israeli economy drove up those in the Palestinian territories without inducing an increase in productivity. Subsequently, production costs increased, causing a lower profitability of local production and the contraction of the industrial and agricultural sector in Palestine. The migration of the labour force to Israel thus also resulted in the 'de-industrialization' and 'de-agriculturalization' of the Palestinian economy. Over time, this meant that the Palestinian economy became increasingly oriented towards the export of low-skilled, non-tradeable goods and services (construction and services), while becoming more dependent on the import of high-skilled, tradable goods from Israel (UNCTAD, 2016). The trade imbalance was further worsened by the restrictions on the export of certain products into Israel. The trade regime between Israel and the Occupied Territories was thus fully dictated by Israeli policy. Conceptually, the trade framework corresponded to one of a quasi-customs union. It was different from a normal customs union, as the implementation of the protectionist policies for only one side of the union was (and remains) unusual. It furthermore did not have any policy in place arranging the division of import tax revenues (which would be normal in the case of a single external border). Most of these revenues directly accrued to Israel (Arnon, 2007).

Lastly, as the customs union framework was unilaterally implemented by Israel and the terms were not consulted with both parties to the union, and Arnon (2007, p. 585) refers to it as an "imposed customs union."

3.2. The logic of security and imposed separation: 1990s

As a consequence of the first Intifada in 1987 and the start of the Gulf War, the relations between the Palestinians and the Israelis changed significantly. The structures of the occupation became much more informed by Israel's "security first" logic (Taghdisi-Rad, 2014). It was in the few years prior to the Oslo peace process that Israeli strategy seemed to turn more towards imposed separation from the Palestinians. The overriding logic of security influenced many of the pre-existing economic policies towards the Occupied Territories. Both a permit system and the closure policy were introduced. The permit system regulated the movement of people between Israel and the Occupied Territories, and based permission to access on security considerations. The closure policy refers to the system that was imposed after the Gulf War in order to exert even tighter control over the movement of Palestinians (mostly workers) and commodities. These closures can be external, restricting the movement from the Occupied Territories into Israel, Jordan and Egypt, or internal, restricting the movement of people and goods between the Gaza Strip and the West Bank or within those regions, or (Roy, 1999; Taghdisi-Rad, 2014).[5] A direct effect of the 'closure regime' was the rising poverty rate. Roy (1999, p. 69) found that periods of closure in 1996 resulted in fiscal losses that amounted to 18.2 per cent of the West Bank's GNP and up to 39.6 per cent of the Gaza Strip's GNP. The closures furthermore disrupted the (already fragile) contiguity of Palestine, as internal closures almost entirely quashed movement of labourers and goods between the West Bank and the Gaza Strip (Roy, 2001). Closures specifically often restricted access to Jerusalem, which subsequently caused for the division of the West Bank into a northern region and a southern region (Roy, 2001). The internal separation of Palestinian areas is often referred to as the 'bantustanisation' or 'enclavization' (see for example Farsakh, 2002a, 2005a; Roy, 2001) and played a central role in the segregationist policies of the period leading up to Oslo. This had severe consequences for the labour force (unreliable access to work), but also reduced potential foreign investment, for the risk of such ventures was considered too high (El-Musa & El-Jafaari, 1995). It was a move away from the integrationist policies that had defined the decades prior to the Gulf War. The "separation strategy" altered the nature of control and facilitated continued domination over land, resources and labourers while at the same time enabling increasingly minimal interaction with and between the Palestinian population. As the Israeli Prime Minister held at the time: "the less of [Palestinians] that will work in Israel, the better … now is the time to bring about substantial change through separation … we must see to it that Palestinians do not swarm us" (UNCTAD, 1993, p. 7). This set in motion a process of 'liberalizing' the economic policy towards the Occupied Territories. To undo itself from any potential reliance on Palestinian labour, the Israeli authorities governing the territories started to encourage industrial investment (by giving tax exemptions) and eased restrictions on capital inflows. They encouraged subcontracting Palestinian labour inside the territories, as opposed to their employment inside Israel. This part of the separation strategy however did not meaningfully change anything for the Palestinian economy as it was

[5] As these measures significantly affected the Palestinian labour force, they are discussed in more detail in the section on labour and employment.

not accompanied by the necessary complementary (financial) infrastructure. It furthermore created a complex dichotomy between domestic Palestinian economic development and the ad hoc nature of the closure regime (sealing off the territories by definition stood in the way of any economic development) (Taghdisi-Rad, 2014; Khalidi & Taghdisi-Rad, 2009).

In sum, the period between 1967 and the Oslo peace process can be characterized as, on the one hand, the decade-long structural integration of the Palestinian economy into the Israeli economy, through the establishment of the quasi-customs union and the restricted investment and capital flows into Palestine. It furthermore facilitated the maximization of territorial integration through the military control of the land. On the other hand, while the Palestinians were left with the legacy of years of direct occupation, the separation strategy, dictated by Israeli security concerns, came to shape the last few years and continued into the years of the Oslo peace process. The tension between strategies of integration and strategies of separation are an integral part of the economic contextual backdrop against which the Oslo peace process must be analysed and understood.

3.3. Towards Oslo

The aforementioned economic structures and strategies ultimately set the stage for the start of the negotiations over economic policy in the Oslo process. It gave rise to a set of regulations and agreements that would come to govern the economic relations between Israel and Palestine. Amongst them was the Paris Protocol that was signed in 1994, with the declared objective of encouraging Palestinian economic development, within the larger framework of the Oslo Accords which proposed the objective of Palestinian (future) statehood. The Oslo process was seen as a turning point in the relationship between the Israelis and the Palestinians, not solely because it dealt with mutual recognition for the first time (Jamal, 2000). The envisioned outcome of a peace between the two parties also changed direction with a new focus on the two-state solution. This outcome, however, was contingent upon the bargaining positions with which Israel and Palestine entered the negotiations. As the preceding decades had created an uneven power balance (see the previous section), they could not be considered partners of ‘equal worth’ during the negotiations (Jamal, 2000). In the following section, I will further clarify why the Palestinian delegation and the Israeli delegation to the peace process were unequal partners, and how this manifested during the bargaining process and in the structural design of the final agreement. It is important to consider this, as the economic policies that followed from the Oslo period are a reflection of the inequality between the two parties.

4. The Oslo peace process – partners of 'unequal worth'

To be able to better understand the outcome of the Oslo process, and its bearing on the active policies in the aftermath of Oslo, the negotiating phase needs to be placed in the wider context of the unequal power dimensions between the Palestinians and the Israelis.

It is clear that the two parties came to the table with diverging interests. Yet, overshadowed the fact that the outcome of the process was a product of unequal power is not clarified enough in some debates on the Oslo process and the two-state solution. Israel, being the more powerful actor in the process, was able to impose their interests and political agenda on their adversary. The Israelis were able to use their larger military, diplomatic and economic power to secure their objectives, but also to heavily influence the narrative underpinning the peace-talks (Lieberfeld, 2008). This ability to influence the peace discourse was described by Menga (2016, p. 403) as follows: "The second dimension of power is less visible, covert (…): it is the ability to control the political agenda and to create barriers that would impede certain issues to be discussed."

I thus argue in this section that the inequality between the two parties manifested on two levels: more overtly so through Israel's strategic and economic advantage, and less visible so through Israel's ability to heavily influence the contentious issue of recognition and the formation of the narrative around the peace process.

4.1. From recognition to results

The Oslo peace process, starting in December 1992, involved two parties representing Israel and the Palestinian people through the Palestine Liberation Organization (hereafter PLO). Representing the latter was Ahmed Qurie (also known as Abu Ala) and representing Israel were Uri Savir, Yossi Beilin, Yair Hirschfeld and Ron Pundak. Their respective leaders were part of the process to an extent, but the aforementioned were directly involved with the negotiations. Though similar attempts to a peaceful resolution to the conflict were ongoing at the same time (in Madrid and Washington), the Oslo process presented Israel with a strategic opportunity to negotiate with a partner (the PLO) that was at the time considered a more viable partner for a potentially successful peace process. On top of that, the Oslo process would be pursued in secrecy which meant that both parties would face less issues with public support and public outcry as negotiations would be ongoing (Lieberfeld, 2008).

During the 26 years preceding the Oslo process, Israel had controlled the Occupied Territories' water and land resources. It had dominated their economy, their geostrategic position and their people. As this had led to a clear power and knowledge asymmetry, negotiating with the PLO at the Oslo process enabled the Israeli delegation to leverage this asymmetric power and have 'the upper hand over the PLO' (Haddad, 2016). As Shimon Peres (Israeli Foreign Minister during the peace process) held in his memoires on the Oslo process: "The reports from Oslo indicated that the PLO was in serious difficulties, both financial and political, and the time was therefore right for Israel to clinch a deal with the organization" (Peres, 1995, p. 284). Ahmed Qurie also reflects on the PLO's pre-Oslo position as one weakened by decades of Israeli control, and the fracturing of Palestinian society. He recounts: "The Palestinian national movement faced deadlock … The doors of many capitals that were vital for PLO's survival were closed" (Qurie, 2006, p. 293). Given the PLO's position at that time, it thus was also a strategic move on their part to enter into negotiations with Israel as the "sole representative of the Palestinian people" (Honig-Parnass & Haddad, 2007, p. 44). Taking this role in the peace process would be vital to their survival.

Coming to the table, the demands of both parties seemed irreconcilable. Some of those demands could be overcome, it was thought, through the exchange of mutual recognition. Yet highly contentious an issue, recognition had been a central feature of the conflict itself, and it would inevitably have to play a major role in the peace process. Though the recognition of Israel had always been a painful issue for the Palestinians, the PLO eventually conceded to the issue of recognition "as a strategy defensive of Palestinian interests" (Qurie, 2006, p. 295). The exchange of recognition was thought to have brought the PLO the means to improve their geo-strategical, economic and financial position helped by the newly gained legitimacy of their leadership over the Palestinians.

For Israel, recognition of their counterpart would enable the continuation of the peace-process. As Jamal (2000, p. 38) held: "Any transformation of the conflict requires the ruler to recognize the identity of the ruled and their right to manage their lives independently." However, it also presented Israel with a strategically beneficial move. Israel possessed 'hard-power' geo-strategically, militarily and economically speaking, yet lacked political legitimization for their settler colonial project. To remedy this, Israel would (selectively) give up part of the 'old-fashioned' techniques of colonial control, and relinquish their direct control to a body that would be responsible for and representative of the Palestinian people while remaining reliant upon Israel; the PLO (Haddad, 2016). This process would be facilitated by Israel's recognition of the PLO.

The large power asymmetry between Israel and the PLO had a vital influence on how the mutual recognition would be used further down in the negotiation process. Though 'mutual,' the overtly larger power of Israel did (less visibly so) change what this 'mutual' recognition entailed. According to Lieberfeld (2008, p. 143-44) "The asymmetric commitments in the letters of recognition signed by Israel and the PLO reflected the skewed power relations between the parties." Similarly, Ahmed Qurie (2006) writes:

> The balance of power drastically favoured Israel and worked against the Palestinians. This was reflected in the behaviour of the Israeli negotiators on all issues and at every stage … We derived our power from the justice of our case, as opposed to the Israelis, who sought to define what was just on the basis of their power. (pp. 296-97)

This statement indicates that besides the obvious power imbalance, both parties based their claims on a different foundation. This meant that Israel entered the negotiations over the control of the Occupied Territories as though it was something they could 'give' to the Palestinians as opposed to something Palestinians would have a right to. Following the Israeli Zionist narrative, "the settlers' right to their settlements is a given, their sovereign tie with Israel unquestioned, thus cancelling out the possibility of genuine Palestinian sovereignty over the territory they will get within the framework of the peace process" (Jamal, 2000, p. 47). Yet, the Palestinians entered the negotiations over the control of the Occupied Territories with their claims based on their historical narrative that their right to land was a given since they had already been living there. Both parties thus came to the negotiations with claims that were based on two historical narratives that were incompatible. Their claims, or as Lieberfeld (2008) called them 'win-sets,' could thus not overlap or be converged as their foundations were irreconcilable.

To overcome this, the peace negotiations would have to follow one or the other narrative. The process could consequently proceed because the Israeli negotiators were able to use their power advantage to have their historic narrative dominate the peace process. As Jamal (2000, p. 47) held: "the fundamental right is Israel's" – allowing it to shape and inform the peace process narrative. This did not stand in the way of the process of mutual recognition; rather, it played in the hand of the more powerful Israel, and determined what exactly both parties' recognition entailed.

4.2. Fitting the Palestinian people into the Israeli narrative

The skewed power relations between the two parties were clearly reflected in what Lieberfeld (2008) called 'the asymmetric commitments' in the Letters of Mutual Recognition between Israel and the PLO, signed on 9 and 10 September 1993. In return for the recognition of the state of Israel and their national rights, the Palestinians were only offered the recognition of the PLO as the representative of the Palestinian people, with no official mention of any national rights. Not only did this mean that this form of recognition could only be extended to those Palestinians that were under the influence of the PLO leadership (those in the Occupied Territories), it also only extended to those Palestinians that recognized the Oslo process. No mention was made of the Palestinians that were in refuge in neighbouring countries for example. The letters thus were the start of a negotiating process between a state with national rights (Israel) and an organisation representing only a segment of all Palestinians (the PLO). Israel and the PLO were partners of unequal worth in the Oslo process (Arnon & Weinblatt, 2001; Rabinowitz, 2000). As Fjeldstad and Zagha (2002, p. 1) concurred: "The Oslo Agreement was not an agreement between equal partners, but an agreement between an occupying power and an occupied people."

The recognition of the PLO would, according to the Israelis, be a step towards autonomy. Instead, it completely 'dissected' the Palestinian problem as a whole – for it did not recognize the unity of the Palestinian people. As they were separated into groups in the peace process, they were disconnected from the Palestinian historical narrative of having a right to the land. This right would directly stem from them being a unified people – which they were not according to the Letters of Mutual Recognition. This played in the hands of the Israeli narrative regarding their right to the land, which was essentially the opposite: the Zionist concept that all of the land belonged rightfully to Israel and its inhabitants. Consequently, the Palestinians living in the contested areas were submerged in the Zionist narrative. As Jamal (2000, p. 49) held: "There is no doubt that recognizing the equal status and historic rights of the Palestinians would be extremely painful for the Israeli side insofar as it would cast doubt on the justice of the entire Zionist enterprise." The strategy to "divide and fracture" was not a new one; the overriding logic since the start of Israel's colonization project has been to deny the Palestinians their unity (Hanieh, 2013).

The discourse on Palestinians (and their lack of right to the land) has been so essential in the self-identification of Israel and Israelis, that the entire concept of Israel's sovereignty is contingent upon the non-sovereignty of the Palestinians. It was thus paramount for the Israeli negotiators to have their narrative dominate that of the Palestinians.

Following this argument, Israel's identity, and with it their rights, seems based upon the notion of the absence of Palestinian rights. Thus, when the PLO was subjugated to the Israeli peace narrative in the Oslo process, the Palestinian narrative was delegitimized and deconstructed. Without Palestine's competing narrative, Israel's narrative could reign supreme.

This is one of the issues that led to the illusionary 'path to peace' thought to be the essence of the Oslo peace process. By surpassing the foundational roots of the Palestinian question (recognizing the Palestinians as a unified people and their ethno-territorial claim to the land (Rabinowitz, 2000)) and omitting the rights of Palestinian people, any solution that would follow from the Oslo peace process could not be mutually satisfactory and bring about equality and peace.

5. Formalizing economic relations: trade, taxation and labour

In this part of the analysis, I will show how some of the articles and provisions of the Oslo agreements maintained the unequal power structures present before Oslo, and how they are linked to some of the economic policies resulting from the Oslo peace process. As mentioned in the previously, I argue that the Oslo Accords reflect the imbalance of power on many different levels between the Palestinians and the Israelis, as well as the unequal negotiating capabilities of the two parties. In this chapter I will link those inequalities, formalized in writing in the Oslo Accords, to the economic policies that followed from the Oslo peace process.

5.1. Trade relations and trade policy

From the start of the occupation in 1967 up to 1994, Palestinian trade regulations were determined by Israel and effectively followed Israel's own trade policy. All import-standards, levies, import-tariffs and other trade mechanisms in effect for Israel were also in effect for the Palestinian territories. As previously mentioned, the Declaration of Principles already mentions the need for 'cooperation in economic fields' in Article XI. It refers to Annex III and IV, in which it sets out a variety of programmes with the purpose of regional and economic development. However, in 1994 any existing regulations concerning economic policy were largely replaced by the guiding principles of the Paris Protocol, that would come to govern the trade relations, and more broadly the economic relations, between Palestine and Israel.

In the area of trade, the protocol provides regulations for Palestine's import and export policy. It governs not only the trade between the two parties to the agreement, it also governs the trade relations between the Palestinians and the rest of the world (Elmusa & el-Jaafari, 1995).

5.1.1. Import policy

Article III concerns import policy and mentions three annexed lists (A1, A2, B) that contain the goods that the PA is allowed to import from a place other than Israel, provided they follow certain standards of quality, and they meet the requirements regarding origin and quantity. Goods on lists A1 and A2 are food products with the exception of fresh fruits and vegetables, agricultural products such as cotton, basic construction materials such as cement, mineral and chemical fertilizers and some household electric appliances such as washing machines. There are a couple of restrictions listed in Article III of the Paris Protocol concerning the import of goods listed on lists A1 and A2. The PA will be able to set the customs levels for the import of theses goods, but they must be based on the General Agreement on Trade and Tariffs (GATT, 1994), as it would take effect in Israel shortly after the signing of this document. This thus deprived the PA of autonomy in setting their own tariff levels. Furthermore, all construction materials, household appliances and any type of mineral or chemical fertilizers would have to be imported from either Egypt or Jordan, allowing the import of the other goods mentioned on the Lists from Jordan, Egypt or any other Arab or Islamic country. Not only are there restrictions concerning the origin of the product, the products themselves cannot be final-assembly products. For a large part, they have to have been "locally produced" in the countries mentioned above. Article III, paragraph 8, subparagraph a(iii), states the following: "The value of the costs of the materials produced in that country, plus the direct processing costs in it, do not fall short of 30 percent of the export value of the goods." This provision significantly restrained the possibility for Palestinians to trade with partners other than Israel even further. Due to proximity and the given restrictions on origin, Jordan and Egypt are the most likely trade-partners for import of for example household appliances. At the same time however, those products have to meet the Israeli quality standard; a standard that resembles that of European or American products. Generally speaking, the electric/household appliances coming from Egypt or Jordan that meet the requirement of at least 30% domestic content, do not meet that quality standard. These contradicting regulations essentially meant that for many goods that were listed on List A1 and A2, Palestine still had to turn to the Israeli market to import them.

Besides restrictions on origin, tariffs and type of product, Article III of the Paris Protocol also tied the Palestinian trade sector to quantitative restrictions. These limitations were to be determined by both parties according to "Palestinian market needs" (see Paris Protocol, Article III, paragraph 2(a)). A group of experts would make an estimate of those needs based on the "best available data regarding past consumption, production, investment and external trade [of the West Bank and the Gaza Strip]", following Article III, paragraph 3. However, according to Elmusa and el-Jaafari (1995), "the quantities of construction materials, fertilizers, and wheat […] were preset in the protocol at levels equivalent to an estimated 50 percent of the market needs." Though paragraph 3 does include the establishment of a sub-committee that will review those estimates every six months, and promises to adjust for population growth, such estimates are still highly complex and problematic. Other than uncertain population size numbers, wages can change and there are no reliable measurements of how demand changes when income rises/falls (Elmusa & el-Jaafari, 1995).

The goods on List B concern mostly capital goods that can contribute to economic development. It lists products such as construction equipment, household textile machinery and agricultural equipment and tools. As these goods were considered essential for the Economic Development Programme, mentioned in the DOP, Annex IV, paragraph 2(b), no restrictions in respect to origin, quantity or tariffs were applicable to them. The only restriction that does apply to goods on List B is that of preset standards (i.e. Israeli standards) they have to adhere to. For the capital goods on List B, motorized vehicles and petroleum (dealt with separately; respectively in Article III(11) and Article III(12) in the protocol) this meant that the PA did not have to follow Israeli tax rates on these goods anymore. Financially speaking this was positive, as these products were now freed of the previously (high) Israeli tariff on capital equipment of 21%. The former tariff was too high for the development requirements of Palestine (Elmusa & el-Jaafari, 1995). Despite this apparent gain, it must be noted that not all types of capital investment goods were on List B. Relatively important for the development of the Palestinian (or any) economy were computers – which were not listed. Their import was still subject to Israeli customs regulations, and thus a sizeable investment for a weak(er) economy.

For any goods that are not on either lists, or that exceed the predetermined allowed quantities, the prevailing Israeli customs rate, purchase tax rate, levies and excise rate have to be used by the PA. To further ensure similarity between the two import systems, the PA has to levy a minimum VAT (value-added tax) rate of 15-16% on all imports (Israel's VAT rate is 16-17%), pursuant to Article III, paragraph 5(b) and 7. The logic behind this requirement is that it would give Palestinian products free access to the Israeli market, without having them 'flood' the market because of lower tax rates. However, with an average per capita income in the Palestinian Territories of around $1,646[6], as opposed to that of Israel at $18,680[7], a VAT rate of at least 15% is "unusually high" (Molkner, 1996).

A separate article is dedicated to the import regulations of agricultural products (Paris Protocol, Article VIII). The first paragraph of the article stipulates that "there will be free movement of

[6] This is the average of the GNI per capita (Atlas method, current US$) of the West Bank and the Gaza Strip between 1996 and 2000. No earlier data was available. Data retrieved from the World Bank (2020): https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?name_desc=false

[7] This is the average of the GNI per capita (Atlas method, current US$) of Israel between 1996 and 2000. Data retrieved from the World Bank (2020): https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?name_desc=false

agricultural produce, free of customs and import taxes, between the two sides”, yet subject to a set of regulations and exceptions (Article VIII(1)). Besides a set of provisions covering the (veterinary) standards of the imported produce, paragraph 14 of this article covers a specific restriction. The article states the following: “Without prejudice to obligations arising out of existing international agreements, the two sides will refrain from importing agricultural products from third parties which may adversely affect the interests of each other’s farmers” (Paris Protocol, Article VIII(14)). This clause is effectively more an obstacle to developing trade relations for the Palestinians than it is for the Israelis. Before the signing of this protocol, Palestine had not been in the (economic) position to commit to or arrange any international trade agreements, due mostly to the occupation that started in 1967 which left their economy considerably ‘weak.’ Furthermore, since the import flow of agricultural products from Israel to Palestine is larger than the import flow from Palestine to Israel, the “interests of each other’s farmers” seem to concern the Israeli farmers more so than the Palestinian farmers (OEC, 2018a, 2018b).

5.1.2. Export policy

Pursuant to Article VIII (agriculture), paragraph 1 and Article IX (industry), paragraph 1, there will be free movement between the two sides, without any customs and import taxes. There are some exceptions to this rule. Similar to the constraints mentioned in Article III (import), goods exported from the Occupied Territories to Israel have to meet standards that were already in use in Israel. They concern environmental, veterinary, health and safety standards. Other than those standards, the article stipulates that there should be relative free and unrestricted access to each other’s markets, for agricultural produce and industrial goods. There is one other significant restriction: Article VIII, paragraph 10 sets out a temporary restriction on the export of poultry, eggs, potatoes, cucumbers, tomatoes and melons. The article mentions that these specific quantitative restrictions are to be phased out by 1998. According to Elmusa and el-Jaafari (1995), these temporary quantitative limitations on the export of these goods were put in place to protect the Israeli farmers from Palestinian competition. The protection of Israeli producers however effectively quashes the would-be export advantage of the Palestinian producers. Furthermore, protection of producers was not awarded vice versa. There are no (temporary) restrictions for Israel to export agricultural produce or industrial goods to the Occupied Territories, leaving the Palestinian producers unprotected as compared to the Israeli producers, and thus heavily disadvantaged. On top of the protection afforded to the Israeli farmers, their sector is also highly subsidized in comparison to that of the Occupied Territories. According to Nashashibi and Kanaan (1994), financial support given by the Israeli government averaged around 32% of the value of the agricultural sector's output between 1984 and 1990. This puts the Israeli farmers at an even more advantaged economic position and further vitiates the possibility of economic competition between the Israeli and Palestinian farmers.

Concerning the export to countries other than Israel, there do not seem to be any clear restrictions. It is likely, however, to assume that similar rules apply to the export policy as do to the import policy. Within the bounds of the protocol, the Palestinians are allowed to export, as long as it does not endanger the interests of "Israeli producers" (Article VIII, paragraph 14). This essentially has resulted in Israel becoming the one viable market for Palestinian producers, with little opportunity to diversify trading partners. Up to present times, Israel has remained Palestine's largest export destination. Around 80% of Palestine's export was to Israel, whereas export to Palestine is only around 5% of Israel's total export (OEC, 2018a, 2018b). These numbers indicate that the trade barriers following from the Protocol have institutionalized trade and market dependence on Israel for the Palestinians, but not a similar dependence on the Palestinian market for Israeli export.

5.1.3. Trade dependency

The power imbalance in the trade relationship between Israel and Palestine was thus institutionalized by the Oslo Accords, through the structures and regulations discussed above. Despite the fact that the architects of the Oslo Accords did envision an export-oriented and development-oriented Palestinian economy, the structures that dominated the outcome of the Paris Protocol and the Oslo period were those preserving the one-side trade relationship that was structured in light of the interests of Israeli trade. The outcome was, as it was before Oslo, still characterised by unimpeded access to the Palestinian market for Israeli goods without affording that same benefit vice-versa. The structure of the customs union, formalized in the Oslo Accords, thus allowed for unrestricted access of the highly subsidized, Israeli goods to the Palestinian economy. According to the Palestine Economic Policy Research Institute (MAS), imports from Israel during the period from 1995 to 2000 amounted to 75 per cent of the aggregate of Palestinian imports (MAS, 2001, p. 127). It furthermore resulted in a problematic excess of imports over exports for the Palestinian economy, and highly limited access to the international markets. As such, Israel remained Palestine's most important market, accounting for roughly 90 per cent of all trade at the end of the interim period (Roy, 1999, p. 72). Considering the fact that closures disrupt trade with Israel and there is no possibility to resort to markets elsewhere because of equally limited access means that the trade dependency on Israel incurs enormous costs on the Palestinian economy. In sum, the customs-union structure in effect led to highly asymmetric trade and a crippling trade dependency on Israel.

5.2. Taxation policy and revenue clearance

Taxation is a matter that concerns both trade and labour policy; some of the particular tax arrangements that either resulted from or were reinforced by the Oslo Accords have been discussed earlier. From those earlier restrictions that already dealt with forms of taxation it became clear that the Palestinian Authority had no autonomy in shaping their own taxation policies. This section will however cover the specific system of tax revenue clearance, which warrants its own analysis. The quasi-customs union, institutionalized by the Oslo Accords, provided Israel with the sole control over the external borders. This subsequently gave the Israeli tax administration the authority to collect import taxes and VAT on behalf of the PNA. They furthermore collect income taxes from Palestinian labourers inside Israel. The collected taxes are transferred back to Palestine through this tax clearance system. Though destined for the Palestinian tax administration, the control over (the collection of) taxes meant that Israel was in the position to use that control as a form of pressure or even punishment. This section will discuss how the taxation clearance system works and its effect on the extent to which the PNA is dependent upon Israel for tax mobilization. It will therefore only cover those taxes that are collected by the opposing tax administration, and the regulation thereof as provided by the Protocol.
When talking about taxation systems, it is customary to distinguish two types of taxation: direct taxation and indirect taxation. Direct taxation concerns taxes that are levied on a person that 'bears the ultimate burden of tax' (e.g. income tax) whereas indirect taxation concerns taxes that are paid in the form of an increased prices for goods that are taxed (e.g. value-added tax, excises) (Fjeldstad & Zagha, 2002). Both forms of taxation are mentioned in the Paris Protocol (Article V and Article VI, respectively) and in Oslo II (Annex V, Appendix 1 and 2, Article V and VI, respectively). There is another category of taxes that are linked to international trade, such as customs, excise tax and VAT on imported goods (Fjeldstad & Zagha, 2002). For all such taxes that are not directly collected by the Palestinian Tax Administration, the tax clearance system with Israel is in place, as established in Article III, V and VI of the Protocol.

5.2.1. The taxation clearance system

As previously mentioned, the economic relations between Israel and Palestine are conceptually the same as a customs union (albeit a 'one-sided' customs union). As is usually the case with customs unions, both direct and indirect taxes can be levied by either side's tax administration, even if the taxpayer has no obligation to pay taxes to that specific tax administration (Kleiman, 1999). Some examples include the payment of customs over goods that are imported to Palestine, but through Israel; VAT paid over goods that are bought in Israel or in the Israeli settlements by Palestinians; and income tax paid by Palestinian labourers that are employed in Israel or the Israeli settlements but are obliged to pay income tax in Palestine. To avoid double taxation and to ensure tax is paid to the rightful tax administration, Israel and the PLO agreed to a system of revenue clearance. The revenues that are covered by the clearance system are direct taxes (income tax), the VAT and purchase tax on goods that are produced in Israel but imported to Palestine, and the import taxes from international trade (Elkhafif, Misyef & Elagraa, 2014).

i. Direct tax clearance: income tax

The direct taxes, mostly covered by income tax paid by Palestinian labourers that work in Israel or in the Israeli settlements, are mentioned in the Paris Protocol, Article V, paragraph 4. It states the following:

"Israel transfers the PA:

a. 75% of the income taxes collected from Palestinians from the Gaza Strip and the Jericho Area employed in Israel.
b. The full amount of income taxes collected from Palestinians from the Gaza Strip and Jericho Area employed in the settlements."[8]

[8] This specific article mentions the Gaza and Jericho area specifically as the agreement would first come into force in those areas, which would later also be extended to the other areas of the West Bank. The PA was to obtain authority over the remaining areas of the West Bank only after the signing of Oslo II, as the transfer of authority was to be a gradual process (see also the Agreement on the Gaza Strip and the Jericho Area).

The income revenue of Palestinians working in Israel or the Israeli settlements had to be split between the jurisdiction in which they reside and where they consume social services, and the jurisdiction in which their income is generated. As most Palestinian labourers employed in Israel or the settlements commute to work on a daily basis, it is likely that they consume social security services in the Occupied Territories. Based on the principle that collected income tax is in part meant for the payment of social security services, the clearance of income tax was implemented (Alonso-Gamo, 1999; Kleiman, 1999). Israel would keep 25% of the revenue and transfer 75% to the PNA. Yet, no mention was made of retroactive payments of the tax revenue that accrued to Israel prior to 1993 (despite it amounting to roughly 3 per cent of Palestine's GDP).

Table 1: Income taxes – percentage of total fiscal revenues and percentage through the clearance system, 1995-1999

	1995	1996	1997	1998	1999
Income taxes (% of total fiscal revenues)	11.6	8.3	8.6	9.0	8.2
Income taxes through the clearance system with Israel (% of total specific revenue base)	10.1	7.2	9.1	13.5	8.4

Source: Fjeldstad & Zagha (2002, p. 6, Table 2.1; p. 7, Table 2.2)

Despite the fact that the revenue from income tax through the tax clearance system with Israel is not as large as the other tax categories (see Table 4), it is still considered a major tax base (Fjeldstad & Zagha, 2002). It is furthermore a very volatile tax base, as it is highly vulnerable to tax evasion on the one hand (due to large-scale informal employment and generous income tax exemptions) and interruptions as a result of border closures (Zagha & Zomlot, 2004).

ii. Indirect tax clearance: import tax

Concerning import taxes and customs, the clearance system is more complicated. Article III, paragraph 15 states: "The clearance of revenues from all import taxes and levies, between Israel and the PA, will be based on the principle of the place of final destination." For any and all goods upon which the PA would be able to claim import tax, the place of final destination must be the Palestinian Territories, despite the lack of 'hard' borders between Israel and Palestine. When successfully claimed, the collected customs must be transferred within six working days. The implementation of this specific clause, however, has led to a significant loss in revenue resulting from fiscal leakage to Israel. In the case that products were initially imported to Israel, to subsequently be re-exported to Palestine, the Israeli interpretation of Article III, paragraph 15 meant that these goods were not considered to have the final destination of Palestine, but rather Israel. Those goods could thus enter the Palestinian Territories duty free (Elkhafif et al., 2014, p. 30). Only products that were not handled by Israeli middlemen, or subcontractors to Israeli import agents, would be eligible for customs duty clearance. Considering the amount of earlier discussed restrictions for Palestine to import goods, there are very few goods that are designated directly for the Palestinian territories (Kanafani, 2001; Fjeldstad & Zagha, 2002). According to some estimates, around 60% of the goods imported by Palestine come through Israeli companies. In sum, since the principle of 'final destination' was interpreted in a way favourable to Israel, the import charges paid for goods that were 'indirectly' imported thus were collected by the Israeli tax administration, which consequently did not rebate those taxes to the PA. This led to a large amount of foregone tax revenue, estimated to be around six to seven per cent, expressed in percentage of Palestine's GDP (Shaban & Jawhary, 1995, p. xxxiii).

Another issue that complicates the functioning of the revenue clearance system is the fact that Palestinian importers often disguise the final destination of the imported products, as though they are intended for Israel. This results in more foregone revenue for the PA. This practice is incentivized by inspections and costly delays of by Israeli customs at the security checkpoints (Elkhafif et al., 2014; Molkner, 1996; Fjeldstad & al-Zagha, 2004). The Paris Protocol, Article III, paragraph 14(a) and 14(b) give Israeli customs officers the right to inspect goods (and tax collection). As per the protocol, Israel is not allowed to implement any regulations that would constitute to a non-tariff barrier, yet in reality, it is experienced as such. The result is thus that the Palestinian importers pay their dues, just not to the 'right' tax administration. Furthermore, large Israeli importers generally work with much lower unit costs and shipping rates. Palestinian businesses are thus even further incentivized to import through Israeli importers, which causes for more fiscal leakage to Israel (Molkner, 1996, p. 1448).

As compared to the import taxes collected directly by the PNA from international trade, the revenues from the clearance system are considerably high. As there barely is any international trade, the import taxes that directly accrue to the PNA are of little relevance. From 1997 to 1999, close to 90% of total collected revenues from international trade was collected by the Israeli tax administration (Fjeldstad & Zagha, 2002, p. 39), as illustrated in Table 2.

Table 2: Revenue from taxes on international trade (in million USD)

	1995	**1996**	**1997**	**1998**	**1999**

1. Customs collected by the PNA	7.3	23	21.9	24.3	36.2
2. Customs through the clearance system with Israel	18.9	87.1	142.7	205.3	263.3
3. Total Customs	26.2	110.1	164.6	229.5	299.5
Customs collected by Israel through the clearance system in % of total Customs (ratio of 2/3)	72.1	79.1	86.7	89.5	87.9

Source: Fjeldstad & Zagha (2002, p. 39, Table 7)

From a more macro-level point of view, the underdeveloped economy prior to the Oslo period has obviously also contributed to the high level of fiscal leakage through non-direct import to Palestine. Due to the weak domestic production capacity, Palestinian importers often opt for cooperation with Israeli middlemen (Elkhafif et al., 2014). Because of its weak productive base, weak infrastructure and the confiscated land and water resources, it is often simply much easier for Palestinian importers to resort to indirect import through Israel (Roy, 1999).

iii. Indirect tax clearance: VAT

Article VI, paragraph 5 of the Paris Protocol sets out the rules and conditions for the clearance of VAT (and purchase taxes[9]). By the terms of the agreement, the Palestinian and Israeli tax administrations both collect VAT in their areas of responsibility, which subsequently has to be cleared with the other administration. The terms agreed upon provide that for goods and services purchased by Palestinians in the Israeli economy, the VAT ultimately accrues to the Palestinian tax administration. Vice-versa, the Israeli tax administration should receive all VAT linked to goods and services purchased by Israelis in the Palestinian economy. To expedite the clearance of those taxes that are to be rebated to the other tax administration, the two parties agreed to a unified invoice system. The payment of VAT on purchased goods is registered through these unified invoices. At a monthly meeting, the invoices are submitted to each side after which the party with a net balance of VAT claims against them has to transfer the claimed amount within six working days (Molkner, 1996, p. 1445).

As the unified invoice is the only official document accompanying goods (and services) that are bought in the 'other' tax area, the process is highly vulnerable to tax evasion, informal trade and smuggling, and fiscal leakage therewith. One of the issues that leads to foregone revenue

[9] Purchase taxes are similar, but not identical to VAT. Purchase taxes are levied on products that either have negative effects on health or environment (an example would be fuel excise) or on products that have a high profit margin. Most of the revenue clearance is however covered by VAT, is this type of tax is always levied regardless of the type of product or service (Misyef, 2000).

for the PNA is the non-compliance of Israeli businesses with the invoice system. Not submitting the clearance invoices is a way for businesses to conceal their actual amount of sales and thus evade taxes. Similarly, the large informal market that exists does not comply with the invoice system, nor do they export and import through the official crossing points between Israel and Palestine where the VAT claims are collected and checked (Elkhafif et al., 2014). Furthermore, the Palestinian VAT and Excise Taxes Department have expressed their concerns regarding the non-implementation and non-compliance of the VAT clearance agreements with regards to the (Israeli) border control. Because of a lack of adequate infrastructure, the Palestinians have not been in the position to monitor non-compliance and are neither in the position to enforce it upon the Israeli side (Molkner, 1996). The lack of structure and actually implementable rules concerning the clearance of VAT makes it a very uncertain and fragile category of revenue for the PNA. This is problematic as indirect taxes are an important category of taxes with regards to domestic revenue generation, according to Fjeldstad and Zagha (2002, p. 36). Specifically indirect taxes on goods and services make up a major tax base in the Palestinian economy (see Table 3, row 4). The fact that such an important tax base is vulnerable to potential non-compliance on the Israeli side (be it at the level of the consumer/merchant, or at the level of the tax administration) causes significant instability and uncertainty of the prospective annual revenue and its fiscal composition. In sum, these numbers reflect the heavy dependence of Palestine on Israel and their compliance with the VAT clearance system.

Table 3: VAT and excise charges - percentage collected by Israel through the clearance system and percentage of total fiscal revenues, 1995-1999

	1995	1996	1997	1998	1999
1. VAT and excise charges through clearance with Israel (in million USD)	225.4	317.9	326	308.2	334
2. Total VAT and excise charges (in million USD)	281.2	420.7	447.9	438.9	472
3. VAT and excise charges collected by Israel through the clearance system (in % of total specific revenue base, ratio of 1/2)	80.2	75.6	72.8	70.2	70.8
4. VAT and excise charges (in % of total fiscal revenues, ratio of 2/total fiscal revenues)	66.0	61.2	54.6	51.0	47.7

Source: Fjeldstad & Zagha (2002, p.6, Table 2.1; p. 7, Table 2.2; p. 37, Table 5)

5.2.2. Tax dependency

The institutionalization of the revenue clearance system during Oslo solidified the dependency on Israel of the PNA. More than 60% of the PNA's total revenue consisted of taxes that had to be cleared by Israel, already in 1995 (Al-Naqib, 1996, p. 26; Khadr, 1999, p. 113; Farsakh, 2005a, p. 129).

Table 4: Fiscal revenues collected by Israel through the clearance system, 1995-1999 (in % of total revenues from the specific revenue base)

Revenue group	1995	1996	1997	1998	1999
Income taxes	10.1	7.2	9.1	13.5	8.4
Indirect taxes on domestic goods and services	80.2	75.6	72.8	70.2	70.8
Indirect taxes on international transactions	72.1	79.1	86.7	89.5	87.9
Non-tax revenues (fees and charges)	25.4	12.4	14.3	15.6	15.2

Source: Fjeldstad & Zagha, 2002, Table 2.2

Table 4 gives a more specific overview of the percentage of revenue that was cleared with Israel per major tax base from 1995 to 1999. These numbers indicate the extent to which the PNA is dependent on the Israeli tax administration when it comes to the accruement of tax. That dependency becomes detrimental when revenues are not rebated as a consequence of 'bad behaviour' or generally because of closures. In the summer of 1997 for example, tax revenues were delayed and consequently frozen for a period of time, in response to violent attacks (Zagha & Zomlot, 2004; Arnon & Weinblatt, 2001). Due to such closures, the Palestinian Authority's tax department estimated that

> it has lost 50 to 70% of its potential revenue from the value added tax paid by Palestinian for their import from Israel, the tariffs paid at the border for imports from abroad, and the income tax deducted from the wages of Palestinian working in Israel (Samara, 2000, p. 23).

In sum, besides the fact that the clearance system takes away a (albeit symbolic) level of autonomy in creating Palestinian tax policy without external interference, it also ties the PNA to the Israeli 'rules of the game.' It is a reflection of the extent to which the PNA is dependent upon the Israeli tax administration and its level of compliance with the rules of the system (as prescribed in the Protocol). That compliance, however, is contingent upon the interpretation of those rules. The interpretation thereof is often clouded by political friction and security considerations. The functioning of the revenue clearance system is therefore subject to Israeli military and political decisions. These decisions, in turn, are based on (perceived) threats coherent with the Israeli security narrative.

5.3. Labour and Employment

Labour forms one the major bases of economic structural links between Palestine and Israel, as mentioned in Chapter 2. From 1967 up to the 1990s, the Palestinian labour force had been highly dependent upon the Israeli economy. Before the start of the Oslo peace process, around 30 per cent of the Palestinian labour force found employment in Israel or in the Israeli settlements (Roy, 1999, p. 69; Arnon & Weinblatt, 2001, p. 298). The low employment generation potential in combination with the much higher wages in the same industries in Israel as in the domestic economy, caused for a pattern of migration of the Palestinian labour force. Palestinian labourers moved away from the domestic traditional and productive sectors (such as agriculture) and moved to the low-wage, labour-intensive sectors in the Israeli economy (Taghdisi-Rad, 2014). They were largely employed in the agricultural and construction industries. Considered cheap, unskilled labour, the Palestinian workers reduced labour costs for Israeli employers (Arnon & Weinblatt, 2001; Swirski & Dagan-Buzaglo, 2017). With the start of the peace process, the pattern of labour flows into Israel fundamentally changed. The overriding logic of security and the persistence of the closure system altered the nature of the labour relationship between Israel and Palestine. After 1994, the share of the Palestinian labour force employed in Israel or in the Israeli settlements declined to just 14 per cent in 1996 (Arnon & Weinblatt, 2001, p. 298). The dependency of the Palestinian labour force on Israel (i.e. its labour demand) thus became a function of their ability to access Israel and the Israeli settlements. In this section I will analyse why those changes occurred and focus on the manner in which Israeli policy and the Oslo Accords altered the regulation, and demand and supply forces, of Palestinian labour.

5.3.1. Regulating the influx of the Palestinian labour force

The issue of labour already played a central role in the negotiation stage of the Oslo process. Palestinian negotiators had initially expressed their preference for a Free Trade Agreement (FTA), which would have required hard borders for customs purposes. At the time however, the unrestricted access to the Israeli economy for Palestinian labourers was considered more important. As the remittances from the labourers constituted a considerable part of Palestinian domestic revenue, and Israel was keen to formalize the (quasi) customs union that had been in place since 1967, the two parties settled on the labour question and free access to the Israeli labour market remained instituted (Khalidi & Taghdisi-Rad, 2009). The Israeli negotiators however did want to reserve to itself the right to regulate the influx of those labourers, for security and political considerations (Farsakh, 2005a). As such, Article VII of the Paris Protocol enshrined that wish. Paragraph 1 states the following:

> Both sides will attempt to maintain the *normality* [emphasis added] of movement of labour between them, subject to each side's right to determine from time to time the extent and conditions of the labor movement into its area. If the normal movement is suspended temporarily by either side, it will give the other side immediate notification, and the other side may request that the matter be discussed in the Joint Economic Committee.

Besides the fact that the Protocol does not prescribe how the 'normality' of movement should be maintained, it also fails to explicitly mention what is meant with 'normality.' The supposed normality of movement had already been disrupted due to both the permit system that was instituted after the first Gulf War, and the closures (which will be discussed in the following section). Article VII thus did not provide the guarantee of free movement of labour, but instead, guaranteed the freedom to restrict entry.

Though the article seems even-handed and reciprocal, it affects the side that exports the larger share of labour most. The anticipation should have been made that the flow of Palestinian workers into Israel would continue to be the only direction of labour flows. It furthermore does not acknowledge that all workers will be of the type that cross the border in the morning and have to return home at the end of the day (in Europe referred to as 'Frontier Workers), as the right to establish (normally associated with the freedom of movement) is not afforded to them (Wasserstein Fassberg, 1996).[10]

For the settlement of disputes regarding restricted entry for labourers[11], the article refers to the Joint Economic Committee (JEC). Yet, the Committee never actually functioned the way it was intended to (Arnon & Weinblatt, 2001; Khalidi & Taghdisi-Rad, 2009). Khalidi and Taghdisi-Rad (2009, p. 16) called the JEC an 'unwieldy, politicized body whose technical

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[10] Article VII is not accompanied with provisions or regulations covering the right of Palestinian (or Israeli) workers to enter, establish or exit the territory in which they are employed. Regulations covering passage from one area into the other can be found in Annex I of the Cairo Agreement. It appears though that, under the agreement, the Palestinian Authority does not have the right to deny entry to Israelis.

[11] The Joint Economic Committee (JEC) was established under the Paris Protocol, Article II. The Committee was to oversee the implementation of the agreement, and to hear and review any possible disputes concerning the regulations of the Paris Protocol.

machinery never served an effective dispute resolution function.' This, in part, was due to the fact that the activities by the JEC were also dictated by Israel's logic of security. Any case of suspension of the 'normality' of movement that hypothetically could be brought before the JEC, could be justified in terms of security considerations.

5.3.2. Institutional barriers to labour mobility

Before the formalization of restricted labour flows in Article VII, other developments had already heavily influenced the level of 'normality' and redefined the labour relationship between Israel and Palestine. The fact that labour mobility became conditioned upon Israel's security started with the establishment of the permit system. The general permit system was introduced in 1991, after the first Gulf War, as a way to restrict and control general movement of individuals. The new system required Palestinians to obtain individual permits to cross into Israel, for any activities, thus including employment. A permit would hypothetically be granted upon the issuance of a security clearance by Israeli army officials. It furthermore required Palestinian workers to obtain proof of the request for their services from the Israeli employer as well as an official workers registration (Farsakh, 2005b, p. 105). With this policy in place, the Israeli military establishment could at any given time decide to deny permit requests. The number of Palestinian labourers employed in Israel consequently dropped from 1993 onwards (Al-Qadi, 2018; Farsakh, 2005a). The Oslo Accords initiated even stricter criteria for obtaining permits. Since 1993, permits were only given to married men, above the age of 28 and only for a period of two months at a time. Renewal of the permits was not automatic, and labourers were not guaranteed a new permit after the expiry date but instead had to re-apply (Farsakh, 2002b).[12] Table 5 shows data on unemployment and employment in Israel from 1995 onwards. Even though there was a moderate increase in employment after 1996, they never returned to the pre-Oslo levels.

[12] Permits for entry into the Israeli settlements in both the Gaza Strip and the West Bank were much easier to obtain; the age restriction was only 18 years old, and the marital status was irrelevant (Farsakh, 2002b).

Table 5: Labour Force Status (general unemployment and employment in the Israeli areas), 1995-2000

	1995	1996	1997	1998	1999	2000
Unemployed (as % of total Palestinian labour force)	18.2	23.8	20.3	14.4	11.8	14.3
Employed in Israel or the Israeli settlements (as % of total Palestinian labour force)	16.2	14.1	17.1	21.7	22.9	18.8

Source: Palestine Central Bureau of Statistics (PCBS), Labour Force Survey 2012.

To further increase the level of control over Palestinian labour flows, the closure policy was introduced. In response to a series of terrorism-related attacks, roadblocks were put up without prior notice and any existing permits would be suspended for as long as the closure was upheld (Arnon & Weinblatt, 2001). The closures were declared for various lengths of days and would deny workers entry from the Palestinian areas based on varying factors such as marital status, age, sex. The closures also varied in terms of geographical location and severity (MAS, 2001, p. 8). The periods of closures have continued, often following attacks, or the imminence thereof, from the Palestinian territories. Between 1994 and 1999, the total amount of days of closure reached 443 days, constituting an average of 2.5 months a year of restricted access to the Israeli (labour) market (Farsakh, 2005a, p. 130).

In sum, the regulation of the influx of Palestinian labour through the permit system and the closure system (and the officialization thereof in Article VII) not only resulted in higher numbers of unemployment, it also made that unemployment rate widely fluctuating from month to month.

5.3.3. The 'wrong assumption'

One of the issues of the Paris Protocol in relation to labour (especially Article VII), is that it conditioned its functionality on the assumption that borders would remain open. The phrasing 'from time to time' seems to indicate that the architects of the Protocol may have envisioned a freedom of (labour) movement that would only by exception be disrupted. According to a number of authors, there was a hope that the Oslo process would attract enough foreign capital investment, domestic investment in industrial growth and induce domestic productive capacity to enhance local employment generation. There was an assumption that the flow of Palestinian labour into Israel would be replaced by a flow of Palestinian labour-intensive goods. (Kleiman, 1994; Diwan & Shaban, 1999; Farsakh, 2005a). If that development was successful, economic shocks from periods of closure (that would hypothetically only be 'from time to time') could be mitigated by built-in economic stabilizers and buffers. However, the export of Palestinian goods never managed to replace the export of Palestinian labour (Farsakh, 2005a), and a developed and tenable economy remained out of reach.

The issue is that the Paris Protocol considered the question of labour to be one of economic considerations only, leaving potential political, territorial and security considerations out of it. As long as borders remained open, factor mobility would have been a function of economic considerations only. But the Paris Protocol was part of a larger framework of agreements (specifically Oslo II, as it was annexed to it) that pertained to mostly territorial and security regulations. As the Paris Protocol is not a self-regulative document, Article VII became peripheral to the security context of the larger body of the Oslo Accords, and 'normality' became a function of territorial and security claims.

5.3.4. Israeli labour demand and Palestinian labour supply

In the period after Oslo, labour relations between Palestine and Israel were not only structured around the territorial logic of Israel (the permit system and the closure policy) but were also still substantively informed by the economic forces of demand and supply. The structure of Israeli demand and Palestinian supply changed in terms of form and content however, as it was also affected by the volatility of access to Israel. Israeli demand for Palestinian labourers in mainly the construction and agricultural sectors initially remained a strong force and had political weight to the extent that periods of closures from time to time were lifted due to pressure from Israeli entrepreneurs (Arnon & Weinblatt, 2001). However, the permit and closure policies formed too much of an obstacle for Palestinian labour mobility and quickly became too large an issue for Israeli employers. Israel subsequently opened its labour market to migrant workers from mostly Southeast Asia and Eastern Europe, replacing the cheap labourers from Palestine (Amir, 2002; Arnon & Weinblatt, 2001; Farsakh, 2002a; Kav LaOved, 2018; Khalidi & Taghdisi-Rad, 2009). In effect, Israel undid itself from their reliance upon cheap labour from Palestine, whereas Palestinian labourers to a large extent were still reliant upon employment opportunities in Israel and the settlements.

The continued reliance on the Israeli labour market was due to a set of factors related to the employment generation capacity of Palestine. As mentioned before, the domestic Palestinian economy prior to the Oslo process lacked in productive capacity and employment generation, resulting from the higher wages and the high demand outside the domestic economy. Israeli policies had furthermore reoriented Palestinian labour to unskilled- and low-skilled services, for the labour-intensive sectors in Israel. This reorientation meant that they moved away from domestic industry and agriculture, which Roy (1999) held to be sectors ‘critical to the development of productive capacity.’ When unemployment rose in Palestine as a consequence of both the institutional barriers as well as the changed demand structures during the Oslo period, the Palestinian public sector did manage to absorb a substantive part of the unemployed. 25%-30% of the unemployed labour force in the Gaza Strip and 18% in the West Bank became employed in the public sector (MAS, 2000a, 2000b). Though it curbed the unemployment numbers to a certain extent, it also further stifled local productive development, and failed to contribute to the widening of the domestic tax base. As roughly 60 per cent of the state budget was reserved for public sector salaries, Farsakh (2002b, p. 5) even questioned the benefit of this development, in view of “the drain they represent on fiscal revenues […].” Additionally, the growth of the public sector was not sufficient to meaningfully curb the unemployment rate in light of the per annum growth rate of the Palestinian labour force of 4.1 per cent after 1993 (IMF, 2001). The labour force was thus growing at a faster rate than there were employment opportunities in the Palestinian economy. With hardly any other outlet for their labour supply, the Palestinian labour force thus still had to turn to the Israeli labour market, even if that meant they had to resort to the informal labour market (causing even more foregone revenue in terms of income taxes). The regulation and commodification of Palestinian labour turned the Palestinian economy into a ‘labour reserve economy,’ and put Israel in the position to decide when and to what extent freedom of movement actually applied to the Palestinian labourers (Farsakh, 2002a). As Haddad (2016, p. 109) similarly held: “[…] the norm of freedom of Palestinian movement was reversed to one of blanket denial, with exceptions made for particular categories including workers […].” Despite the highly volatile demand and supply forces, and because of the incapacity to locally absorb the unemployed, Palestine’s labour force remained dependent on the Israeli labour market for employment.[13]

[13] The relationship between Israeli labour demand and Palestinian labour supply is even better understood in the context of the larger economic framework in which Israeli economy policy towards Palestinian labour changed. As Haddad (2016) held: “the hyperregulation and commodification of Palestinian labour was […] part of a larger neoliberal economic trend within Israel.” Another relevant example is the way Oslo prioritized foreign investment in the Palestinian economy over local capital (see DoP, Annex II, paragraph 3.f and Annex III, paragraph 4). The crowding out of local capital, however, often caused even more unemployment. For more on the liberalization of Israeli labour policy and the effect of the global economic trend on the economic dimension of the conflict, see: Haddad (2016), Khalidi & Taghdisi-Rad (2014) and Samara (2000).

5.4.4. Labour and employment dependency

The hyperregulation of labour, facilitated by Article VII, the permit system and the closure regime have incurred serious costs for the Palestinian economy and their ability to mobilize revenue and induce economic growth. Additional to the restraining affect they have had on the potential growth of the Palestinian economy they also incurred direct costs. Haddad (2016, p. 110) compared the direct effect of the closure policy to a “switch,” “that when turned off, could eliminate one third of work force jobs, with the giving of an order.” On a similar note, Fischer, Alonso-Gamo and Von Allmen (2001) emphasized the directs costs that Israel’s closure policy could have:

> To illustrate the effect from the loss of labour income alone, roughly 120,000 Palestinians worked in Israel and the settlements in 1999 and earned a daily net wage of around NIS 107 (about $25). Labour income from Israel would be about $750 million (assuming 20 working days per month), or about 18% of GDP. The first order effect from the loss of labour income due to a ten-day closure would thus be about $30 million, or about 0.7% of GDP (p. 265).

The closure policy furthermore caused for losses in remittances from Palestinian workers outside the domestic economy, which signified a large decline in capital inflows for the Palestinian economy. Prior to the Oslo years, remittances constituted a large share of the disposable income, roughly amounting to about 30 per cent of Palestine’s GDP. During the Oslo years, that percentage dropped to less than 10 per cent of GDP (Khalidi & Taghdisi-Rad, 2014; Arnon & Weinblatt, 2001). Hassouneh (2018) found a positive relationship between the remittances from Palestinian workers in Israel and the economic growth of Palestine. Foregone remittances could have fuelled local consumption and surpluses could have been invested in local productive sectors. The Palestinian economy is thus sensitive to inflows of remittances from Israel, and as such, the Palestinian economy is substantially vulnerable to ‘revenue shocks’ resulting from disruptions in the level of remittances.

Furthermore, the unstable unemployment rate and the subsequent growth of the public sector not only increased state expenditure it also caused a substantial loss of annual income, and significantly lowered direct tax revenues for the Palestinian National Authority treasury (Elkhafif et al., 2014, p. 17).

In sum, the restructuring of labour relations during the Oslo process was largely informed by policies of closure, security and control but failed to include economic even-handed policies or protection mechanisms for the unskilled, labour-abundant Palestinian economy.

6. Conclusion

The aim of this thesis has been to analyse the economic relations between Israel and Palestine within the corresponding framework of the Oslo peace process, and to research to what extent the Oslo Accords could have contributed to the continuation of Palestinian economic dependence on the Israeli economy. Although the Oslo peace process was heralded as a new vision for peace, with the novel additions of mutual recognition and the notion of future Palestinian self-determination and statehood, I conclude that it instead has contributed to the formalization and deepening of Palestinian economic dependence on Israel.

The Palestinian trade-sector is still highly dependent on Israeli trade policies, and its potential to grow is still subjugated to policies that are largely shaped along the lines of Israel's trade interests. The Oslo Accords (most notably the Paris Protocol) seems to solely have re-articulated the trade relationship that existed between the two sides prior to 1993. It could even be concluded that trade policies have become more stringent. The regulations concerning taxation and the collection thereof, have created a high barrier to efficient revenue generation. Though some regulations concerning taxation seem to *de jure* improve the situation for the Palestinian economy, they do not decrease reliance on Israel's remittance of tax revenue *de facto*. This is to a large extent due to the periods of closures and the political instrumentalization of the tax clearance system. Lastly, the Palestinian labour force is also still highly dependent on Israeli demand. The potential revenue that could flow from a functional labour relationship with Israel is impeded by the hyperregulation of labour movement, as regulated by the Paris Protocol. It furthermore has become subject to security considerations more so than economic considerations. Labour flow regulations, the closures and the permit system, and structures of demand and supply have turned the Palestinian labour force into a labour reserve for Israel.

The economic dependence that resulted from years of selective integration and imposed separation during the direct occupation has not changed after the Oslo Accords. As Samara (2000, p. 23) put it: "In essence, the Paris Protocol did not effect [sic] any change in policy from the direct occupation era to the postdirect occupation era." The Oslo Accords, and specifically the Paris Protocol, reflect the unequal power relation and consolidate and formalize the colonial economic structures that were present prior to 1993.

On the one hand the Protocol created even-handed and reciprocal policies and regulations that failed to take into account that any power-sharing agreement would inevitably give Israel more power. These policies structurally and disproportionately disadvantaged the Palestinian economy. On the other hand, policies were designed for the Protocol that solely serve to protect the interests of the Israeli economy, explicitly not affording the same rights and regulations to the Palestinian side. The mechanism design, of the Protocol specifically, was based on the illusionary separation of economic and political issues; it failed to prioritize economic considerations over security considerations. For example, the closure policy (as a manifestation of the security priority) was not considered a violation of the agreements' terms (which it is *prima facie*), but instead was considered the prerogative of Israel.

In sum, the Oslo Accords did not deal with the colonial and occupational aspects of the relationship between the Israeli and the Palestinian economy adequately. Quite the opposite; it enforced and sustained the colonial relation of domination and dependence by embedding economic questions into the Israeli security narrative, for Oslo institutionalized the supremacy of Israeli security over essentially all issues.

The implications for the envisioned two-state narrative are thus serious. The formalization of dependence offered the Palestinian Authority little no expansion of (economic) policy space, and made the separation of the Palestinian economy from the Israeli economy even less likely. It severely limited the Palestinian goal of national liberation. The Oslo peace process essentially created the concept of an economically contained and dependent statehood, as opposed to the form of statehood that Israel itself enjoys. Regardless of whether or not this outcome was pre-envisaged, Oslo facilitated the continuation of Israeli colonial structures of land expropriation and the disarticulation of the Palestinian economy. As Khalidi and Taghdisi-Rad (2009, p.1) put it "indeed, the very economic, territorial and institutional policies needed to continue occupation are those which perpetuate conditions not conducive to Palestinian sovereignty and statehood."

It therefore must be questioned whether there is any viability in a two-state solution, whether in the form proposed in the Oslo Accords, or in any other form. As I wrote this thesis, renewed interest in the two-state solution came to the fore (read, Trump's 'deal of the century,' officially titled: "Peace to Prosperity: A Vision to Improve the Lives of the Palestinian and Israeli People"). This only emphasizes the need for more research into the viability of two states existing next to each other. Not only the economic dimension should be researched thoroughly, every single dynamic of the relationship between Palestine and Israel should be considered before policymakers propose plans that could potentially be detrimental to a viable liberation of Palestine. I have contributed to this body of research by arguing that as long as the Palestinian economy is not independent, decolonized and de-occupied, there cannot be spoken of a viable two-state solution.

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