

The Political Economy of the Second Palestinian Intifada through the Lens of Dependency Theory and World Systems Analysis

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Abstract

In the midst of the chaos and the violence of civil-ethnic conflict, there is often little attention paid to the economic consequences which endure long past the moment of crisis. In conflicts that end in situations of prolonged occupation of one national group over another, complex and enduring dependencies tend to develop between occupier and occupied.

Since the Israeli occupation of the West Bank and the Gaza Strip in 1967, the Palestinian economy has grown highly dependent upon the Israeli economy and has developed within the confines of Israeli military power. When the second Palestinian Intifada (uprising) broke out in September 2000, the Palestinian economy suffered even more.

This paper discusses the Palestinian economy through the framework of dependency theory and world systems analysis. Both theories are used in order to explain the complex relationship between Israel and the Palestinians and the relationship of dependence that has been perpetuated by Israel since the signing of the Oslo Agreement in 1993.

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Introduction

Introduction

In the midst of the chaos and the violence of civil-ethnic conflict, there is often little attention paid to the economic consequences which endure long past the moment of crisis. Since all conflict is a competition over scarce resources, it is essential to understand the political-economic reasons for and results of civil-ethnic strife. In conflicts that end in situations of prolonged occupation of one national group over another, complex and enduring dependencies tend to develop between occupier and occupied. The vast literature on civil-ethnic conflict tends, however, not to focus on this very significant element of the post-conflict situation.

Since the Israeli occupation of the West Bank and the Gaza Strip in 1967, the Palestinian economy has grown highly dependent upon the Israeli economy and has developed within the confines of Israeli military power. When the second Palestinian uprising (Intifada) broke out in September 2000, the Palestinian economy suffered even more. The occupation of the West Bank and Gaza Strip has enabled Israel to essentially control the Palestinian economy and this has proven an overwhelmingly negative experience for the Palestinians.

In any conflict situation an armed uprising is intended to yield a positive result, either economic or humanitarian. In the case of the second Palestinian Intifada, neither the economic nor humanitarian situation improved; in fact it was negatively impacted by the actions of the Palestinian fighters. These 'fighters' are the terrorist wings of various Palestinian organizations. They include Hamas, Popular Front for the Liberation of Palestine (PFLP), Fatah (the faction Yasser Arafat was associated with), the Al-Aqsa Martyrs Brigade, among others including the Lebanese organization Hizbollah. By taking

on the Israeli Defence Forces, they encouraged Israel to take more drastic action towards the Palestinians and this has helped precipitate the downward trend of the Palestinian economy. By closing the borders to Palestinian workers and goods, in the name of security, Israel has crippled the very dependent Palestinian economy.

This thesis explains who benefited from the second Intifada and why. Every conflict has specific goals and reasons for waging war, and the Intifada is no different. If the Intifada had goals, what were they and why were they not met? The thesis posits that the relative dependence of the Palestinian economy on the Israeli economy deepens during times of crisis. The thesis frames this argument by drawing critically from the centre-periphery framework outlined by dependency theory in International Relations. The realities of different Israeli policies towards the Palestinians and their negative humanitarian and economic impact on the Palestinian people and economy are discussed. These policies are an important barometer for the level of dependence between Israel and the Palestinians. Policies such as closure, labour flows to and from Israel, and the policies concerning Arab residents of Jerusalem, among others are discussed within the framework of dependency.

Dependency theory is a multifaceted way of looking at the relationship between countries. There are many influential authors within the dependency school of thought, such as Andre Gunder Frank, Immanuel Wallerstein, and Milton Santos. These authors deal with the relationship between the core and the periphery, in the context of hegemony and the rest of the world, explaining how countries have developed or not developed within the global system. This framework provides a novel way of looking at the Israeli-Palestinian conflict as a microcosm of the global political economy. These authors

generally concern themselves with the relationship between the historical hegemons and their colonies at the time, or the current hegemon (the USA) and the countries that are dependent on it for trade (all other countries). When applying this paradigm to the Israeli-Palestinian conflict, Israel is the hegemon and the Palestinians are the periphery. Another novel element of this thesis is its application of dependency theory to a state and non-state actor. In this case the state is an occupying power and the non-state actor is an occupied people/territory. This provides a way to explain the reasons that the Palestinian economy has suffered, as well as explain how Israel makes its decisions as the powerful actor in a relationship of dependence.

The framework of dependency theory has yet to be applied to the Israeli-Palestinian conflict, particularly with regard to the second Palestinian uprising. Many authors explain reasons why the Palestinians have suffered at the hands of Israel but there has been no sustained or systematic explanation of the conflict using dependence as a key political-economic variable.

Chapter Outline

The first chapter of this thesis provides a historical exploration of the Israeli-Palestinian conflict. In order to understand how the relationship of dependence has grown during the second Intifada it is important to see how it started. The similarities and differences in the literature concerning the second Intifada are examined. In this literature there is significant variation on the subject. Many of the authors disagree on why the Palestinians have suffered the way that they have. There will be some review of relevant literature dealing with the events that contributed to the second Intifada.

The second chapter discusses dependency theory and world systems analysis. It examines the prominent themes found in the two theories in order to apply them to the Israeli Palestinian conflict in the following chapter. The relationship between the core and the periphery as defined by Wallerstein and Frank is looked at critically in order to better understand the basis of the two different but similar theories. As well the literature concerning the theories is examined.

The final chapter provides a case study of the negative economic impact of the second Intifada on the Palestinian economy. Different factors will be examined to measure the impact of the second Intifada such as labour flows, unemployment levels before and after the Intifada, and imports and exports. Based on these factors the Palestinian economy has shrunk and its negative downturn can be directly attributed to the Intifada and the Israeli reactionary policies towards the Palestinians. It explains that based on these factors, the relationship between Israel and the Palestinians can be viewed through the lens of dependency theory. The different points that the theorists use to explain the relationship between the hegemon and the periphery are used and applied to the Israeli-Palestinian conflict. This chapter demonstrates that the Israeli-Palestinian situation is not very different from the hegemon (Britain) and its colonies in the 18th and 19th centuries or the USA and the dependent countries of Latin America or Africa today.

Conclusion

The conflict between Israel and the Palestinians is an extremely complicated one. The conflict is explained by looking at one major factor, the economy of the Palestinian Territories. The conflict could be explained in a number of ways. By considering the political economy the reader gets a truer picture of how the impact of the fighting has

created enduring economic dependence, even though the conflict has not been primarily fought economically,. Much of the literature on the Israeli-Palestinian conflict can be divided between left and right wing perspectives, pro-Israel or pro-Palestinian. The authors on the two sides do not provide meaningful analysis of the conflict. The goal of this thesis is to be as objective as possible by explaining the issues and facts in the context of this situation between these old adversaries.

The Israeli – Palestinian Conflict

Introduction

The signing of the Balfour Declaration in 1917 can be looked upon as the real start of the conflict. The Declaration was a promise from the British foreign office made by then Foreign Secretary Arthur Balfour, that the Jews would be given the land in Palestine in return for their support in World War I. The British made this Declaration without any consultation with the Arab majority in the land at the time.¹ This would prove to be one of the most contentious issues in the Israeli-Palestinian conflict.

After World War I the British gained control of Palestine and Transjordan by virtue of a mandate from the League of Nations.² The surrounding Arab populations always maintained that they would not support a Jewish state in Palestine in any form. They saw the Jews as a threat to the Palestinian population that had inhabited the land for many centuries.³

By the mid-1940s Britain saw that there was no solution to the land dispute between these two groups and as a result it sought to remove itself from the situation and end its mandate. The newly established United Nations thought that partitioning the land between Arabs and Jews was the best option in order to have the least amount of violence. Jerusalem was designated an international city to be administered by the UN. This plan would have established two distinct entities on different parts of the land and

¹ Benny Morris, *Righteous Victims: A History of the Zionist-Arab Conflict 1881-2001* First Vintage Books, Toronto 2001 p. 73-76

² The League of Nations was the organization that took administrative control of all of the Middle East after World War I and the collapse of the Ottoman Empire. The land of the Middle East was divided up between the victors of that war, France and Britain. Britain controlled Transjordan and Palestine while France was awarded Syria and Lebanon.

³ Morris, p. 76-82

there would have been two separate economies. The Jews supported this plan, but the Arabs did not.⁴

The conflict between Israel and the Arab states erupted with Israel's Declaration of Independence on May 14th, 1948. This war was fought in the name of the Palestinian people by their Arab neighbours Jordan, Egypt, Lebanon, Syria and Iraq. Israel triumphed in this war, and 700,000 Palestinians were displaced by Israel and by their own leaders who advised them to leave their homes in order to avoid getting caught in the fighting.⁵ This war, called in Arabic *nakba*, the catastrophe, started the massive refugee problem in the West Bank and Gaza Strip that is still an issue today. The Palestinian refugees fled to the West Bank, the Gaza Strip, Jordan (on the east side of the Jordan River) and Lebanon. The majority of Palestinians in the West Bank and Gaza Strip are descendents of these refugees and many still live in the refugee camps set up after the 1948 war.⁶ Since 1949 the Palestinian refugees have depended on the UN for support. The United Nations Relief and Works Agency for the Palestinian Refugees in the Near East (UNRWA) was established to provide support for the Palestinian refugees with the goal of eventually leaving the region when either the issue was resolved, or when the refugees were re-settled. Neither of these results came to fruition. Instead the Palestinian refugees became economically dependent on the organization.⁷ This is one of the contributing factors to the dependence of the Palestinians on Israel.

This war was a great victory from Israel's point of view. They were fighting against much more professional and better equipped armies, but that did not stop Israel

⁴ Morris p. 180-189

⁵ Morris p. 252

⁶ Morris p. 252

⁷ Morris p. 249

from gaining territory that was not allotted to it in the original 1947 United Nations partition plan. From the Palestinian point of view this was a catastrophe as their name for the war attests. Many Palestinians lost the homes they had been living in for hundreds of years and were forced into refugee camps.

There has been a subsequent series of Arab-Israeli wars in 1956, 1967, 1973 and 1982. There were a few major turning points in this conflict, one of the most important being the Israeli victory in the Six-Day War in 1967. In 1967 Israel was triumphant in its pre-emptive strike against its Arab neighbours. The result of this war was the Israeli control and occupation of previously Arab controlled territories. These are the Sinai Peninsula⁸ and the Gaza Strip from Egypt, the West Bank and East Jerusalem from Jordan and the Golan Heights from Syria.⁹ This was the beginning of a long relationship of economic (and political) Palestinian dependence on Israel. Before 1967 Jordan and Egypt were responsible for the economies of the West Bank and Gaza Strip respectively. After the war, Israel became the main trading partner of the Palestinians and Israel began employing Palestinian labour en masse. Immediately the Palestinian economy was hurt by this relationship because Palestinian people went to work in Israel instead of building their own economy.¹⁰

One of the most important developments in the history of Israel and her Arab neighbours were the Oslo Accords, also known as the Declaration of Principles (DOP). This was the first agreement between the Palestinian people and Israel. Prior to this

⁸ The Sinai Peninsula was returned to Egypt as part of the 1979 peace agreement between Israel and Egypt.

⁹ Morris p. 329

¹⁰ Leila Farsakh, "Palestinian Labor Migration to Israel Since Oslo and Beyond" from *The Middle East Economic Association* 2002 Proceedings April 17, 2007 p. 1

agreement the Palestinians had been represented by Jordan and this relationship had not advanced the cause of the Palestinian people.

There were a number of factors that led to the signing of the DOP. One factor was the first Intifada (uprising) waged by the Palestinian people. This uprising began in 1987 and officially ended with the signing of the Oslo Accords in 1993. The Intifada showed Israel that the Palestinians would not sit idly by anymore and that they wanted a real change to the situation that had been perpetuated since 1967.

Another major factor that led to the signing of the DOP was the fact that the Palestine Liberation Organization (PLO) and Yasser Arafat (its leader) had supported Saddam Hussein in the First Gulf War. Hussein had always been a strong supporter of the Palestinian people and the PLO, but Arafat failed to recognize that there were hundreds of thousands of Palestinians working in Kuwait and other Gulf states who were opposed to Hussein's actions in the region. This led to the expulsion of these Palestinian workers from the Gulf states and ended the remittance payments that had been flowing into the Palestinian territories for years. The Palestinian workers that were employed in the Gulf states had sent back large portions of their pay checks to their families in the Palestinian territories. This turn of events greatly hurt the Palestinians economically and they saw an agreement with Israel as a potential way to increase the economic standing of the Palestinian territories.¹¹ Israel, as well, saw an agreement with the Palestinians as a way to increase its economic position in the world. By having cheap labour on its doorstep and by being able to control the flow of goods and people to and from the Palestinian territories, Israel saw great economic opportunities in an agreement with the Palestinians.

¹¹ Morris p. 613

The Oslo accords were hailed as an economic and political breakthrough and promised economic prosperity to the Palestinians and Israelis. While the Israeli economy did grow by a significant margin, the Palestinian Territories did not see an equivalent increase.¹² The economic situation in the Palestinian Territories at that time deteriorated and the Palestinian people found it hard to find work in Israel. Through different Israeli policies such as the different levels of closure¹³, the Palestinians found themselves routinely cut off from Israel and therefore unable to find steady employment. Before the Oslo accords were signed, Palestinians made up a large portion of the Israeli workforce. Post-Oslo these opportunities for employment decreased.

The PLO had become the de facto leader of the Palestinian people led by Yasser Arafat and his Fatah movement. When the DOP was signed, the Palestinian Authority was established as the government of the Palestinian people in the territories (West Bank and Gaza Strip) with Arafat as its President. Since 1993 Israel has only dealt with the PA when negotiating with the Palestinians. The purpose of the establishment of the PA was to provide Israel with a real partner to negotiate terms of final status issues, but also in order for there to be a government that would grow and become independent from Israel.¹⁴

The Israeli economy is quite different from the Palestinian, on a number of levels. Historically the Israeli economy was based on agriculture and was more concerned with the domestic market than the external global market. In the 1980s this changed and the

¹² Joel Beinin, *The Oslo Process and the Limits of a Pax Americana* in *The Struggle for Sovereignty: Palestine and Israel 1993-2005* ed. Joel Beinin and Rebecca L. Stein Stanford, California. Stanford University Press 2006 p. 34, 29

¹³ Closure is an Israeli policy that inhibited the movement of Palestinians to varying degrees; from a total ban on movement to the closure of borders for goods and people.

¹⁴ Morris p. 623

economy became much more diversified. The state became less socialized and more global. There was a large amount of foreign investment in Israel in the first half of the 1990s. In the mid-1990s there were 100 Israeli firms listed on US stock exchanges. IBM, Intel, Microsoft and other major multinational corporations invested in Israel's burgeoning high tech industry. By 1996 total foreign investment reached \$19.6 billion.¹⁵ This boom can be directly attributed to the peace process as well as a more global orientation on the part of the Israeli government. Since the start of the second Intifada, the Israeli economy has not been as strong, but it is still diversified with large industry and high tech sectors.

The Palestinian economy is a different story. That economy has been dependent on Israel since 1967 and historically on the export of labour to Israel. Labour movement has been more important to the Palestinian economy than the export of goods.¹⁶ In 1992 the number of Palestinian workers in Israel reached an all time high. That number fell in May 1996 and continued to decrease with the start of the second Intifada.¹⁷ The Palestinian economy is agriculture-based with food processing and textile industries as the other major income earners. The Palestinians, therefore, do not have the same high priced output of the Israeli industry and technology driven economy.

As the Palestinian economic situation declined, there was an effort by Israel to negotiate a comprehensive peace agreement. In the summer of 2000 Israel and the Palestinian Authority went to Camp David in the USA to try to reach an agreement. Israel was led by then Prime Minister Ehud Barak and the Palestinians by Yasser Arafat. Out of

¹⁵ Beinun p. 34

¹⁶ Claus Astrup & Sebastien Dessus "Exporting Goods or Exporting Labour?: Long-term Implications for the Palestinian Economy" in *Review of Middle East Economies and Finance* vol. 3 no. 1 April 2005 p. 39

¹⁷ Farsakh p. 1

this summit came no new agreement and only increased animosity between the two sides. The Palestinian people were disappointed that there were no results. Instead, there were harsher conditions placed on the Palestinians. Instead of the prosperity that the Oslo Accords had promised the Palestinians, they were upset that they were increasingly cut off from economic opportunities in Israel proper. In response, the Palestinians rose up against Israel in what is known as the Al-Aqsa (or second) Intifada. This armed struggle proved to be very different than the first Intifada in that there were significantly more casualties on both sides; as well this was more of a full out conflict with the Palestinians taking up arms instead of rocks.¹⁸

The second Intifada was a watershed moment in the history of the Israeli-Palestinian conflict. It has had devastating effects on the Palestinian people both politically and economically.

Literature on the Israeli-Palestinian Conflict

When dealing with the second Palestinian uprising, the Al-Aqsa Intifada, it is important to understand the different views that scholars and human rights groups have on the topic. There is a plethora of literature on the Israeli-Palestinian conflict. The nature of the conflict is interesting because it is hard to find literature that truly takes a balanced view of the situation.

Admittedly it is harder to find credible information from the ‘pro-Israel’ side. The leftist more ‘pro-Palestinian’ side is more organized and prolific in its writings. When researching in Israel, it was harder to also find Israeli right wing organizations that exist

¹⁸ During the first Intifada the Palestinians mainly used rocks to fight the Israeli Defense Forces. B’Tselem – The Israeli Information Center for Human Rights in the Occupied Territories – Statistics – Fatalities <http://www.btselem.org/english/Statistics/Casualties.asp> October 12, 2009

for the purpose of education than left leaning ones. In contrast, organizations such as the Alternative Information Centre based out of Jerusalem and B'tzelem, the foremost Israeli organization on human rights in the territories, have a wide array of literature on the situation and on the economy. These organizations generally take a more left wing view and lay blame on Israel for the hardships suffered by Palestinians.

There are three main themes to the conflict, the Oslo process, the second Intifada, and the building of the Barrier through the West Bank. Each is unique in the literature, with differing views on the three topics. Starting with the literature concerning the Oslo process, one of the most important books comes from one of the architects of the plan, current President and former Prime Minister of Israel, Shimon Peres. In his book *The New Middle East* he outlines what he sees as the most important issue concerning the conflict; the economy. Peres outlines his dreams of an economically integrated Middle East that will bring peace and prosperity to all countries. Peres explains,

If war is the source of regional distress, the one and only solution is peace. In addition to the direct economic advantage of peace, a wide spectrum of fantastic opportunities will open up, with backing from local and foreign sources as well as government and international aid. It will take a generous infusion of capital to create a lasting peace. But not only will the investors and producers benefit, the consumers—the thousands who now live under poor conditions—will gain. The continued advance toward economic compatibility among the countries of the region will enable the ultimate establishment of a regional economic system aimed at growth, development, and prosperity.¹⁹

The “New Middle East” is the idea of regional economic integration. It was conceived at the time the Oslo agreement was signed when there was a level of increased prosperity across the region. This, however, did not last long. The “New Middle East” relied on the, “ideology of globalization and shared its underlying tenets of rationality,

¹⁹ Shimon Peres, *The New Middle East* New York, 1993 p. 92-94

professionalism and virtues of market economy.”²⁰ Peres saw this agreement paralleling the establishment of the European Union. The EU was formed to fight the common enemy of communism; Peres saw the integration of the Middle Eastern economies as a way to fight the common enemy of poverty. Guy Ben-Porat asserts that there were three main obstacles to regional integration: wide gaps between national economies, a lack of trust between leaders and countries and difficulties in promoting cooperation beyond elites.²¹ He goes further to say that the Arab countries feared Israel because it was so much more powerful economically. They were reluctant to integrate because of the fear that Israel wanted to control their economies and become a regional hegemon.²²

The Oslo peace process had promised many things, including Peres’s plan. Peres asserted that if Israel and the Palestinians had a common market and worked together to make both of their economies stronger, there would be no reason to be in conflict with each other. If there was a mutual understanding that Israel needed the Palestinians economically and vice versa, they could work together, and the other issues would fall into place.

Needless to say, this economic integration did not happen. Many scholars such as Sara Roy, Leila Farakh and Joel Beinin are in agreement that the economic (as well as the political) framework laid out in the Oslo agreement was never fully realized on the Palestinian side of the border.²³ While Israel did see increases in its foreign direct

²⁰ Guy Ben-Porat “A New Middle East? Globalization, Peace and the ‘Double Movement’” in *International Relations* Vol. 19 No. 1 p.21

²¹ Guy Ben-Porat , p. 52

²² Guy Ben-Porat p. 52

²³ Sara Roy “A Nightmare Peace: Destroying the Basis of a Palestinian State” in *Palestine-Israel Journal of Politics, Economics & Culture* vol. 11 no. 1 2004, Leila Farsakh, “Palestinian Labor Migration to Israel Since Oslo and Beyond” from *The Middle East Economic Association* 2002 Proceedings April 17, 2007, Joel Beinin, *The Oslo Process and the Limits of the Pax Americana* in The Struggle for Sovereignty:

investment as well as diversification of its economy, the Palestinians did not.²⁴ Since 1967 the Palestinian workforce had depended on Israel for employment both in Israel proper and the West Bank and Gaza Strip (WBGS). Since the Oslo agreement was signed there have been more and more obstacles for the Palestinian workers to get into Israel in order to find work. Claus Astrup and Sebastien Dessus from the World Bank explain what many other scholars agree with,

The negative impact could have been attenuated by higher investments and technological transfers in WBGS, which would have increased domestic labour productivity. However, this model of economic integration, implicitly envisaged by the Oslo agreements, failed. In particular, business investment in WBGS remained very low, thereby leading to a divergence in factor productivity compared with Israel.²⁵

During the Oslo period the Israeli policy of closure became a significant issue for the Palestinians. Closure is the restriction by Israel of the movement of Palestinians and goods in the WBGS and into Israel. Sara Roy²⁶, Emma C. Murphy²⁷ and others agree that the movement of Palestinians was greatly hindered during this time. The number of Palestinians allowed into Israel dropped from a high of 115,600 people in 1992 before the Oslo process to 36,000 in May of 1996 and continued to decline after the start of the second Intifada.²⁸

Palestine and Israel 1993-2005 ed. Joel Beinin and Rebecca L. Stein, Stanford, California. Stanford University Press 2006

²⁴ Beinin, p. 34

²⁵ Claus Astrup & Sebastien Dessus "Exporting Goods or Exporting Labour?: Long-term Implications for the Palestinian Economy" in *Review of Middle East Economics and Finance* vol. 3 no. 1 April 2005 p. 40

²⁶ Sara Roy "The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied" in *International Journal of Politics, Culture and Society* vol. 17 no. 3 Spring 2004 p.368

²⁷ Emma Murphy "Buying Poverty: International Aid and the Peace Process" in The Struggle for Sovereignty: Palestine and Israel 1993-2005 ed. Joel Beinin and Rebecca L. Stein, Stanford, California. Stanford University Press 2006 p.57

²⁸ Leila Farsakh, "Palestinian Labor Migration to Israel Since Oslo and Beyond" from *The Middle East Economic Association* 2002 Proceedings April 17, 2007 p. 1

One of the more contentious issues of this period was the expansion of the Jewish settlements in WBGS and the territorial division of the West Bank. After the signing of the Oslo II agreement in 1995 the West Bank was divided into areas A, B and C with A and B being under some degree of Palestinian control and area C under total Israeli control. Many scholars on the Left saw this as a cantonization of the West Bank with each area being tightly controlled. It grew increasingly difficult for the Palestinian population to move in and out of these areas and this only added to the troubles of the Palestinians. Israel saw the division of the West Bank as a way to transition governance from Israel to the Palestinian Authority and so that it was still able to control the borders of the Palestinian territories. Movement of Palestinians was restricted in order to protect Israel and the Israeli settlements from terror. Scholars on the Right however saw this as a way to enable Palestinians to self-govern and many saw this as an end to occupation. Alan Dershowitz writes in his book *The Case for Israel*, "...Israel ended its occupation in 1995, only returning to *some* [sic] areas to prevent terrorism."²⁹ Dershowitz sees the division of the West Bank as a means to curb terrorism and not as a restriction of Palestinian movement. Economically this has negatively affected the Palestinian people because Israel essentially has maintained control over 82.8 percent of Palestinian territory through areas B and C.³⁰ Area C was under complete Israeli control and area B was under Palestinian civilian but Israeli military control. This enables Israel to control the resources and the flow of labour that are under their jurisdiction. Sara Roy explains,

Geographic cantonization and closure have had a deleterious impact on economic activity by dividing already small economic units into even smaller ones and by denying Palestinians control over their borders, both internal and external, to the West Bank and Gaza. Furthermore, such geographic discontinuity has given Israel

²⁹ Alan Dershowitz *The Case for Israel* Hoboken, New Jersey. John Wiley & Sons, Inc. 2003 p. 159

³⁰ Roy, *The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied* p. 369

a new mechanism with which to maintain unchallenged control over Palestinian resources and factors of production• namely labour, land, and water• and to maintain Palestinian economic dependence on and integration with Israel.³¹

In terms of the Palestinian economy, it was in a better state before the Oslo agreement was signed. In the year 2000, at the end of the Oslo period, per capita income levels in the WBGS were estimated to be ten percent lower than their pre-Oslo levels.³² Even with a considerable amount of foreign aid, living standards had decreased from their previous levels.

The main issues that the Oslo process was supposed to solve were “(1) the borders and nature of the Palestinian entity, (2) the fate of Israeli settlers and settlements, (3) the status of Jerusalem, (4) the Palestinian refugee question, and (5) water rights.”³³ These five issues are commonly referred to as the final status issues, and would have to be resolved before there could be any everlasting peace agreement. The negotiations on these issues were postponed from the original talks to the final status meetings that were supposed to be held at a later date but never occurred.

The bridge between the Oslo agreement and the second Intifada is the Camp David summit of 2000. The failure and breakdown of this summit led directly to the outbreak of the second Intifada. While this summit is a seminal event in the history of the Israeli-Palestinian conflict, it does not directly pertain to the economy and therefore will not be discussed in detail in this thesis.

The major topic of this thesis is the second Palestinian Intifada. This topic is perhaps the most varied in terms of the literature. Scholars on both sides of the debate

³¹ Roy, *The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied* p. 370

³² Salam Ajluni, “The Palestinian Economy and the Second Intifada” in *Journal of Palestine Studies* vol. 32 no. 3 Spring 2003 p. 66

³³ Joel Beinin, p. 27

have trouble agreeing on its economic impact was on the Palestinians. There are a number of issues that need to be discussed when dealing with the second Intifada, for example, the movement of goods and people from the WBGS to Israel and within the territories. As previously mentioned closure is a major obstacle for the Palestinian population. Experts on this subject generally agree that movement has been restricted since the time of the signing of the Oslo agreement and even more so after the outbreak of the second Intifada. Leila Farsakh, Sara Roy, Amira Hass and Jeff Halper, among others point to Israeli policies as the reason for the hardships suffered by the Palestinians.³⁴ The closure policy is an Israeli one and therefore is Israel's 'fault'. These authors point to the fact that Israel has retained control of the borders of WBGS since 1967 and this has hindered the Palestinians' ability to develop in a meaningful way. Conversely scholars on the right such as Alan Dershowitz point to terrorism as the reason for the closure policy and explain that it is the 'fault' of the Palestinians that this policy exists in the first place.³⁵

Most authors agree that Israel's closure policy has had a devastating effect on the Palestinian economy.³⁶ A World Bank study conducted in 2004 demonstrates its effects.

The specific measures that have had the greatest effect on the Palestinian economy are 'closures,' or restrictions on the movement of goods and people, not

³⁴ Farsakh, Palestinian Labor Flows to the Israeli Economy: A Finished Story? P.19, Roy, The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied p. 367, Amira Hass, "Israel's Closure Policy: An Ineffective Strategy of Containment and Repression" in *Journal of Palestine Studies* Vol. 31 no. 3 Spring 2002, Jeff Halper, "The 94 Percent Solution: Israel's matrix of control" in The Struggle for Sovereignty: Palestine and Israel 1993-2005 ed. Joel Beinin and Rebecca L. Stein, Stanford, California. Stanford University Press 2006 p. 65

³⁵ Alan Dershowitz, The Case for Peace: How the Arab-Israeli Conflict Can Be Resolved Hoboken, New Jersey. John Wiley & Sons, Inc. 2005

³⁶ Sara Roy Failing Peace: Gaza and the Palestinian-Israeli Conflict Pluto Press, London 2007 p. 112, Mouin Rabbani Palestinian Authority, Israeli Rule in The Struggle for Sovereignty: Palestine and Israel 1993-2005 ed. Joel Beinin and Rebecca L. Stein, Stanford, California. Stanford University Press 2006 p. 78, Salem Ajluni in The Palestinian Economy and the Second Intifada p. 66

only between the West Bank and Gaza and the neighbouring states of Israel, Jordan and Egypt but also within the West Bank and Gaza.³⁷

As the Israel Defense Forces re-entered cities that they had previously evacuated they re-instituted the restriction of movement for these cities. In some villages the IDF imposed twenty-four hour curfews. By doing this for some 750,000 people, the economy essentially went from “economic depression to economic paralysis.”³⁸ Salem Ajluni explains what the main economic consequences of these actions were for the Palestinians,

The main economic effects of widespread violence and movement restrictions were the disruption of production and circulation of goods and services and, therefore, a rapid reduction in national income. GNI—the broader measure of national income—was estimated to have fallen from about \$6.1 billion in 1999 to \$5 billion in 2001—a 17 percent decline. Factoring in population growth, per capita income declined by about 23 percent in the first fifteen months of the crisis.³⁹

This trend continued into 2002 by falling another twenty percent. From 1999 until 2002 there was a forty percent drop in average earnings. Sara Roy also explains that the unemployment rate increased by a significant margin in this same time period. She states, “Between September 2000 and September 2002, the average unemployment rate (including discouraged workers) rose from an average of 10 percent to over 40 percent.”⁴⁰ In the literature, closure policy is continually mentioned as a key reason for the economic depression of the WBGS; when the borders are closed the unemployment rate soars. This first happened in 1996 after a string of suicide bombings inside Israel and then again with the start of the second Intifada.

Another important aspect to the development of the Palestinian economy is that of Israeli incursions into Palestinian territory. While it would make economic sense that

³⁷ Miskel P. 50

³⁸ Ajluni p. 66

³⁹ Ajluni p. 67

⁴⁰ Roy The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied p. 379

Israeli incursions would hurt the Palestinian economy the Israeli response to terrorism is to be expected. James F. Miskel explains,

No government would stay in power long if it failed to take steps to protect its civilian population from such an assault. Israel's incursions and closures are not only logical steps, they may have been the only steps that Israel could realistically have taken. More draconian measures, such as mass arrests or more extensive military operations, might theoretically have been possible, but Israel would have risked retaliation by neighbouring Arab states. And such measures would have been unpopular with the Israeli public and with Israel's main ally, the United States.⁴¹

He goes on to assert that the Palestinian leadership understood that the Israeli response to its terror was going to be detrimental to their economy.

Since such security measures have predictable economic consequences, it follows that the perpetrators must have known that the Israeli security measures they were provoking would damage the Palestinian economy. This means that declines in the living standards of West Bank and Gaza residents must be considered as intended consequences of the strategy of anti-Israeli violence.⁴²

Miskel explains that the Palestinians⁴³ were willing to devastate their own economy for a number of reasons. By affecting their economy negatively, the Palestinian leadership would be able to better control the population. When the majority of people do not have jobs because of the closure policy, it is easy for the Palestinian leadership to scapegoat Israel as the reason for their lack of employment. The Palestinian leadership encouraged thinking within the general population that Israel is the aggressor, when it could be argued that Palestinian terrorism is the real reason that the borders are often closed.

The battle for world public opinion between Israel and the Palestinians is one that is always at the forefront of the Israeli-Palestinian conflict. Hence, the Palestinians have

⁴¹ James F. Miskel, "The Palestinian Intifada: An Effective Strategy?" in *World Policy Journal* Winter 2004/2005 P. 50

⁴² Miskel p. 50

⁴³ This refers to the Palestinian Authority but also to other Palestinian organizations such as Fatah and Hamas.

encouraged the devastation of their own economy in order to be looked upon favourably by the world and to encourage a negative view of Israel. By doing this the Palestinians hope that they would receive more aid and sympathy from countries around the world that would traditionally abstain from taking a side in the conflict or that support Israel traditionally.

Dershowitz echoes Miskel's sentiments and asserts that this was Arafat's 'grand plan' all along,

The plan was simple: start murdering Jews at prayer, Israeli teenagers at pizza parlours and discos, pregnant women in shopping malls, workers taking a falafel break, and university students sipping soda in a student lounge. You can count on an Israeli overreaction, especially after you help elect a hawkish general as prime minister, who promised to be tough on terrorism. Even if there is no overreaction, there will surely be *some* reaction that you can characterize as an overreaction.⁴⁴

Even though the Palestinian leadership encouraged Israeli violence though its policy of encouraging terrorism, Israel has continually hurt the Palestinian economy and infrastructure. Sara Roy points to the community of Beit Hanoun in the Gaza Strip as an example of this devastation. She states that from January 2001 until the spring of 2004, this one town incurred over \$86 million in losses due to the actions of the Israeli military.⁴⁵ The United States government also toured the area and stated that the destruction was widespread and would take a large amount of money to rebuild what had been lost.⁴⁶

Once again there is not a large amount of literature from the right side of this debate.⁴⁷ The common response is that Israel is just defending its borders. There are no articles or books dealing with the economy of the second Intifada from the 'pro-Israel'

⁴⁴ Dershowitz The Case for Israel p. 120

⁴⁵ Roy The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied p. 374

⁴⁶ Roy The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied p. 374

⁴⁷ One of the only authors that I could find on the right was Alan Dershowitz.

side. This is a serious problem when one is trying to find out the real story of the Palestinian economy. In order to provide a truly balanced account of what has happened in this conflict there needs to be meaningful literature from both sides of the debate and this simply has not happened.

The last major issue is the Security Barrier. Like the other topics this is one that has been written about extensively and in a diverse way. Many authors point to the second Intifada as the direct reason for building the barrier. The barrier was built for security, and security alone according to Israel.⁴⁸ The President of the Israeli Supreme Court, Aharon Barak, is quoted by Alan Dershowitz as explaining the legality of the barrier,

We accept that the military commander cannot order the construction of the Separation Fence if his reasons are political. The Separation Fence cannot be motivated by a desire to “annex” territories to the state of Israel. The purpose of the Separation Fence cannot be to draw a political border... Of course, regarding all of these acts, the military commander must consider the needs of the local population. Assuming that this condition is met, there is no doubt that the military commander is authorized to take possession of land in areas under his control.... To the extent that construction of the Fence is a military necessity, it is permitted, therefore, by international law.⁴⁹

The stance of the Israeli government is that the reason for building the Barrier is solely for security reasons. The idea of the Barrier is not a new one as there was a barrier already surrounding the Gaza Strip, completed in 1995 it has had an almost 100 percent success rate in preventing terrorist attacks originating from Gaza. While Palestinian militant organizations have not been successful in mounting terrorist attacks originating

⁴⁸ Eitan Diamond Crossing the Line: Violation of the Rights of Palestinians in Israel Without a Permit ed. Yehezkel Lein for B'Stelem – The Israeli Information Centre for Human Rights in the Occupied Territories Jerusalem March 2007 p. 16, Ariella Azoulay and Adi Ophir “The Monster’s Tail” in Against the Wall ed. Michael Sorkin New Press New York 2005, Ray Dolphin The West Bank Wall: Unmaking Palestine Pluto Press London 2006 p. 1

⁴⁹ Dershowitz, The Case For Peace p. 100

in Gaza they have been able to fire rockets into the southern regions of Israel and specifically into the city of Sderot. The main reason that the Gaza Barrier is not controversial like its West Bank counterpart is that the Gaza security barrier is built on the border of Gaza and did not involve the perceived expropriation of Palestinian land. Yitzchak Rabin first proposed the idea of a Barrier in 1992 around the West Bank.⁵⁰

The barrier is an important part of the scholarship on the Israeli-Palestinian conflict. Without the outbreak of the Intifada the barrier might not have been built. Therefore the second Intifada could have serious long-term implications for the security and the economic well-being of the region. The economic implications of the barrier have already come to light with sharp declines in employment since the second Intifada and the first stages of barrier construction.

According to Stephanie Koury, the Barrier was built for three reasons. First, the barrier has been used for “the systematic confiscation of Palestinian land through military orders and other ‘legal’ mechanisms.”⁵¹ Second, that the Barrier has “induced transfer of Israeli civilians into the Occupied Palestinian Territories (OPT) by government subsidies and incentives to settle there.”⁵² And third, as “a gradual blurring of differences between Israeli citizens residing in Israel and those in the OPT through the extension of Israeli law to those settlers and their areas of settlement.”⁵³

⁵⁰ Shir Hever The Separation Wall in East Jerusalem, Economic Consequences Alternative Information Centre Jerusalem no. 11-12 January-February 2007 p.15

⁵¹ Stephanie Koury “Why This Wall?” in Against the Wall ed. Michael Sorkin New Press New York 2005 p. 49

⁵² Koury p. 49

⁵³ Koury p. 49-50

The authors claim that the Barrier is a land grab because of the continued building of Israeli settlements.⁵⁴ For over thirty years Israel has been building settlements for ideological as well as economic reasons in the WBGS. Ideologically, the National Religious Camp in Israel sees the WBGS as part of the Greater Israel. This is the idea that Judea and Samaria (the West Bank) are historically part of Israel because it was part of the Kingdom of David written about by Samuel the Prophet. Palestinians consider the building of Jewish communities in East Jerusalem as settlements and therefore in the literature concerning the settlements the number of inhabitants is usually quite large. Including East Jerusalem there are upwards of 462,000 Israeli settlers living on land that the Palestinians claim to be theirs. There are 191,000 settlers in East Jerusalem and 271,400 settlers in the West Bank itself.⁵⁵ This is an economic issue as well. These settlements provide employment for Palestinian workers who cannot get the correct permits to work inside Israel proper. Because the barrier is built on expropriated Palestinian land the Palestinian farmers can no longer cultivate their crops and are forced to either give up their land outright or wait at checkpoints in order to access the land that they own on the other side of the Barrier.

A number of settlements are located near the border with Jordan but the largest settlements are further west, closer to the Green Line. There are two large enclaves that protrude far into the West Bank.⁵⁶ Israel is planning to build the Barrier around these large settlement blocs in order to ensure the safety of their inhabitants. Currently Israel is

⁵⁴ Dolphin p. 51, Oren Yiftachel and Haim Yacobi "Barriers, Walls and Dialectics: The Shaping of 'Creeping Apartheid' in Israel/Palestine" in Against the Wall ed. Michael Sorkin New Press New York 2005 p.140

⁵⁵ B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories <http://www.btselem.org/english/Settlements/Statistics.asp> Land Expropriation and Settlements October 13, 2009

⁵⁶ This refers to the settlement blocs of Ariel and Qedumim.

waiting for approval to start building this section of the Barrier. Palestinians perceive this action as a land grab by Israel. Whereby Israel uses “facts on the ground” as the reason to build the Barrier. The settlement bloc of Ariel is one of the largest in the West Bank and, if approved, will be surrounded by the Barrier. It is unlikely that if there were a peace agreement tomorrow that Israel would move the over 16,000 people that currently live in that one settlement.⁵⁷ Comparatively Israel relocated approximately 5000 settlers from the Gaza Strip during the 2005 disengagement.⁵⁸ Consequently the Palestinians are justifiably afraid that these two large blocs will become part of Israel proper. If these settlements do become a part of the final borders of Israel then the Palestinians will lose land that was historically theirs, which means less land to farm and less land on which to live.

One of the main areas of scholarship concerning the Barrier is Jerusalem. Jerusalem is a major issue because the route of the wall separates communities that were at one time part of Jerusalem but are now not. In the 1967 Six-Day-War when Israel took East Jerusalem by force and annexed it, the Palestinian residents received Jerusalem residency cards. These cards entitle the Palestinian residents of what was Jordanian East Jerusalem to full health benefits as Israelis, as well as all other rights afforded to Jewish and Arab Israelis. Where their status differs is that these Palestinian card holders are not citizens of Israel and therefore are not able to vote or to be elected to the Israeli Knesset (parliament). As well, their children are not full citizens, and only hold these residency cards. These Palestinians differ from their WBGS counterparts in a significant way. The

⁵⁷ <http://www.btselem.org/english/Settlements/Statistics.asp>B’Tselem Land Expropriation and Settlements There are also settlements that are between Ariel and the green line not included in the 16,000. The whole area from the Ariel settlement to the green line is called the Ariel Bloc.

⁵⁸ Brandon Hollinder “The Israeli Disengagement Plan: A Prejudicial Action” for The Palestinian Human Rights Monitoring Group http://www.phrmg.org/Israeli_Disengagement.htm#_ftn4 August 2005

WBGs Palestinians do not have any rights in Israel and are considered, “subjects of the Israeli government under the administration of the Palestinian Authority.”⁵⁹

Shir Hever, Anita Vitullo and Jonathan Rynhold agree that the division of the Arab Jerusalem environs from the city itself has had a negative economic impact.⁶⁰ Severely restricting the flow of people and goods from West Jerusalem and the rest of Israel is hurting the economy of East Jerusalem. The East Jerusalem residents have historically depended on West Jerusalem for employment and had received the highest wages of all Palestinians.⁶¹ By cutting these Palestinians off from this employment it has hurt the entire economy of the West Bank as well as the Gaza Strip.

The other issue surrounding the Separation Barrier that there is much written about is the city of Qalqiliya. This Palestinian city in the West Bank is very close to the Israeli settlements of Zufin and Alphe Menashe. These settlements are on both sides of Qalqilia, and Israel has built the Barrier to ensure that these settlements remain in Israeli territory. This means that the Barrier travels around Qalqilia in order to protect the Israeli settlement. As a result, Qalqilia is almost totally surrounded by the Barrier.

The area in between the Barrier and the Green Line (the 1967 Israeli-Jordanian border) is called the seam area. This area contains land that belongs to Palestinian farmers who live on the West Bank side of the Barrier. This is a serious cause for concern because the Palestinians who need to access this land now face a battle to get there. In order to get to the land that they own, they must first obtain permits from the IDF to do so. The Israeli military has designated the seam area a closed military area. The

⁵⁹ Hever, p. 11

⁶⁰ Hever, p. 33-34, Anita Vitullo “The Long Economic Shadow of the Wall” in *Against the Wall* ed. Michael Sorkin New Press New York 2005 p. 114, Rynhold, Jonathan “Israel’s Fence: Can Separation Make Better Neighbours?” In *Survival* Vol. 46, No. 1, Spring 2004 P.65-66

⁶¹ Hever, p. 33

declaration, stated on 2 October 2003 by Maj. Gen. Moshe Kaplinsky as quoted by the Israeli human rights group B'Tselem, reads, "No person shall enter or stay in the seam area" as well as, "A person found in the seam area shall be obligated to leave it immediately".⁶² By having to go through the process of getting permits, the land is being left unkempt until the farmers can enter the seam area to tend the soil.

Economically speaking the Barrier has been pointed to as a main impetus for the further decline of the Palestinian economy. Anita Vitullo explains what the barrier means to the average Palestinian worker.

The Gaza Strip has been tightly monitored by an electrified fence and buffer area along its perimeter and military-controlled access routes. However, most of the long West Bank border had remained open, allowing the migration of up to 120,000 illegal workers daily into Israel as day labourers• and an equal number of workers with permits• that benefited both the Palestinian and Israeli economies.⁶³

She is describing the time after the Gulf War when Oslo was in its infancy. Subsequently, Israel started to institute its closure policy and imported up to 200,000 foreign workers from Southeast Asia and Eastern Europe.⁶⁴ During the Oslo period there were still Palestinians working in Israel and in the settlements legally and illegally. Once the Barrier was built the prospect of working in Israel for the Palestinians became just a dream.

It is undeniable that the Barrier has had severe economic consequences for the Palestinians. Even Alan Dershowitz admits that it is hurting innocent Palestinians, albeit for the reason of security.

⁶² Shlomi Suissa Not All it Seems: Preventing Palestinian Access to their Lands West of the Separation Barrier in the Tulkarm-Qalqilia Area ed. Yehezkel Lein and Ofir Feuerstein for B'Tselem – The Israeli Information Center for Human Rights in the Occupied Territories Jerusalem June 2004p. 6

⁶³ Vitullo p. 101

⁶⁴ Vitullo p. 101

But in the end the fence is a necessary evil—made necessary by the persistence of the greater evil of terrorism. When terrorism stops, the fence will come down. In the meantime, there will be inconvenience to innocent Palestinians. Israel is entitled to strike the balance in favour of preventing terrorism, but it should do everything reasonable to reduce the consequences to Palestinians.⁶⁵

It is important to also mention the research that has been completed by Israeli and Palestinian human rights organizations. B'Tselem, the Alternative Information Centre, Bimkom and others have tirelessly tried to research and tell the story of the impact of Israeli policies in the WBGS.⁶⁶ It was difficult to gain information from more Centre and Right wing organizations. These organizations and offices such as the Jerusalem Centre for Public Affairs, and governmental organizations such as the Israeli Ministry of Defense and the Department of Foreign Affairs, after repeated requests for interviews, were not willing contribute to the research of this thesis. There seems to be a serious void in the literature from this side as well as organizations that are publishing reports. The reason for this is that the Right in Israel is ingrained in the society. If you ask an average Israeli what their thoughts on the conflict are they will tell you what a Right wing organization would, that security is of the utmost importance and any negative humanitarian consequence is unfortunate.

In the writing on the left there is a void in the literature when it comes to criticism of the Palestinian leadership. One of the few scholars on the Left that openly and consistently criticizes the Palestinian leadership is the late professor Edward Said. While he criticizes Israel as all the leftist scholars do, he lays a large portion of blame on the

⁶⁵ Dershowitz, The Case For Peace p. 105-106

⁶⁶ B'Tselem (<http://www.bstelem.org>), The Alternative Information Centre (<http://www.alternativenews.org>) and Bimkom (<http://eng.bimkom.org>) are Israeli/Palestinian human rights organizations that have all done extensive research into the impact Israeli policies have on Palestinians. They each have published reports on various aspects of Israeli policy and are considered authorities on the everyday impact of these policies on the Palestinians.

leadership of the Palestinians and more specifically on Yasser Arafat. Many of the Rightist scholars do this as well, but without asserting that there may be issues with Israeli policy.

Conclusion

Much has been written on the Israeli-Palestinian conflict with many different accounts of the history of the conflict. By using both sides of this contentious debate it is easier to get a balanced view of what has actually happened there. It is important to understand how the economy has gone through a number of transformations in order to see how the different political agreements and conflicts have affected the Palestinians. The next step is to view this conflict through a theory so that the shocks to the Palestinians economy can be put into perspective.

Dependency Theory and World-System's Analysis

Introduction

The literature concerning the topic of dependency theory comes from a number of important scholars. While they all have their own opinion and views on the world, there are some striking similarities amongst them. The two major authors on the subject are Andre Gunder Frank and Immanuel Wallerstein. These two scholars have both written extensively on the subjects of dependency theory and world-systems analysis and both are considered experts in this field. Frank was an early pioneer in the field of dependency theory and laid the groundwork for the dependency theorists who came after him. Immanuel Wallerstein is similarly very influential and while his approach is different than Frank's, paired together one can get a full picture of dependency theory.

The world-economy as defined by Immanuel Wallerstein is, "a large geographic zone within which there is a basic division of labour and hence significant internal exchange of basic or essential goods as well as flows of capital and labour."⁶⁷ A capitalist system can exist only when, "the system gives priority to the *endless* [sic] accumulation of capital."⁶⁸

Capitalism and world-economies need to coexist. Capitalism is what holds the world-economies together because there is no political structure that governs it. At the same time capitalism cannot exist without world-economies. Without one the other could not exist.

The capitalist world-economy is a system based on the drive to accumulate capital, the political conditioning of price levels (of capital, commodities, and labour), and the steady polarization of classes and regions (core/periphery) over

⁶⁷ Immanuel Wallerstein World systems Analysis: An Introduction Duke University Press Durham 2004 p. 23

⁶⁸ Wallerstein World systems Analysis: An Introduction p. 24

time. This system has developed and expanded to englobe the whole earth in the subsequent centuries.⁶⁹

According to Wallerstein, the capitalist system made the state system and in turn the state system made and is made by classes, national/ethnic groups and households. A state cannot exist without these three clauses, and these clauses cannot exist without a state. The actors in the state are always trying to increase their positions within the state. These actors are the upper classes and the major corporations that operate within any given state. They do this in order to increase their own profits and power in the state and on the world stage in order to have a better position in the world capitalist economy. While it could be argued that the Palestinian economy is not a fully capitalist one, based on the fact that the largest employer in the Palestinian territories is the Palestinian Authority and that there was no real democracy, it is still important to understand the fundamentals of the capitalist system and how they will be applied to the second Palestinian uprising.

Wallerstein makes some assumptions about capitalism and the world-economy,

I assume that there exists a concrete singular historical system which I shall call the 'capitalist world-economy', whose temporal boundaries go from the long sixteenth century to the present. Its spatial boundaries originally included Europe (or most of it) plus Iberian America but they subsequently expanded to cover the entire globe. I assume this totality is a *system*, that is, that it has been relatively autonomous of external forces; or, to put it another way, that its patterns are explicable largely in terms of its internal dynamics.⁷⁰

Economic development can be defined as, "the ability of a nation to produce economic wealth, which in turn transforms society from a subsistence- or agriculture – based economy to one where most of society's wealth is derived from the production of

⁶⁹ Immanuel Wallerstein The Politics of the World-Economy: the States, the Movements and the Civilizations Cambridge University Press, Cambridge 1984 p. 29

⁷⁰ Wallerstein, The Politics of the World-Economy p. 37

manufactured goods and services.”⁷¹ This is an important starting point for a discussion on dependency theory. Both authors are generally in agreement on a few key points: in developed countries, the population is mainly urban based and usually has a low level of illiteracy. In contrast to this, less developed countries (LDCs) lack adequate drinking water, basic shelter and have a higher level of illiteracy.⁷²

There are a number of factors that contribute to the underdevelopment of the LDCs.

When multinational corporations move into underdeveloped countries the profits that are earned are removed from that LDC and transferred back to the original developed nation. This is a significant problem for the LDCs because they offer financial incentives to the multinational corporations (MNC) in order to entice them to come to their country. Once established in that country the MNC does not reinvest in the periphery state but instead generally removes the profits and sends them to its country of origin. While this is beneficial to the developed nation, it could be argued that it is actually hurting the LDC.

In the case of Israel and the Palestinian territories there is very little investment from MNCs, but there is investment from Israel either through direct investment or through the employment of Palestinian workers. Instead of the investment staying in the territories it is reinvested back into Israel. This adds to the further dependence of the Palestinian economy on Israel.

Dependency theorists including Andre Gunder Frank and Immanuel Wallerstein, point to the colonial period as the start of the underdevelopment problem in the world. Richard Peet explains that the message of the dependency school is that European development was dependent on the exploitation and “active *underdevelopment* [sic]” of

⁷¹ Sunil Kukreja *The Two Faces of Development* in Introduction to International Political Economy ed. David Balaam and Michael Veseth Prentice Hall Upper Saddle River NJ 2001 P. 321

⁷² Ibid p.321

the non-European countries.⁷³ He goes on to say that the development of Europe only occurred because of the ‘external destruction’ of the non-European colonies. The outcome of this relationship between Europe and their dependencies was that the dependent colonies did not grow and develop at the same rate as the European colonial powers did. The dependent countries only grew as a reflection of the first world, not independently from it. This argument could be used to describe the relationship between Israel and the Palestinian territories.

Frank points to the capitalist system and its shortcomings as the main reasons why a large part of the world is as underdeveloped as it is. He explains that money is moving from the lowest point (the labourers) to the highest point (the capitalists). This results in money not being in the hands of the people that drive development. Frank states, “thus at each point, the international, national, and local capitalist system generates economic development for the few and underdevelopment for the many”.⁷⁴ The capitalists are taking the surpluses from the people who are directly below them, and subsequently this group is taking the surpluses of the people directly below them and so on. Frank goes further by explaining that the capitalist system forces the polarization of the first world vs. the third world and that this exacerbates the underdevelopment of the third world. Underdevelopment is something that only benefits the developed economies and so these countries have been willing to perpetuate the relationship of dependence and the underdevelopment of third world countries.

A major theme in the writing of Andre Gundar Frank and Immanuel Wallerstein is the relationship between the core and the periphery. Frank explains,

⁷³ Richard Peet Theories of Development The Guilford Press New York 1999 p.107

⁷⁴ Peet P. 109

This system is characterized by close economic, political, social, and cultural ties between each metropolis and its satellite, with the implication that, contrary to the dualist thesis, outside the socialist bloc there is no area of the world, no matter how remote, that is not in one way or another incorporated.⁷⁵

Wallerstein explains it this way,

Core-periphery is a relational concept. What we mean by core-periphery is the degree of profitability of the production processes. Since the profitability is directly related to the degree of monopolization, what we essentially mean by core-like production processes is those that are truly competitive. When exchange occurs, competitive products are in a weak position and quasi-monopolized products are in a strong position. As a result, there is a constant flow of surplus-value from the producers of peripheral products to the producers of core-like products. This has been called unequal exchange.⁷⁶

Frank and Wallerstein explain that the entire world is affected by the relationship between the First and Third world. Today, after the fall of the Soviet bloc, there is not a country in the world that is not in some way tied to the global capitalist economy. When discussing the relationship between the core and the periphery these authors use the word *core states*. *States* are not really what is being discussed; rather it is the firms that are located in the core states and their relationships with the less producing, less powerful periphery states. What is really being looked at is the relationship between production processes.

To be more precise the relationship is often times not just between the first world and the third world, but rather it is between the hegemon and the rest of the world, including the other western nations. Wallerstein explains,

Hegemony in the interstate system refers to that situation in which the ongoing rivalry between the so-called 'great powers' is so unbalanced that one power is truly *primus inter pares*; that is, one power can largely impose its rules and its

⁷⁵ Vickey Randall and Robin Theobald Political Change and Underdevelopment : A Critical Introduction to Third World Politics Palgrave, Houndmills 1998 p. 131

⁷⁶ Wallerstein World systems Analysis: An Introduction p. 28

wishes (at the very least by effective veto power) in the economic, political, military, diplomatic and even cultural arenas.⁷⁷

The hegemonic power is not just economically or militarily superior, it has to have such a superiority that other major allies are client states and the major powers feel ‘threatened’ by the hegemonic state. Because the hegemon is as powerful as it is, it is regularly willing to interfere with the political processes of other states to ensure its own advantage.⁷⁸

While both dependency theory and world systems analysis discuss the core as the hegemon this does not have to be the case. In reality the core today is not just one state, but a number of states that make up the most powerful, and influential nations. While it can be argued that the USA is the hegemon, for the purpose of this thesis hegemony will not be used in this sense. Instead of dealing with the world hegemon this thesis explains the influence of a core state on a periphery nation and not the hegemon on the whole world. It is more important to look at the relationship between the core and the periphery and not just the hegemon and the periphery.

Historically, hegemons’ rise to power has followed a pattern. There have been three distinct hegemons throughout history. The first was the United Provinces (the Netherlands) in the 17th century, the United Kingdom in the 18th and 19th centuries and the USA in the 20th century. Each of these countries became the hegemon following a world war. In addition, after these wars there has been major restructuring of the interstate system. Peace of Westphalia, the Treaty of Versailles, the UN and Bretton Woods all came after major regional or world wars and all saw a new hegemon come to power. Wallerstein describes the connection between hegemony and capitalism, “in fact,

⁷⁷ Wallerstein The Politics of the World Economy p.38

⁷⁸ Wallerstein The Politics of the World Economy p. 41

capitalism is defined by the selective interference of the political machinery in the 'market'. Hegemony is the instance of the latter.”⁷⁹ Wallerstein then discusses why hegemons rise in the aftermath of war, “The winner’s economic edge is expanded by the very process of the war itself, and the postwar interstate settlement is designed to encrust that greater edge and protect it against erosion.”⁸⁰

Historically the relationship between the core and periphery has been an important one. In Frank’s 1979 book, *Dependent Accumulation and Underdevelopment*, he discusses the relationship between the British and their North American colonies. Frank states that the southern Caribbean colonies suffered from greater underdevelopment because the British exploited them and, therefore, did not let these colonies fully develop. Alternatively the British did not focus their efforts as much on the northern colonies (i.e. the USA) and this enabled them to develop on their own. The ‘neglected’ northern colonies did not have very many mines and other resources for export and this is a key reason why the British did not focus as much on this region.⁸¹ Frank, therefore, asserts that the closer the relationship between the core and the periphery, the harder it is for the periphery to develop. If there had been more resources in the northern colonies, then the US might not have become the world superpower that it did.

When discussing trade and the relationship between the core and the periphery, the issues surrounding sovereignty and borders must be addressed. Sovereignty is a claim, and a claim is nothing if others do not recognize it. Wallerstein states,

⁷⁹ Wallerstein *The Politics of the World Economy* p. 43

⁸⁰ Wallerstein *The Politics of the World Economy* p. 44

⁸¹ Andre Gundar Frank *Dependent Accumulation and Underdevelopment* Monthly Review Press, New York 1979

“sovereignty is more than anything else a matter of legitimacy.”⁸² Sovereignty needs legitimacy and this means that two countries whether in conflict or not, need to recognize each other. ‘Reciprocal recognition’ is the foundation of the inter-state system. Every country has the right to control what enters its borders. There are three types of trans-boundary transactions: the movement of goods, people and capital. There is always some entity benefiting from the movement of goods or capital across borders. The MNCs that are outside of a core country always wants little barriers to the export of their goods or capital from entering the peripheral country. The MNCs in the periphery country want barriers to trade because unfettered access to a market is detrimental to the indigenous business. The MNCS call for either subsidies for their products or a quota/tariff system to be placed on the goods that are entering the country.

MNCs are always looking for an advantage and when they come from a strong core state, they lobby to have the state act on their behalf on the world stage. This means that the MNCs ask their governments to put pressure on other governments to gain an advantage in those new markets. Wallerstein asserts, “Strong states relate to weak states by pressuring them to install and keep in power positions persons whom the strong states find acceptable, and to join the strong states in placing pressures on other weak states to get them to conform to the policy of strong states.”⁸³

Dependency Theory

Dependency theory was born from the South American experience. Andre Gundar Frank is the main dependency theorist and his writing reflects the realities that he saw

⁸² Wallerstein World systems Analysis: An Introduction p. 44

⁸³ Wallerstein World systems Analysis: An Introduction p. 55

while living and teaching in Chile. The goal of his research was to explain the underdevelopment of the Global South. He surmised that it had to do with the relationship between the core (developed) and the periphery states. Frank saw the inequality that existed between the West and South America and sought to explain it using a theoretical framework.

Frank continually points to capitalism and its shortcomings as the main reason for underdevelopment. Frank asserts that the underdeveloped nations of today never developed beyond their feudal and mercantilist roots. Conversely the core nations did enter the capitalist era and they did this at the expense of the periphery nations.

Andre Gundar Frank theorized that the closer a peripheral country was economically with the core, the less developed it would be. As well, at times of decreased contact with the core, the periphery saw its greatest growth.⁸⁴ This is demonstrated in the Israeli-Palestinian situation by the fact that after the Oslo Agreement was signed, Israel saw its greatest economic growth. At the same time when the two economies were at their closest, the dependence and underdevelopment of the Palestinian economy grew.

When discussing underdevelopment Frank explains,

Underdevelopment is not just the lack of development. Before there was development there was no underdevelopment... development and underdevelopment are also related, both through the common historical process that they have shared during the past several centuries and through the mutual, that is reciprocal, influence that they have had, still have, and will continue to have, on each other throughout history.⁸⁵

D.K. Forbes adds to the explanation of underdevelopment,

The world is dominated by a single economy such that all peoples are integrated into the sphere of capitalist production. They are linked by a series of metropolis-satellite chains which draw towards the centre the surplus which is produced at

⁸⁴ Richard Peet Theories of Development The Guilford Press, New York, 1999 p. 109

⁸⁵ Andre Gundar Frank On Capitalist Underdevelopment Oxford University Press, Oxford, 1975 p. 1

each stage of production. The result is that the periphery – the satellites – is impoverished, whilst the centres accumulate and grow.⁸⁶

World Systems Analysis

World systems analysis uses the theory laid out by Frank and expands it. Where Frank focused on South America; Immanuel Wallerstein, developer of world systems analysis, focused on Africa and its reasons for underdevelopment. Wallerstein's main premise is that the entire world is a part of the world capitalist system. He also describes capitalism as a system that "gives priority to the endless accumulation of capital"⁸⁷

This emphasis on capitalism is important because during the 1990s when Israel embraced the neo-liberal era, development came quickly and strongly. At the same time the Palestinians did not feel the rewards of these shifts in Israeli policy. Their own leadership did little to encourage foreign investment and because of these realities, failed to realize the importance of the global economy. As a member of the global economy, the Palestinians did not cultivate their international status as a place to do business. The Palestinians as a workforce were too concerned with the Israeli labour market and its availability instead of looking inward and developing a domestic market.

Where Frank focuses on the development/underdevelopment issues, Wallerstein tends to focus more on the world system that has contributed to the development paradigm. The essence of development and underdevelopment is capitalism itself. In order for capitalism to work there always needs to be a higher class benefitting from the lower classes.

⁸⁶ D.K. Forbes The Geography of Underdevelopment The John Hopkins University Press, Baltimore, 1984 p. 67

⁸⁷ Wallerstein World systems Analysis: an Introduction Duke University Press, Durham, 2004. p. 24

The underdeveloped nations are in that state because their purpose is to enable the developed nations to grow even more. He calls this 'unequal exchange' and explains that without it, "it would not be *profitable* to expand the size of the division of labour."⁸⁸ Without this expansion, the capitalist world-economy would not function and therefore this taking of the surpluses is the backbone of capitalism and core-periphery relationship. The core states continually exploit cheap labour and resources from the periphery states. Wallerstein continues and states that "the more of *balanced* trade a core country or a peripheral country can engage in, the better off it is in absolute terms."⁸⁹

Wallerstein mentions a very important point,

To be very concrete, it is not possible theoretically for all states to 'develop' simultaneously. The so-called 'widening gap' is not an anomaly but a continuing basic mechanism of the operation of the world-economy. Of course, *some* countries can 'develop'. But the some that rise are at the expense of others that decline.⁹⁰

Frank and Wallerstein both mention that the development of the core is achieved at the expense of the periphery. This is the case with Israel and the Palestinians. When Israel was developing the Palestinian Territories were not. As Wallerstein mentions above, it is theoretically impossible for both the core and the periphery to develop at the same time and, therefore, the Palestinians could not engage in development at the same time as Israel. In reality this is not an absolute law but the Palestinians did not develop at the same rate as Israel and this is a reflection of this theoretical framework.

⁸⁸ Wallerstein The Capitalist World Economy p. 71

⁸⁹ Wallerstein The Capitalist World Economy p. 72

⁹⁰ Wallerstein The Capitalist World Economy p. 73

When the three historic hegemonic powers came to be they encouraged the decrease of global trade barriers.⁹¹ Liberalism and then neo-liberalism became the norm in order to facilitate the core-periphery framework. For this relationship to work the hegemon needs to have unfettered access to foreign markets for its goods. This does not mean that other countries can export their goods to the hegemon without barriers though; quite the contrary.

Critique

Dependency theory and world systems analysis both have their detractors. Even before the fall of the Soviet Union scholars such as David Booth were calling it obsolete.⁹² Once the iron curtain was lifted an alternative to the world capitalist system ceased to exist and this also provided a significant blow to the reality of dependency theory. Gilbert Rist outlines four problems and misunderstandings that came out of the dependency school of thought. The first is that “immoderate use of the term ‘dependence’ often gave rise to oversimplification by suggesting that the ‘development’ of the centre was based entirely upon the ‘underdevelopment’ of the periphery.”⁹³ While it is true that the development of the centre is certainly helped by the underdevelopment of the periphery it is also important to remember that the centre also has its own means of development by being a stronger economy and by potentially having more than one periphery state which it can exploit. The more developed economy allows for more

⁹¹ The three historic hegemonic powers were the United Provinces (The Netherlands), the UK and the United States.

⁹² Peet p. 119

⁹³ Gilbert Rist The History of Development: From Western Origins to Global Faith (3rd edition) Zed Books London 2008

internal possibilities for growth and the growth of these economies is not entirely dependent on the periphery.

The second critique that Rist outlines is the fact that if centre countries are constantly and consistently exploiting the periphery nations, it should be argued that the core states are dependent on the periphery just as much as the periphery is on the centre.⁹⁴ This is an interesting point and one that is not discussed by either Wallerstein or Frank. All of the literature is based on the periphery being dependent on the centre but if the periphery is actually that dependent on the periphery the core must also be that dependent on the periphery.

The third misunderstanding outlined by Rist is that the theorists never offer a real solution to the problem of dependence.⁹⁵ Theorists like Frank advocate a Marxist revolution and that on the surface seems to be quite unrealistic. If there was a Marxist revolution in a dependent state that does not necessarily mean that the problems of dependence would be solved. If there was a world wide Marxist revolution and the world capitalist system ceased to exist then the problems of development could be solved but this is a totally unrealistic option.

The fourth and final problem Rist outlines is that the dependency theorists accuse the core of altering the natural state of development in the periphery. Rist states,

No doubt the dependency school steeped itself in history and refused to think of 'underdevelopment' as a natural state: if the periphery was incapable of securing its material well-being, this was owing to historical circumstances bound up with colonialism and the effects of central capitalist domination."⁹⁶

⁹⁴ Rist p. 119-120

⁹⁵ Rist p. 120

⁹⁶ Rist p. 120

Rist is saying that the underdeveloped nations may still be underdeveloped even if there was not a relationship of dependence. The natural state of the underdeveloped nation might be to be an underdeveloped nation and not one that would grow without the relationship to the core.

While this critique is important, it is not of the utmost importance in terms of the discussion on the Israeli-Palestinian conflict. This conflict has never been looked at through the lens of dependency theory and therefore even with its shortcomings can still be used in order to explain this particular conflict.

The Political Economy of the Second Palestinian
Intifada through the Lens of Dependency Theory and
World Systems Analysis

Introduction

The relationship between Israel and the Palestinians has always been contentious at best and has recently grown worse. The level of dependence has only increased following the Oslo period and the second Intifada. The question still remains: if the Palestinians waged an armed uprising, what were its goals and why were they not met? This chapter explains how dependence has deepened first through the Oslo agreement and then through the second Intifada and the building of the Security Barrier. This case study will be used to demonstrate the core-periphery relationship that exists between Israel and the Palestinians. Various economic indicators, such as unemployment, GDP growth, freedom of movement among others will be examined as well as a look into the written agreements between the two sides for insight into why they ultimately failed.

The relationship of dependence between Israel and the Palestinians is a complex one and therefore needs a theoretical framework in order for it to be explained. Both dependency and world systems theory deal with a global hegemon as the core and the rest of the world as the periphery. For this discussion that paradigm simply will not work. Thus, it is more important to look at the relationship between the core and the periphery. The core should be seen as not just the hegemon but the other countries that are the most powerful and also the world leaders in trade, commerce, finance, production etc. By using this definition what is being discussed are the countries that are in 'the West'⁹⁷ and more specifically Israel. Israel is not a regional hegemon but it is a core state for a number of reasons. A hegemon is a state that dominates other states through different methods, one of them being the imposition of culture. Israel has not tried to impose its own Israeli/Jewish culture on to other states in the Middle East and more specifically to

⁹⁷ This could also include Japan.

the Palestinian Territories. Other hegemons throughout history have always tried to impose their way of life on conquered nations. Examples would be the British in India or the Dutch in South Africa. Israel has not done this, and as a result, it can be argued that Israel is not the regional hegemon.

In terms of theorizing about Israeli-Palestinian conflict there is a void in the literature. While there is a plethora of information on the conflict, very few (if any) scholars try to explain the conflict through a theory (any theory). Many scholars who have been quoted in this thesis mention the dependence of the Palestinians on Israel, but they fail to explain what the theoretical roots of dependence are.

The Israeli-Palestinian conflict is unique because there is one, more developed state that subordinates another, pseudo-state which is severely underdeveloped. Nowhere else are there two entities that are so closely related that the actions of one have a direct impact on the other. Other states that might be close to one another economically still maintain their own boundaries and borders and each state is free to form its own policy. The Israeli-Palestinian situation is almost the opposite of the norm. Israel dictates various policies to the Palestinians and they are not free to form their own policies or control their own borders. There is also the added element of Israel's military occupation of the Palestinians that further complicates the conflict.

The signing of the Oslo Agreement is the starting point in this discussion for a number of reasons. It was the first real attempt by both sides to change the relationship that had been the status quo since 1967. In the time since the Six-Day-War the Palestinians had grown highly dependent on Israel and this was the first time that both sides recognized that if they were both to develop that they would need greater economic

independence from each other. This was the first time that Israel and the Palestinians recognized each other, and this is important because prior to this point Israel and the world dealt with the Palestinians through Jordan.⁹⁸ This was the first time that the Palestinians truly represented themselves at the bargaining table.

The second Intifada is one of the most important moments in the history of the conflict between Israel and the Palestinians and, therefore, is the focus of this thesis and chapter. It is so important because it changed the relationship between these two groups again. Instead of there being a relationship of tenuous trust between them, there was just increasing distrust and this caused a paradigm shift in their relationship. This armed uprising is also important because it came as a direct response to the failure of the Oslo Agreements and the Camp David peace process. Connected to the second Intifada, and as a direct result of it, was the building of the security barrier. The barrier solidified the Israeli policy of closure and made it increasingly difficult for Palestinians to move from one area to another in the West Bank.

All of these developments make this time frame an interesting one to look at and one that exemplifies the relationship between core and periphery states. Throughout this time, Israel forced the Palestinians to become more dependent on it through different policies. After 1967 Israel became a core state. 1967 saw the outbreak of the Six-Day-War and the consequences that came with it. After defeating Egypt, Jordan and Syria, Israel took the Gaza Strip, the West Bank and Jerusalem and the Golan Heights. Prior to this war, Israel was concerned with its own development and safety but once it gained

⁹⁸ DOP

<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Declaration+of+Principles.htm#annexiii>

this territory and close to 1.15 million Palestinians, a relationship of dependence began.⁹⁹ Israel was not a core state before this point in time. It did not have any periphery; there was not another society that it could dominate. Prior to the Six-Day-War Israel was not in control of the West Bank and Gaza Strip and therefore was not occupying any Palestinian land. Once Israel conquered these lands from Jordan and Egypt they became an occupying power and therefore a core state. Wallerstein mentions the benefits of war, “The winner’s economic edge is expanded by the very process of the war itself, and the postwar interstate settlement is designed to encrust that greater edge and protect it against erosion.”¹⁰⁰ Hegemons rise through war, and this was the case with Israel. Without the Six-Day-War Israel would not have become a core state.

The two economies were purposely tied together by encouraging Palestinian labour to go to Israel for employment. Almost immediately Israel started employing Palestinians en masse and this greatly contributed to the Palestinian economy. Leila Farsakh writes,

Between 1970-1993, Palestinian labour flows to Israel were a key factor in the integration of economy of the West Bank and Gaza Strip (WBGS) into Israel. They anchored Palestinian dependence on Israeli goods and trade relations and tied the absorption of Palestinian labour force to Israeli demand for Palestinian goods and services. Palestinian daily commuters to Israel, predominated by male unskilled labourers, represented a third of the employed population and generated over a quarter of the WBGS GNP over most of this period.¹⁰¹

Most of the jobs that Palestinians found in Israel were in the construction sector.¹⁰² Without the Palestinian labour force Israel would not have developed the way it

⁹⁹ Benny Morris Righteous Victims: A History of the Zionist-Arab Conflict 1881-2001 First Vintage Books, Toronto 2001 p. 336

¹⁰⁰ Wallerstein The Politics of the World-Economy P. 44

¹⁰¹ Leila Farsakh, “Palestinian Labour Migration to Israel Since Oslo and Beyond” from *The Middle East Economic Association* 2002 Proceedings April 17, 2007 p. 1

¹⁰² Farsakh p. 8

did. Israelis did not look for more menial jobs that the Palestinians were hired to do.¹⁰³

There would have been a void had the Palestinians not been employed in Israel.

The rest of the Palestinian economy was mainly based in agriculture and small production. The Israeli labour market was so enticing to the Palestinians because those jobs paid significantly more than domestic Palestinians ones. Because of this cross-border movement, over the years the Palestinians grew highly dependent on these Israeli jobs.

The Oslo peace accords came out of a number of economic factors on both the Israeli and Palestinian sides. Prior to the signing of the international agreement, Israel felt that it was at a crossroads. Either it was going to stagnate or it was going to make itself more attractive to foreign investment. Israel thought that if it was perceived as a more stable country that was courting peace, foreign investment would flock to it.

Multinational corporations were weary of investing in a state that had a history of violence and were not willing to take the risk of establishing business ties with it.¹⁰⁴

One of the other major contributing factors to Israel signing the peace agreement was the fall of the Soviet Union. When the USSR disintegrated there was a massive influx of Russian Jews to Israel. There were 175,000 new Russian immigrants to Israel in 1991 alone, which put an enormous strain on the Israeli economy.¹⁰⁵ Israel needed an agreement in order to create jobs for these new immigrants.

On the Palestinian side there were a number of factors that pushed them closer to an agreement with Israel. During the first Intifada the Palestine Liberation Organization leadership was based in Tunisia and as a result of the uprising, they realized that they

¹⁰³ Farsakh p. 7

¹⁰⁴ Benin p.34

¹⁰⁵ Benny Morris Righteous Victims: A History of the Zionist-Arab Conflict 1881-2001 First Vintage Books, Toronto 2001 p. 613

needed more control over the goings-on in the Palestinian territories. The PLO knew that in order to be able to return to the territories the leadership would have to recognize Israel and in turn Israel would recognize them as the sole leaders of the Palestinian people.¹⁰⁶

During the Gulf War the PLO supported Saddam Hussein and Iraq, which proved to be a mistake for the Palestinians. The PLO lost the support of Kuwait, Saudi Arabia and other wealthy Gulf States who responded by expelling hundreds of thousands of Palestinian labourers. This meant the loss of at least \$400 million in remittances from Palestinians working in these countries. Kuwait alone expelled three hundred thousand Palestinians.¹⁰⁷ This influx of Palestinian workers also forced the Palestinian leadership into action. Because there were so many Palestinian workers returning to the territories, there needed to be jobs for these people. The PLO recognized the need for an agreement with Israel in order to have greater control over the employment situation in the territories and in Israel. By returning as the government in the territories, the Palestinian leadership was able to demonstrate to the people that the PLO was pressuring Israel into allowing more Palestinians into Israel to find employment.¹⁰⁸

Oslo

The Oslo Agreement was one of the most important moments in the history of the Israeli-Palestinian conflict. It had promised economic stability and opportunity for both Israel and the Palestinians and was an effort to separate the two economies from each other.¹⁰⁹ The agreement was signed in Washington on the White House lawn on September 13, 1993. There had been negotiations ongoing in Oslo, Norway for many

¹⁰⁶ Morris p. 613

¹⁰⁷ Morris p. 613

¹⁰⁸ Morris p. 613

¹⁰⁹ Farsakh p. 2

months prior to the signing ceremony. Shimon Peres, then the Israeli Foreign Minister, was one of the chief Israeli negotiators. With a peace agreement Peres promised a number of economic opportunities for both the Palestinians and Israel. He envisioned the two economies working together, in peace and everyone benefitting from the increased direct foreign investment and the prospect of equality between the two economies.¹¹⁰ The Palestinians would export agricultural products and labour and Israel would import these goods and services.

The Declaration of Principles (DOP) is the first of a set of agreements between Israel and the Palestinians that continued under the overall plan called the Oslo Accords. There were a number of groundbreaking parts to this agreement such as the PLO's acceptance of Israel's return to the 1967 borders and the adoption of UN resolutions 338 and 242.¹¹¹ This meant that instead of Israel returning to the borders laid out in the 1948 partition plan, Israel would withdrawal only from the territories that it captured in 1967. These territories are the whole of the West Bank, Gaza Strip and East Jerusalem including the Old City and Temple Mount.

The plans for economic integration of the two sides were outlined explicitly in the DOP. In the original agreement cooperation on a number of issues was laid out. They included cooperation on water and water development, electricity and electric development, energy and the joint exploration of the Gaza Strip and the Negev for energy resources. In addition there were plans for financial cooperation. The Agreement states,

¹¹⁰ Oren Barak "A New Middle East? Globalization, Peace and the 'Double Movement'" in *International Relations* vol. 19 no. 1 2005

¹¹¹ UN Resolution 338
<http://daccessdds.un.org/doc/RESOLUTION/GEN/NR0/288/65/IMG/NR028865.pdf?OpenElement>
October 29, 2009, UN Resolution 242
<http://daccessdds.un.org/doc/RESOLUTION/GEN/NR0/240/94/IMG/NR024094.pdf?OpenElement>
October 29, 2009

“Cooperation in the field of finance, including a Financial Development and Action Program for the encouragement of international investment in the West Bank and the Gaza Strip, and in Israel, as well as the establishment of a Palestinian Development Bank.”¹¹² It was an effort to increase foreign direct investment in the WBGS in hopes of lowering the dependence of the Palestinian territories on Israel for economic activity. Also outlined in the DOP is the building of a sea port in Gaza. Without a proper seaport Palestinian goods would have to go through Israel resulting in certain tariffs and regulations that could apply to goods coming out of WBGS. In addition, the lack of control that the Palestinians have on the movement of goods in and out of their territories contributes to the increased costs and the unreliable nature of Palestinian exports.

There were also efforts outlined in the DOP for the regional integration of the WBGS and Israeli economies. There are a number of initiatives outlined in the DOP such as, “The establishment of a Middle East Development Fund, as a first step, and a Middle East Development Bank, as a second step.”¹¹³ And, “the development of a joint Israeli-Palestinian-Jordanian Plan for coordinated exploitation of the Dead Sea area.”¹¹⁴ Other potential programs consisted of a desalinization program and agriculture development.¹¹⁵

These economic plans outlined in the DOP exemplify the thinking of Shimon Peres. The DOP was written with the New Middle East in mind and, therefore, had much promise of economic growth and stability. Dan Gillerman, President of the Federation of

¹¹² DOP Annex III

<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Declaration+of+Principles.htm#annexiii> October 13, 2009

¹¹³ DOP Annex IV

<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Declaration+of+Principles.htm>

¹¹⁴ DOP Annex IV

<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Declaration+of+Principles.htm>

¹¹⁵ DOP Annex IV

<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Declaration+of+Principles.htm>

Israeli Chambers of Commerce as quoted by Guy Ben-Porat, discusses the economic possibilities of peace,

Israel could become just another state...or, it could become the strategic, logistic and marketing center of the whole region like a Middle Eastern Singapore or Hong Kong where multinational companies base their head offices...we are talking about an utterly different economy...Israel must act and fast to adjust or this once in a lifetime economic opportunity will be missed only for us to say: 'we could have'.¹¹⁶

While these economic efforts were outlined in the DOP not all of the initiatives were actually realized. The Gaza Sea Port was finally opened in 1999, but the road that would have connected the two Palestinian territories was opened only briefly and intermittently.¹¹⁷ However, there was promise initially that the New Middle East was coming to fruition. Foreign direct investment increased in Israel and GDP growth rose a strong 5.8 percent.¹¹⁸ Joel Beinin explains,

From January 1995 to September 1996, foreign investors bought \$2.9 billion worth of Israeli stocks, and total foreign investment increased by \$4.7 billion to \$19.6 billion. IBM, Intel, Microsoft, and other US corporations announced major new investments in Israel. From 1994 to 1996, 767 high technology startup companies were established.¹¹⁹

Another indication that a peace agreement would bring increased economic activity was the fact that two days before the election of Yitzchak Rabin, when it was clear that he was going to win, Israeli stock prices increased 3.5 percent and after the election when Rabin was victorious they rose another 7 percent.¹²⁰ Guy Ben-Porat explains,

¹¹⁶ Guy Ben-Porat , "A New Middle East? Globalization, Peace and the 'Double Movement'" in *International Relations* Vol. 19 No. 1 p. 50

¹¹⁷ Joel Beinin, *The Oslo Process and the Limits of the Pax Americana* in *The Struggle for Sovereignty: Palestine and Israel 1993-2005* ed. Joel Beinin and Rebecca L. Stein, Stanford, California. Stanford University Press 2006 p. 29

¹¹⁸ Beinin p.34

¹¹⁹ Beinin p. 34

¹²⁰ Ben-Porat p. 49

Foreign companies that had previously avoided business in Israel now entered the Israeli market. The list included major American retail chains — Pepsi Cola, McDonalds, Burger King, Tower Records, Office Depot and Ace Hardware — European companies — Heineken, Amstel and Daimler Benz — and East Asian companies — Hyundai and Acer.¹²¹

The government of Israel was so concerned about encouraging economic activities in the name of peace that after the signing of the DOP the Prime Minister's plane stopped in Morocco to allow the Israeli entrepreneurs who were traveling with the PM to discuss joint investments with their Moroccan counterparts. This process continued so that businessmen/women could make connections with other countries and show the foreign investors that they had the blessing of the Israeli government.¹²²

At the time of the signing of the DOP 65 percent of Palestinians supported the Oslo Agreement with the Israel.¹²³ While there were some who were opposed to it from the outset most were excited at the prospect of peace and prosperity. When Israel was enjoying increased economic activity because of the new Agreement, the Palestinians still suffered from a depressed dependent economy. There are a number of factors that contributed to the low growth of the Palestinian economy. Guy Ben-Porat states that the Israeli-Palestinian economic strategies were poorly planned.

To start with, much emphasis was placed upon inward investments, but investors were generally hesitant to invest in the territories before stability was secured. As a result, the donations from foreign governments only kept the Palestinian economy afloat. Second, the Palestinian Authority itself failed to promote economic development. And, third, Israel was looking to maintain its own economic interests and overlooked those of the Palestinians.¹²⁴

The Palestinians failed to promote economic development by overlooking its importance.

The Palestinian leadership did not have a comprehensive economic plan and therefore

¹²¹ Ben-Porat p. 49

¹²² Ben-Porat p. 51

¹²³ Ben-Porat p. 54

¹²⁴ Ben-Porat p. 55

could not promote economic development. Israel also did not help the Palestinians come up with an economic policy. Instead it focused on the internal Israeli policies and did not try to establish a regional plan that could have helped both Israel and the Palestinians.

This lack of economic foresight on both sides of the Green Line¹²⁵ only contributed to the economic downturn that was experienced first during the Oslo period and continued in even more devastating fashion during the second Intifada. Instead of encouraging less dependence on Israel these economic policies actually brought the two economies closer together. The relationship of dependence grew during this period because without real economic vision, the Palestinian workforce grew only as a reflection of Israel instead of independently. Dependency theorists argue that the underdeveloped grow as a reflection of the developed. The result is, as one state develops the other is underdeveloped and this is exactly what was happening in the Palestinian territories. The policies that came out of the Oslo process granted the Palestinians more opportunity to develop but all of the policies were tied to Israel. This hurt the prospects for development because there was not enough independence when it came to economic decision making.

There was not a worthwhile economic vision for the Palestinians, they were forced to find work the way they had for years, in Israel. The reality of not being able to find work in the territories also brought these two economies closer together. When the average Palestinian worker could only go to Israel for work, it integrates the two entities.

While the New Middle East showed much promise there were some glaring problems with it. Three interrelated problems proved too much for there to be true regional economic cooperation. These three problems are, “the wide gaps between national economies in the region, lack of trust, and difficulties in promoting cooperation

¹²⁵ The Green Line is the 1967 borders of the West Bank and Gaza Strip

beyond elites.”¹²⁶ In addition to these problems, Israel, while not a Western country, is quite close to Western standards in terms of technical development, consumerism, exports and GDP. The other Arab nations, such as Jordan and Egypt, did not come close to these levels. The Arab countries and the Palestinians feared the prospect of working with Israel. They perceived that Israel would try to control their economies and that it was trying to become the regional hegemon. Based on these factors it is not hard to see why the idea of regional integration and the New Middle East did not work.

Closure Policy

The Israeli policy of closure is perhaps the greatest obstacle for peace between these two groups and is one of the primary mechanisms that defines Israel as a core state and the Palestinians as a periphery. The policy was instituted in 1991 on the eve of the Gulf War as a response to violence and mass protests that were occurring in the West Bank and Gaza Strip. Prior to 1991, all Palestinians were granted a “general exit permit”. First granted to West Bank Palestinians in the 1970s and then to Gaza residents in the 1980s, this permit allowed Palestinians to move freely between Israel and WBGS. Amira Hass explains,

This free movement was not “conferred” in the interests of equality—Jews were allowed and, indeed, encouraged to settle in the 1967 occupied territories, but Palestinians had no reciprocal right in Israel—but was one of Moshe Dayan’s measures for economically integrating the OPT¹²⁷ into Israel with the aim of toning down Palestinian national aspirations and undermining the feasibility of an independent Palestinian state.¹²⁸

¹²⁶ Ben-Porat p.52

¹²⁷ Occupied Palestinian Territories

¹²⁸ Amira Hass, Israel’s Closure Policy: An Ineffective Strategy of Containment and Repression in *Journal of Palestinian Studies* vol. 31 no. 3 (spring 2002) p.7

When the “general exit permits” were abolished the policy of closure became the norm. This new policy severely inhibited the movement of Palestinians within WBGS and between the Palestinian territories and Israel. The Palestinians thought that with a peace agreement the borders would once again be more open and access to employment would become easier.

The Palestinians needed to obtain permits in order to enter Israel or travel from the West Bank to the Gaza Strip and vice versa. These permits had many restrictions placed on them.

Some passes permitted an overnight stay in Israel, others required return by dusk, a few were for an entire month. Some restricted means of transport to the special group taxis parked outside the Erez checkpoint in the Gaza Strip; a handful allowed the use of private cars door to door...Some months as many as 1,000 business men might be granted passes, other months only 300; sometimes passes for Gazans would be for Israel and the West Bank, sometimes only for the West Bank.¹²⁹

Economically, the introduction of the closure policy had a devastating effect on the Palestinian economy that would only get worse. Palestinians could no longer have steady employment in Israel because they could not guarantee that they would be able to be at work on any given day.

Before the closure policy became the norm, the Israeli and Palestinian economies were tied together and dependent on each other. Israel needed Palestinian labour and the Palestinians needed Israeli employment. There was cross border shopping on both sides and everyone benefitted from the relatively open borders.¹³⁰ The relationship of dependence became more entrenched when the closure policy was introduced. The Palestinians did not have control of the borders and this translated into goods, capital, and

¹²⁹ Hass p.8

¹³⁰ Barak p. 40

people not being able to move freely. This meant that the Palestinians were at the mercy of Israeli policy makers. When Israel closed the borders Palestinian agriculture producers were not able to get their goods to the Israeli market and the world market. All Palestinian exports have to go through Israel in order to reach the world market. When the borders are closed the export of products is impossible and devastates the agriculture producer. The Palestinians depended on Israel to open the borders and when they were closed, the Palestinians suffered.¹³¹

Israel's closure policy had a devastating effect on the Palestinian economy in the 1990s. There are three different forms of closure; general, total, and internal. Sara Roy explains the difference between the three forms:

General closure refers to the overall restrictions placed on the movement of labour, goods, and the factors of production between the West Bank/Gaza and Israel and between the West Bank and Gaza, and is usually accompanied by prolonged delays and searches at border crossings.¹³²

Total closure refers to Israel closing its borders and banning all movement into Israel by Palestinians. This is usually imposed in anticipation of a holiday in Israel or as a response to a terrorist attack. When internal closure is imposed Palestinians are banned from travelling from town to town inside the West Bank.¹³³ Each of the three different closure policies have differing effects on the Palestinians but they all add up to a severe reduction in economic activity and a hindrance on movement and freedom.

When the Oslo Agreement was signed it institutionalized the closure policy and in fact made it harder for the Palestinian to gain entry into Israel. Israel's right to control the

¹³¹ Roy "The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied p. 368

¹³² Sara Roy "De-Development Revisited: Palestinian Economy and Society Since Oslo" *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) p. 68

¹³³ Sara Roy "De-Development Revisited: Palestinian Economy and Society Since Oslo" *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) p. 68

border was written into the Gaza-Jericho Agreement of May 4, 1994. It states, “Israel maintains security control and supervision over the entry of persons, vehicles and weapons at all points of entry. Israel retains security control of the sea as well as control and supervision over all air space.”¹³⁴ Leila Farsakh explains,

Since 1993, Israel restricted permits to married men over the age of 28. It also shortened the duration of the permit to a period of two months, which were not always renewable. Moreover, these permits bound workers to a specific firm and place of employment, thereby restricting their mobility.¹³⁵

Palestinians being tied to a certain employer for employment has a negative effect on the permit holding workers. In order for the Palestinians to be used to their full working potential in Israel they need to be able to move from job to job. If a firm that employs Palestinians does not have work for them, those Palestinians are not able to look elsewhere for employment. It should be noted that Palestinians also need permits to work on the Israeli settlements within the West Bank but the criteria for employment is different than in Israel proper. Job seekers can be 18 and older and do not have to be married. The wages are also less than they are in Israel because the settlements do not have to pay the Palestinians social security benefits like they would on the other side of the Green Line.¹³⁶

When the borders are closed the negative economic impact grows exponentially. In addition, because it is at times impossible to travel from the West Bank to the Gaza Strip, Israel has basically cut the Palestinian territories in two and this has prevented all movement to and from these regions. The policy has also hindered the movement of

¹³⁴ Gaza-Jericho Agreement May 4th, 1994

<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Main+Points+of+Gaza-Jericho+Agreement.htm>

¹³⁵ Farsakh p. 6

¹³⁶ Farsakh p. 6

Palestinians to and from Jerusalem. This is important because the capital region divides the West Bank in half geographically and Palestinians are not then able to travel from the northern West Bank to the south. The surrounding Israeli settlements have expanded the capital region so much that it now divides the West Bank almost in half. In order for a Palestinian to travel from Bethlehem to Ramallah, he or she would have to travel around the city and outskirts of Jerusalem instead of just going through it. The distance between these two towns is not very great, but when one has to travel around Jerusalem it makes this trip significantly longer. By 1998 only four percent of Palestinians could enter Jerusalem.¹³⁷ This policy severely hurt the Palestinian economy since East Jerusalem is the economic capital of the Palestinian economy. If people can not go there to work and shop, the entire economy suffers.¹³⁸

The Paris Protocol on Economic Relations is one of the defining economic agreements between the Palestinians and Israel. The protocol is an extension of the DOP and was written into the Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip, also known as Oslo II.¹³⁹ The main objective of the Agreement was to decrease the dependency of the Palestinian territories on the Israeli economy. Labour flows were perceived as being of the utmost importance and were therefore, placed as a high priority. The Agreement stipulates that,

Both sides will attempt to maintain the normality of movement of labour between them, subject to each side's right to determine from time to time the extent and conditions of the labour movement into its area. If the normal movement is suspended temporarily by either side, it will give the other side immediate

¹³⁷ Sara Roy "De-Development Revisited: Palestinian Economy and Society Since Oslo" *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) 69

¹³⁸ Roy "The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline: A Place Denied p. 368

¹³⁹ This agreement was signed in Paris on April 29, 1994 and was an extension of the Annex III and IV of the DOP.

notification, and the other side may request that the matter be discussed in the Joint Economic Committee.¹⁴⁰

Leila Farsakh explains further,

It was hoped that the peace process would stimulate a rise in domestic investment and industrial growth, an influx of foreign capital and a growth in trade, and thereby cause a rise in local employment that will help reduce the reliance on the Israeli labour market. It was hoped that the flow of Palestinian labour-intensive goods would eventually replace the flow of workers to Israel.¹⁴¹

In reality the two economies did not grow apart but instead became more integrated. During the Oslo period unemployment in the WBGS increased and reached a high of 28.3 percent in mid 1996, while per capita GNP also fell by 15 percent from 1992-1996 and GDP growth was negative in both 1995 and 1996.¹⁴² A large portion of these decreases can be attributed to Israel's closure policy.

For example, Emma Murphy explains that,

Closures were identified as 'perhaps the single most important impediment to the development of a sustainable economy.' They cost the Palestinian economy an estimated \$4-5 million a day, and in the 1993-1996 period, led to a 23 percent drop in real aggregate income in the West Bank and Gaza Strip. Unemployment, which averaged around 20 percent between 1993 and 2000, shot up to levels as high as 75 percent during periods of closure, transport costs rose by as much as 200 percent, and export orders were lost through delays and ruined produce.¹⁴³

During the Oslo period 1996 stands out as the worst year for the Palestinians when the closure policy was used to devastate the Palestinian economy. In 1996 there were battles between Palestinians and the Israeli army. The Palestinians fighters were comprised of civilians and Palestinian security forces who were trying to protect the rock throwing

¹⁴⁰ Oslo II Economic Protocol

<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Gaza-Jericho+Agreement+Annex+IV+-+Economic+Protoco.htm> October 13, 2009

¹⁴¹ Farsakh p.2

¹⁴² Farsakh p.2

¹⁴³ Emma C. Murphy *Buying Poverty: International Aid and the Peace Process in The Struggle for Sovereignty: Palestine and Israel 1993-2005* ed. Joel Beinin and Rebecca L. Stein, Stanford, California. Stanford University Press 2006 p. 58

civilians. Israel responded with bullets and the Palestinians saw the greatest loss of life since the 1967 war.¹⁴⁴ In addition to the response of force, Israel also instituted total closure in the Palestinian territories that was in effect for March and April of 1996 and, “at this time 66 percent of the Palestinian labour force was either unemployed or severely underemployed.”¹⁴⁵ After the closure was lifted, the employment rates increased but remained extremely volatile. The unemployment rate, as well as economic markers like GNP and GDP, is tied to the availability of employment for Palestinian workers. Sara Roy explains the relationship between the economy and closure.

Given the extreme dependence of the Palestinian economy on Israel, the impact of closure—restricting the jobs and income of Palestinians working in Israel, reducing Palestinian trade levels, lowering production levels, and so on—has been to heighten poverty. In 1996, closure resulted in losses that amounted to 39.6 percent of Gaza’s GNP and 18.2 percent of the West Bank’s.¹⁴⁶

In order to lessen dependence on the Israeli economy, the Palestinians had to find other markets for their goods and labour. There were hopes that the Palestinian economy would be integrated into the surrounding economies and this was written into the Paris Economic Protocol. Article III – Import Taxes and Import Policy explicitly highlights that goods would be imported from Egypt and Jordan as well as other Arab countries.¹⁴⁷ However the integration of the regional economies never came to fruition because of the labour ties to Israel. Instead of looking elsewhere for markets the Palestinians just continued to look to Israel for both jobs and for a market to export to. As well the

¹⁴⁴ Mouin Rabbani *Palestinian Authority, Israeli Rule in The Struggle for Sovereignty: Palestine and Israel 1993-2005* ed. Joel Beinin and Rebecca L. Stein, Stanford, California. Stanford University Press 2006 p. 75

¹⁴⁵ Sara Roy “De-Development Revisited: Palestinian Economy and Society Since Oslo” *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) 69

¹⁴⁶ Sara Roy “De-Development Revisited: Palestinian Economy and Society Since Oslo” *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) 69

¹⁴⁷ Paris Economic Protocol
<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Gaza-Jericho+Agreement+Annex+IV+-+Economic+Protoco.htm> October 13, 2009

Palestinians never had control of their own borders so when closure was instituted it was impossible for the exports to leave the territories, even if the goods were en route to Jordan or Egypt. In 1998 four years after the protocol was written, 96 percent of Palestinian exports and 76 percent of imports still went to and from Israel respectively.¹⁴⁸

The Israeli policy of closure is one of the key strategies through which Israel asserts its dominance over the Palestinians. By controlling the borders of the Palestinian territories Israel is able to dictate what enters and what leaves the territories. “Hegemonic powers regularly were willing to interfere with political processes in other states to ensure their own advantage.”¹⁴⁹ This is an area where Israel has acted like a core state. In the past and continuing today Israel often has been involved in the economic realities of the Palestinian territories in order to ensure their own competitive advantage. Closure policy is an example of one way that Israel interferes in the politics of the Palestinians. By not allowing the Palestinians to control their own borders, Israel is able to dictate who they trade with. If there is state that the Palestinians want to trade with and Israel does not approve, the Palestinians would not necessarily be able to continue trading with that state. The policy also is a massive barrier to the movement of all Palestinians. Israel places restrictions on where and when Palestinians can go from place to place and this is another mechanism through which Israel can dominate the Palestinians. By preventing people from reaching work, Israel has interfered in the day to day lives of the working Palestinians.

Closure has made Palestinian employment in Israel extremely volatile. It grew increasingly difficult for Palestinian labourers to be reliable when they did not know

¹⁴⁸ Leila Farsakh p.2

¹⁴⁹ Wallerstein The Politics of the World-Economy P. 41

when the border would be closed or open. In the first half of 1998, 45,800 Palestinian workers entered Israel for employment, with 68 percent of those jobs in construction. When there was another total closure on September 11th, 1998 all the work permits held by Palestinians became void and the labourers needed to reapply in order to work. Once the permits were handed out and the border reopened, only 27,350 Palestinians were allowed to enter Israel.¹⁵⁰ With the customs union and the proposed regional integration, Palestinian employment in Israel continued to decline compared to pre-Oslo levels. In 1987 85,000 Palestinian workers had permits for employment in Israel. That number decreased to 30,000 in 1991 and to a low of 22,000 in 1996.¹⁵¹ There was a shift at that same time to incorporate more foreign workers into the Israeli economy. It is estimated that by 2000 there were as many as 200,000 workers from places such as Eastern Europe, Turkey and the Far East working in Israel.¹⁵² This is an important point to note. While Israel was limiting the number of Palestinians entering the Israeli workforce, it was importing labour from other places to replace the Palestinian workers. The Palestinian labourers became unreliable due to the policy of the Israeli government who in turn fixed the problem by importing workers from other areas. This has hurt the Palestinians and has kept the demand for Palestinian labour lower than it was before Oslo.

Capitalism is inherently unequal. There is always someone at the top that is taking surpluses from the people below. In the Israeli-Palestinian conflict this fact is illuminated through the relationship and movement of labour from the Palestinian territories to Israel. From 1967 until the Oslo period Israel used the Palestinian workers for its own gains. As

¹⁵⁰ Sara Roy "De-Development Revisited: Palestinian Economy and Society Since Oslo" *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) 70

¹⁵¹ Murphy p. 58

¹⁵² Murphy p. 58

aforementioned, construction and agriculture have historically been the main sectors for Palestinian employment. By filling these jobs with Palestinians, Israel was able to pay low wages for this type of work. As Israel appropriated the surpluses from the Palestinians. Instead of paying an Israeli more to do the job, Israel paid the Palestinians less. The difference is a surplus that Israel gains at the expense of the Palestinians worker. This approach gave Israel a large competitive advantage over other countries that had to pay more for labour and it also hurt the Palestinians because as little as Israel was paying them, it was still more than they would have received doing the same job in the Palestinian territories. This disparity between Israel and the Palestinians enabled Israel to develop at a much faster rate than the Palestinians because there were fewer workers in the Palestinian territories to actually do the jobs. This disparity of wages has greatly contributed to the relationship of dependence and continued through the Oslo period into the second Intifada. When Israel closes the borders there are Palestinians depending on jobs in Israel. Even as the Palestinian jobs inside Israel become more scarce, the Palestinians are still willing to line up at check-points with the hopes of entering and finding work.¹⁵³

As aforementioned in order for one country to develop it has to be at the expense of another. This is true for the Israeli-Palestinian conflict. In order for Israel to develop it needed to develop at the expense of the Palestinian territories. The fact that Israel has closed the borders with the Palestinians and severely curtailed the movement of Palestinian workers into Israel is an indication that Israel does not have to depend on the Palestinians as much as it did in the past. The second Intifada was a reflection of this

¹⁵³ Faraskh p. 5-6

reality. When Israel routinely closed the borders the Palestinians became even more underdeveloped and the Intifada was fought in order to change this relationship.

Frank has stated that the more closely related the core and periphery economies are, the more underdeveloped the periphery will be. These two economies are so closely linked that the Palestinians need Israel in order to become more independent. Israel needs to grant more independence to the Palestinians because it does not currently recognize the Palestinians right to form their own policies.

Tax and Customs Union

The goal of the Paris Protocol was to further divest the two economies from each other and in reality this did not happen. Israel insisted that there needed to be a customs union in order to have the same tax and customs policies in both Israel and the Palestinian Territories. This hurt the Palestinians because it took away their competitive advantage. The higher taxes and tariffs on labour and goods negated the benefits of cheap Palestinian labour and forced up the prices of Palestinian products for both the domestic and export market. Israel was willing to provide a market for these products but the Palestinians only had agricultural goods to export and these were subject to quantitative restrictions by Israel in order to protect its own agriculture sector.¹⁵⁴ The Palestinians were allowed to form their own policy on products entering from Egypt and Jordan but only for those countries. All other imports were subject to the tariffs decided on by both sides. Through the various agreements Israel ensured that the Palestinians would not have their own bank or currency and were therefore not in control of their own monetary policy.

¹⁵⁴ Murphy p. 56

In terms of exports Israel has been implementing a higher transaction cost on Palestinian goods exported through Israeli ports (all Palestinian ports during the Intifada were closed). Israeli companies had a distinct advantage in exports because their transaction costs were on average 35 percent lower than that of the Palestinians.¹⁵⁵ Because of the restrictions on movement and increased export costs Palestinian producers have been forced to change what they produce. This reality has made the Palestinians produce goods only for the domestic market instead of products for export to Israel and beyond.

These policies further demonstrate the dependence of the two economies. By not being able to formulate their own economic policies the Palestinians were at the mercy of Israel, just as they had been since 1967.

All hegemons (and cores) rise and fall. This is an interesting prospect and one that troubles most Israelis. If Israel were to lose its competitive advantage over the Palestinians it could hurt its economy significantly. Just like other hegemons in the past have fought to maintain this advantage over their neighbours, Israel has done the same since 1993 with the Palestinians. When Israel signed the Oslo Agreement it was trying to ensure and ingrain this idea into the Agreement itself. For example the Palestinians could import goods from Jordan and Egypt but in quantities agreed upon by both Israel and the Palestinians.¹⁵⁶ The goods that Israel imports are not subject to the same scrutiny by the Palestinian Authority. By being able to control what goods enter the Palestinian Territories, Israel can force the Palestinians into importing less Arab goods (that are

¹⁵⁵ Sara Roy *Failing Peace: Gaza and the Palestinian-Israeli Conflict* Pluto Press, London 2007 p. 262

¹⁵⁶ Paris Economic Protocol
<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Gaza-Jericho+Agreement+Annex+IV+-+Economic+Protoco.htm> August 19, 2009

cheaper) and more of the more expensive Israeli goods.¹⁵⁷ Oslo had in it several sections that dealt with customs unions and agreements on labour and the like. By doing this Israel ensured its competitive advantage would remain even if the Agreement was successful and a Palestinian state was established.

There were expectations that the Palestinian economy would transform from a labour exporting economy to an economy that exported labour intensive goods instead. At the end of the Oslo period this still had not occurred. If there had been increased investment and technological transfers in the WBGS it would have increased the domestic labour market. “In particular, business investment in WBG[S] remained very low, thereby leading to a divergence in factor productivity compared to Israel.”¹⁵⁸ If there had been more business investment, the disparity between Israel and the Palestinian territories would not have been so great and if the Palestinians had been able to alter their economic makeup, the closure of the border to the Israeli labour market would not have been so devastating on the Palestinian economy.

By the outbreak of the second Intifada in September 2000, remittances from Israel and abroad accounted for 22 percent of the Palestinian GDP compared to the export of goods which contributed to 18 percent of GDP.¹⁵⁹ Remittances are so important to the Palestinian economy because the wages in WBGS are so much lower than the surrounding areas. Wages in Israel from 1995-1999 were 77 percent higher than in the Palestinian territories. When the borders were open to Palestinian labour it was more

¹⁵⁷ Israel-PLO Economic Protocol

<http://www.mfa.gov.il/MFA/Peace%20Process/Guide%20to%20the%20Peace%20Process/Israel-PLO%20Economic%20Protocol%20-%20Main%20Points>

¹⁵⁸ Claus Astrup & Sebastien Dessus “Exporting Goods or Exporting Labour?: Long-term Implications for the Palestinian Economy” in *Review of Middle East Economies and Finance* vol. 3 no. 1 April 2005 p. 40

¹⁵⁹ Astrup and Dessus p. 39

beneficial for workers to wait in line for the chance to work in Israel than to find work in the domestic market.¹⁶⁰ This was a problem for the development of a domestic Palestinian economy. If there are not enough workers for the domestic market, the products and services will suffer and instead the economy will be forced to focus on producing goods and services that are not more specialized, like agriculture. “A re-opening of the Israeli labour market would most likely exert an upward pressure on domestic wages, inducing a decline in exports of goods and, in turn GDP.”¹⁶¹

Corruption in the Palestinian Authority

Many Palestinians pointed to the Palestinian leadership as a contributing factor to the dismal working conditions and sorry state of the Palestinian economy. Instead of having sound economic policies in place, Yasser Arafat was a corrupt leader who only contributed to the hardships suffered by the average worker. The Palestinian Authority relied heavily on foreign aid, but much of this aid went into the secret accounts of Yasser Arafat.¹⁶² There had been calls in the past for more accountability from the Palestinian leader, but these calls produced no results. Edward Said explains as follows,

This year [1997] 1.5 billion shekels (\$500 million) will be transferred from Israel into the PA’s secret accounts in Israeli banks; this is referred to as *al-sandooq al-thani*, and comprises remittances on VAT taxes, import duties, and pension fund deductions paid by Palestinians which Israel returns to Arafat, but since only he and assistants of his like Mohammad Rashid (Khalid Slam), know the exact amounts and accounts, he is at liberty to dispose of this money basically to buy people’s loyalty and complicity.¹⁶³

¹⁶⁰ Astrup and Dessus p. 42

¹⁶¹ Astrup and Dessus p. 44

¹⁶² Edward Said, *Are There No Limits to Corruption?* In *The End of the Peace Process* p. 179

¹⁶³ Edward Said, *Are There No Limits to Corruption?* In *The End of the Peace Process: Oslo and After* Pantheon Books, New York, 2000 p. 179

Said goes on to explain that instead of generating jobs through public works and infrastructure, Arafat just inflated his own bureaucracy and gave people meaningless jobs. In the mid 1990s there were some estimates that put the Palestinian Authority workforce at 65,000¹⁶⁴ and others that said it was as high as 90,000.¹⁶⁵ The PA employed more people in the first quarter of 1997 than the manufacturing and agriculture sectors, and was tied with construction as the largest employer of Palestinian labour. This practice continued and by the first half of 1998, 46.9 percent of job growth in the WBGS came from the PA.¹⁶⁶

Sara Roy explains why PA job creation hurt the Palestinian economy,

The burgeoning public sector is problematic, particularly given the Palestinian economy's contracting private sector. Without a strong private economy there will be little, if any, real private investment and without such investment there can be no change in the economy.¹⁶⁷

Arafat did not encourage foreign direct investment and if there was more investment, then workers would not have looked to the PA for jobs, instead they would have looked to the private companies to find employment. Domestic investment is something that was severely lacking in the Palestinian realm. This is perhaps even more important than foreign investment because there is a greater chance of the profits being recycled back into the Palestinian economy.

Camp David II – July 2000

¹⁶⁴ Sara Roy "De-Development Revisited: Palestinian Economy and Society Since Oslo" *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) 70

¹⁶⁵ Said, p. 179

¹⁶⁶ Sara Roy "De-Development Revisited: Palestinian Economy and Society Since Oslo" *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) 70-71

¹⁶⁷ Sara Roy "De-Development Revisited: Palestinian Economy and Society Since Oslo" *Journal of Palestinian Studies*, vol. 28, no. 3 (Spring 1999) 71

The Camp David summit was convened in the summer of 2000 as a way of jumpstarting the stalled peace process. It was an effort lead by the Americans within the framework of the Oslo process. The goal of the summit was to establish a comprehensive peace agreement. This means an agreement that would have dealt with all of the major issues surrounding a potential peace agreement. The failure of both sides to reach an agreement signalled the end of the Oslo process and a serious breakdown in negotiations between the two sides. This breakdown was the impetus for the outbreak of the second Intifada.

The Second (al-Aqsa) Intifada

The second Intifada was the second armed uprising by the Palestinians. The two Intifadas were very different in the way that they were waged and in the economic impact that they both had. After the first Intifada, Israel and the Palestinians signed the Oslo peace agreement in the hopes that there would be economic prosperity. The second Intifada did not see a similar hope of economic development.

The second Intifada symbolically began on September 28th, 2000. This was the day that the future Prime Minister Ariel Sharon visited the Temple Mount in Jerusalem with hundreds of Israeli police and army guards. Sharon was trying to show the Palestinians and the world that the Temple Mount would always be under Israeli control. This happened at a time when there were still ongoing peace talks between Israel and the Palestinians after Camp David. It is easy to blame Sharon for the start of the Intifada, but the reality is that the uprising would have occurred in any case, this was just the catalyst for the fighting to begin. The real beginning to this conflict was the breakdown of the

Camp David summit. Palestinians were upset that there was no resolution to the conflict and that conditions in the Palestinian territories had actually become worse over the course of the Oslo period.

In 1999, a year before the Intifada began; the Palestinian economy was worth \$5 billion (GDP). Agriculture and fishing comprised almost ten percent of GDP, while manufacturing accounted for 19 percent. The public sector contributed to 12 percent while private services and commerce comprised about 30 percent of GDP.¹⁶⁸ In addition to these sectors there were also 130,000 Palestinians who were employed in Israel and their incomes contributed another \$1 billion to the economy. Per capita income was estimated to be about \$2,000 per 3 million people. “At this level of income, the OPT [Occupied Palestinian Territories] was at the lower end of the middle-income countries in the World Bank’s income classification system.”¹⁶⁹ Salem Ajluni points out that by comparison Israel’s per capita income was \$16,000 and the USA, \$34,000.

Ajluni explains that after seven years of the Oslo process, at the beginning of the Intifada, Palestinians still had not recovered from the first Intifada.

By the year 2000, after seven years of the Oslo process and more than five years after the establishment of the PA, per capita income levels in the OPT were estimated to be about 10 percent below their pre-Oslo level. Despite considerable external assistance (valued at approximately \$3 billion between 1994 and the third quarter of 2000), living standards were lower than before the process began. Aggravating the political situation were continuing Israeli policies of land and water confiscation, settlement expansion, movement restrictions, and numerous violations of important elements of signed agreements with the PA.¹⁷⁰

Sara Roy continues and explains that there had been extensive physical infrastructural damage in the Palestinian territories due to the military action taken by

¹⁶⁸ Salem Ajluni The Palestinian Economy and the Second Intifada in *Journal of Palestine Studies* vol, 32 no. 3 Spring 2003 p. 65

¹⁶⁹ Ajluni p. 66

¹⁷⁰ Ajluni, p. 66

Israel during the Intifada. Roy quotes a World Bank report that states the “West Bank and Gaza incurred a loss of \$930 million in total raw physical damage from the beginning of the uprising through the end of 2002.”¹⁷¹ At the start of the uprising most of the physical damage was concentrated in Gaza. As the conflict continued this began to change. Damage was spread between Gaza and the West Bank and eventually the physical damage in the West Bank doubled that in Gaza. Roy outlines other by-products of physical destruction such as the demolition of houses by Israel. She explains that in the Gaza Strip in the last 3 months of 2000 there were on average 11 house demolitions a month. In 2001 that number jumped to 35 house demolitions per month. The number continued to fluctuate with 25 house demolitions in 2002 and then rose to 65 in 2003.¹⁷² The demolitions that occurred between 2000 and 2002 are estimated to be 1,600 private homes destroyed and another 14,000 damaged affecting 95,000 Palestinians.¹⁷³

House demolitions are a way for the Israeli authorities to dehumanize the Palestinian population for a number of reasons. According to the Israeli Committee against House Demolitions (ICAH), Israel destroys houses based on three criteria. The first is punitive demolitions; this refers to the houses being demolished as a collective punishment for a terrorist attack. Israel demolished houses that belonged to families of suicide bombers. This was suspended in February 2005 and was resumed on January 19, 2009. The second criterion is administrative demolitions, which is when Israel demolishes a house due to the lack of a building permit. Often Palestinians build onto their existing homes in order to accommodate growing families. Building permits for

¹⁷¹ Roy The Palestinian State: Division and Despair in *Current History* January 2004 p. 35

¹⁷² Sara Roy, Economic Siege and Political Isolation: the Gaza Strip in the Second Intifada in *The Struggle for Sovereignty: Palestine and Israel 1993-2005* ed. Joel Beinin and Rebecca L. Stein, Stanford, California. Stanford University Press 2006 p. 283-284

¹⁷³ Ajluni p. 69

Palestinians are hard to get from the Israeli authorities, so Palestinians build anyway. The reasons that Israel states for not giving building permits are contentious. Israel states that the permits are not given to Palestinians because of security concerns.¹⁷⁴ While Jewish settlements are able to expand Palestinians have to go through a long process in order to apply for permits to build on their own land.¹⁷⁵ It seems that the real reason for the lack of permits is that Israel is trying to force the Palestinian population to stop growing and or leave the area. This is a way that Israel discriminates against the Palestinians and is a humanitarian problem.

If houses are too close to a military base or military road they could be demolished. This type of demolition accounted for 26.7 percent of all house demolitions since 1967. The third reason for demolition is what ICAHD calls “land-clearing operations/military operations”. This refers to Israeli military offensives in the Palestinian territories that end in houses being demolished in order to achieve a military goal. This could mean clearing a piece of land for whatever reason the military perceives as necessary or as collateral damage from killing a wanted person. These demolitions made up 64.5 percent of total demolitions. From 2000 until 2008 there were 6175 total demolitions, which had a devastating effect on the Palestinian population.¹⁷⁶ For most Palestinians their homes are their one asset. When Israel destroys these houses, these Palestinians lose the one thing of monetary value that they own. The average Palestinian does not possess very many assets. When the one piece of property is demolished it leaves these people literally with nothing. When homes are demolished there is a need to find these people homes and this puts a strain on the economy at large. The PA has to

¹⁷⁴ ICAHD <http://www.icahd.org/eng/campaigns.asp?menu=4&submenu=2> June 4, 2009

¹⁷⁵ B’Tselem http://www.btselem.org/english/Planning_and_Building/Index.asp June 4, 2009

¹⁷⁶ ICAHD <http://icahd.org/eng/docs/ICAHD%20house%20demolition%20statistics.pdf> March 2, 2009

provide housing for these people, or they have to move in with relatives or friends, which in turn causes over crowding and a humanitarian disaster.

As the Intifada progressed the devastation of the Palestinian economy continued. The Gross National Income (GNI) in the first fifteen months of the conflict decreased 17 percent from \$6.1 billion in 1999 to \$5 billion in 2001. When incorporating population growth during that time the per capita income declined by 23 percent.¹⁷⁷ From 1999 to 2002, on a per capita basis, Palestinians were earning on average 40 percent less than they were in 1999. Ajluni explains that,

The simple aggregate decline of more than \$2 billion is equal to about one-third of the 1999 national income, or \$650 per person. Applying this decline to the United States, it would be as though the GNI declined from roughly \$10 trillion in 1999 to \$6 trillion in 2002 or, in per capita income terms, a decline from about \$34,000 in 1999 to \$20,400 in 2002—an income loss of about \$14,000 per person.¹⁷⁸

According to the World Bank the GDP in 2000 was \$4.11 billion (in current dollars). Five years later after the Intifada had ended GDP had declined to \$4.01 billion. In 2000 there was negative GDP growth of 5.6 percent and in 2005 GDP increased to 6.3 percent for that year.¹⁷⁹ These numbers can be somewhat misleading because growth of 6.3 percent is a relatively high level, but when the economy has been so devastated any reasonable sustained growth would show a high increase year to year.

Workers' remittances are a source of income that has long been a large part of the Palestinian economy. In 2000 they accounted for \$859 million, however, in 2005 that

¹⁷⁷ Ajluni 67

¹⁷⁸ Ajluni 67

¹⁷⁹ The World Bank http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED&HF=N&WSP=N March 2, 2009

number fell to \$598 million.¹⁸⁰ This decrease can be attributed to the increased closure imposed on the Palestinian population. By not being able to find work in Israel or the Israeli settlements Palestinian remittances have greatly suffered.

Closure policy continued to be the preferred method of containment during the Intifada. Within the first days of the start of the Intifada there were over ninety permanent and mobile Israeli military checkpoints in the West Bank and at least thirty in the Gaza Strip. These checkpoints enabled Israel to hinder the movements of Palestinians from one area to another and during times of severe internal closure the IDF prohibited them from using the main roads in their own towns and cities. During the first 15 months of the conflict there was internal closure 73 percent of the time.¹⁸¹

The Israeli policies towards the Palestinians have greatly hurt their economy. Unemployment has risen to heights not seen before in the Palestinian territories. In 2000 unemployment was at 11 percent, in 2002 that number jumped to 41 percent. In the third quarter of 2002 there were 285,000 Palestinians unemployed.¹⁸² For each unemployed person there are 6.6 people dependent on them. Sara Roy explains this relationship, “Given the high dependency ratio—the ratio of population per employed person—among Palestinians of 6.6 people in the third quarter of 2001, unemployment potentially affected over 1,800,000, or more than half the total population.”¹⁸³ On days when a curfew is implemented the unemployment rate in the West Bank soars to 63.3 percent.¹⁸⁴

¹⁸⁰ The World Bank http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED&HF=N&WSP=N March 2, 2009

¹⁸¹ Sara Roy *Failing Peace* Pluto Press London and Ann Arbor 2007 p. 255

¹⁸² Ajluni 69

¹⁸³ Sara Roy *Failing Peace* p. 258

¹⁸⁴ Sara Roy *Failing Peace* p. 258

The amount of money that the Palestinians have lost is directly attributed to the Intifada and the policy of closure. In 2001 Palestinians lost \$635 million in wages that were not earned. “Net wage income from employment in Israel (including Israeli settlements) dropped from \$81 million per month in the third quarter of 2000 to \$17 million per month during the second quarter of 2002 a decline of 79 percent.”¹⁸⁵

Investment in the West Bank and Gaza Strip

Investment in the West Bank and Gaza Strip has also suffered; in 1999 it was estimated to be \$1.45 billion; in 2002 that number was \$150 million, a decline of 90 percent.¹⁸⁶ Business in the Palestinian territories has not changed much since 1967. The structure has remained the same since Israel became the controlling power. At the start of the Intifada there were over 60,000 business units with over 90 percent of those being small or medium size. Included in that 90 percent are microbusinesses that are mainly in the service sector and which employ on average 2.5 people.¹⁸⁷ During the Intifada many of these Palestinian businesses were forced to close and the ones that did remain open were severely hurt by the economic impact of the Intifada on the economy. Even before the Intifada it was difficult for Palestinian products to enter Israel. There were high tariffs on the goods being exported from the WBGS and with closures as a result of the Intifada it became increasingly difficult for these products to ever reach Israeli store shelves. Because the Palestinian producers need to rely on the domestic market for income, there has been less demand and this in turn has forced producers to increase their prices in

¹⁸⁵ Sara Roy The Palestinian-Israeli conflict and Palestinian Socioeconomic Decline p. 379

¹⁸⁶ Sara Roy The Palestinian-Israeli conflict and Palestinian Socioeconomic Decline p. 379

¹⁸⁷ Sara Roy Failing Peace p. 261

order to still make a profit and to make up the shortfall that they have experienced from the disappearance of the Israeli market. This has further hurt the Palestinian population.

Palestinian Suicide Bombing

The Intifada was fought in Israel proper by Palestinian suicide bombers. There were 132 suicide bombings from 2000-2004 committed against Israeli civilians.¹⁸⁸ Many of the realities of the current situation have been shaped by these bombings. Israel has continually pointed to security concerns as the reason for its policies. Palestinians have used the suicide bombing tactic since the start of the Oslo period which has had a profound effect on the conflict. There are two different groups that use this method of conflict: (1) Islamic fighters who kill themselves in the name of god And (2) secular groups that see themselves not as Islamic martyrs but rather as freedom fighters that are willing to go to any means in order to destroy Israel. The Islamist groups include Hamas, the Islamic Resistance Movement and Palestinian Islamic Jihad.

Hamas is the most influential Islamic organization in the Palestinian territories. It was founded in the late 1960 by Sheikh Ahmed Yassin. Hamas was originally an offshoot of the Egyptian Muslim Brotherhood, an Islamist non-violent organization that calls for establishing an Islamic government across the Arab world. In 1987 after the outbreak of the first Intifada, Yassin founded Hamas and moved away from the non-violent ethos of the Muslim Brotherhood. The first Hamas suicide bombing occurred in April 1993, just months before the Oslo Accords were signed.¹⁸⁹ Islamists organizations like Hamas

¹⁸⁸ Israeli Ministry of Foreign Affairs <http://www.mfa.gov.il/MFA/Terrorism-+Obstacle+to+Peace/Palestinian+terror+since+2000/Victims+of+Palestinian+Violence+and+Terrorism+si+nc.htm> March 5, 2009

¹⁸⁹ Council on Foreign Relations – Hamas <http://www.cfr.org/publication/8968/> October 13, 2009

promise the suicide bombers a large number of virgins will meet them in heaven and convince the bombers that they are fighting for Islam.

Hamas is not just a terrorist organization; there is a large social network that it funds. Hamas is seen by Palestinians as an honest answer to the corruption of the ruling Fatah and the Palestinian Authority. According to the Council on Foreign Relations,

Hamas devotes much of its estimated \$70-million annual budget to an extensive social services network. Indeed, the extensive social and political work done by Hamas - and its reputation among Palestinians as averse to corruption - partly explain its defeat of the Fatah old guard in the 2006 legislative vote. Hamas funds schools, orphanages, mosques, healthcare clinics, soup kitchens, and sports leagues.¹⁹⁰

This vast social network enables Hamas to recruit suicide bombers in the name of Islam and Palestinian nationalism.

The secular organizations that also employ suicide bombings include the Al-Aqsa Martyrs Brigade, George Habash's Marxist Popular Front for the Liberation of Palestine and the Democratic Front for the Liberation of Palestine. The Al-Aqsa Martyrs Brigade was borne out of the Fatah movement led by Yasser Arafat. The other two organizations are Left wing, Marxist groups that were supported by the Soviets during the Cold War.¹⁹¹ All of these groups have used suicide bombing as a means to further their message of secular Palestinian nationalism. While these groups have been marginalized by the rise of Hamas and Islamic fundamentalism they continue to remain a threat to Israel.

There is no doubt that the effect of the Palestinian uprising has been devastating on the Palestinian economy. In response to the suicide bombings originating in the West

¹⁹⁰ Council on Foreign Relations – Hamas <http://www.cfr.org/publication/8968/> October 13, 2009

¹⁹¹ Council of Foreign Relations – PFLP, DFLP, PFLP-GC, Palestinian Leftists http://www.cfr.org/publication/9128/pflp_dflp_pflpgc_palestinian_leftists.html October 13, 2009

Bank, Israel started to build the Security Barrier in 2002. In 2002 alone there were 55 suicide bombings and this forced the Israeli government to act.¹⁹²

Security Barrier

The Security Barrier and the second Intifada are inextricably linked and the Barrier could be imagined as an extension of the Intifada. If the uprising had not been waged, one could make the argument that the barrier would not have been erected at all. In this thesis most of the statistics used to demonstrate the impact of the Intifada are from the first two years of the uprising because the situation changed with the building of the barrier. While still in the context of the Intifada the barrier introduced a host of economic issues that had previously not been present.

Aside from the economic issues, the Barrier also added an additional anti-humanitarian aspect to the conflict which had not been explicitly recognized previously. While the closure policy was well established, the Barrier has enabled Israel to control the Palestinian population even more. The Barrier is made up of two components. In the urban areas and especially surrounding Jerusalem the barrier consists of eight to nine meter high concrete slabs. The high walls enable Israel to have the border run through highly urbanized areas without demolishing houses in order to build the Barrier. The majority of the Barrier is made up of a chain-link fence that is surrounded on both sides by coiled barbed wire, ditches, trace paths¹⁹³ and patrol roads. The Barrier is also

¹⁹² Israeli Ministry of Foreign Affairs <http://www.mfa.gov.il/MFA/Terrorism-+Obstacle+to+Peace/Palestinian+terror+since+2000/Victims+of+Palestinian+Violence+and+Terrorism+si+nc.htm> March 5, 2009

¹⁹³ This enables Israel to see if anyone has tried to breach the barrier. If someone did, their foot steps would remain in the trace path.

monitored by the IDF on watch towers as well as having sensors on the chain-link section of the barrier in order to know if someone has touched the fence.¹⁹⁴

The main reason that the Barrier is such an issue for the Palestinians and the international community is that the route of the Barrier does not travel along the 1967 border lines. As shown in map 1 (page 107), the red line is the current route of the barrier and the green line is the 1967 border. The Barrier route does not follow the Green Line almost at all and there are two large enclosures that protrude deep into the West Bank. These two protrusions are present to retain the two large West Bank settlement blocs on the Israeli side of the border, the Qedumim and Ariel blocs.¹⁹⁵ In the Qedumim bloc there are 14,090 Israelis, and in the Ariel bloc there are 19,348¹⁹⁶ These numbers are important because they exemplify how many Israelis live in just two communities in the West Bank. As these settlement blocs continue to grow it will be increasingly hard for them to be removed if there is to be a lasting peace agreement.

The route of the Barrier implies that it is a land grab by the Israelis. Palestinians are growing increasingly worried about the fact that Israel will not be able to remove those large settlement blocs and, therefore, would see the future borders of a Palestinian state truncated by these blocs. Daphne Barak-Erez explains as follows:

First it was argued that Israel was de facto annexing Palestinian territory, and, in this sense, the barrier was described as motivated by political rather than security considerations. Second, critics pointed out that the route chosen for the barrier protects not only Israel's territory but also Israeli settlements in the occupied territories, long regarded by the international community as infringing the Fourth Geneva Convention.¹⁹⁷

¹⁹⁴ Stephanie Koury "Why this Wall" from Against the Wall Ed. Michael Sorkin. New York Press, New York 2005 p. 49

¹⁹⁵ The Qedumim bloc for this paper consists of the settlements Qedumim, Immanu'el, Qarne Shomeron, Nofim, Yaqir and Ma'ale Shomeron. Ariel consists of Ari'el, Revava, Qiryat Netafim and Barqan.

¹⁹⁶ B'Tselem <http://www.btselem.org/English/Settlements/> Settlements April 20, 2009

¹⁹⁷ Daphne Barak-Erez "Israel: The Security Barrier—Between International Law, Constitutional Law, and Domestic Judicial Review" in *I-CON* vol. 4 no. 3 2006 p. 541

Even though Israelis have been encouraged to settle in the West Bank, the capital and infrastructure that was built was for Israelis only. The Palestinian territories are akin to the traditional colonial framework in that Israel takes the surpluses and resources for their own development. Examples of this strategy are the roads Israel has built specifically for Israeli settlers in the West Bank and not for Palestinians, who are not allowed to drive on these roads and, therefore, Israel has built them for the betterment of its own people and not the indigenous population. Another example is the city of Tel Aviv, which was established in 1909 directly adjacent to the Arab town of Jaffa. It was built as a Jewish city for Jewish inhabitants. The purpose of the city was not to exploit the Arabs living near it but rather to provide for the Jewish immigrants to live and prosper. This is one of the main reasons why Israel developed the way it did. The Jewish immigrants were building cities in order to stay for an extended period of time (over 100 years) and they were not just arriving in order to take the surplus of the Palestinians and their resources.

While the second Intifada impacted the Palestinian economy even more than during the Oslo period, the Barrier has contributed further to the destruction of the Palestinian economy. The Barrier has restricted trade from the West Bank to Israel, forcing many Palestinian producers to decrease their output or close their enterprises altogether. In the West Bank in the first quarter of 2007, unemployment was 24.3 percent of the work force, compared to the first quarter of 2000 when it stood at 16.9 percent.¹⁹⁸ While this may not seem like such a large increase it should also be noted that some businesses continue to operate, but at levels that are much lower than during the Oslo

¹⁹⁸ B'Tselem Ground to a Halt: Denial of Palestinians' Freedom of Movement in the West Bank August 2007 p. 73

period. In the Gaza Strip the situation is much worse. According to OCHA by mid 2006 nine out of ten Gaza families were living below the poverty line and 80 percent lived on less than \$1 a day.¹⁹⁹

One of the key reasons that unemployment has increased and the size of businesses has decreased is the increasing restrictions placed on Palestinian workers. The Israeli human rights organization B'Tselem explains,

The restrictions on movement imposed at the beginning of the Intifada forced many to remain much closer to the work site during the week. Many workers who did not want, or could not, separate from their families, lost their livelihood because they were unable to get to their jobs regularly. This situation naturally affected the employers as well: many service businesses and manufacturers lost a skilled work force and were forced to reduce output substantially. Some even had to close their enterprise or switch to another area of business.²⁰⁰

It has grown increasingly hard for average Palestinians to acquire permits to move within the West Bank and between Israel and West Bank. Consequently, businesses have to incur increased costs of transportation as well as a diminishing market for their goods. Palestinians used to have free access to the Israeli market and much of the Palestinian agriculture and manufactured goods ended up there. With the increased restrictions Israelis can no longer depend on their Palestinian counterparts to deliver the goods in a timely fashion or at all.

Palestinians have resorted to using middlemen in order to get their products to market. This means that Palestinian producers hire other Palestinians with permits in order to transport their goods to places that the producer cannot go. As well Palestinians have established the “back to back” method of transporting goods. For example one truck

¹⁹⁹ OCHA
[http://ochadms.unog.ch/quickplace/cap/main.nsf/h_Index/MYR_2008_oPt/\\$FILE/MYR_2008_oPt_SCRE_EN.pdf?OpenElement](http://ochadms.unog.ch/quickplace/cap/main.nsf/h_Index/MYR_2008_oPt/$FILE/MYR_2008_oPt_SCRE_EN.pdf?OpenElement) p.64

²⁰⁰ B'Tselem Ground to a Halt p. 74

with goods arrives at a checkpoint, all of the products are unloaded and checked either by hand, mechanical means (scanner) or by dogs and are then loaded onto another truck destined for the market. By doing this Palestinians can still transport their goods outside of their one district but it increases the transport time and costs, and the goods risk being damaged by the checks of the Israeli soldiers.²⁰¹

Jerusalem and the Barrier

Jerusalem has always been an important city for Jews, Muslims and Christians. For Jews, Jerusalem is where the two holy Temples stood as well as the kingdoms of David and Solomon. For Palestinians, Jerusalem is the third holiest site after Mecca and Medina and the Al Aqsa mosque is the site where the Prophet Muhammad ascended to heaven. For Israel, Jerusalem is the capital of the state and because of its religious significance is the heart of the Israeli nation. The significance of the city for the Palestinians goes much farther than being the third holiest city in Islam. Jerusalem is the cultural and economic capital of the Palestinian people, and has always been looked to as the political capital as well. The city's importance to both peoples makes it one of the most interesting aspects of the Israeli-Palestinian conflict.

There are a handful of Israeli cities that have both large Arab and Jewish populations but none have as much significance to the conflict as Jerusalem. There is much animosity between the Jewish and Arab communities in Jerusalem and the city has seen the majority of suicide bombings since 1993. Because Jerusalem means so much to both groups of people it is really a microcosm of the conflict. What happens in Jerusalem

²⁰¹ B'Tselem Ground to a Halt p. 76

is a reflection of the conflict at large and this reality makes it one of the most important issues in the conflict.

Perhaps the greatest by-product of the Barrier is the status of Jerusalem residents. After 1967, Israel annexed Jerusalem and gave the Arab inhabitants Jerusalem residency cards. While these residents are not full citizens, for over forty years they have enjoyed a level of freedom that contributed greatly to the economy of the West Bank. These residents have been the middle men for the producers in the West Bank, because they can move freely between the Palestinian territories and the rest of Israel. Comparatively, West Bank and Gaza residents need special permits to enter Jerusalem. There are 120,000 Palestinians who live in the suburbs north, east and south of the city.²⁰²

The real issue is with the building of the Barrier through parts of Jerusalem. Communities that were once part of Jerusalem are now no longer part of it. The Barrier divides these towns from the rest of Jerusalem and are now considered part of the West Bank instead. This means that these Palestinians who for over 40 years had Jerusalem residency cards now no longer do. Where they once had freedom to move around Israel as they pleased, they now have to apply for permits like the rest of the West Bank and Gaza strip Palestinians.

Jerusalem plays a fundamental role in the economy of the Palestinians and without it the entire economy suffers. Shir Haver from the Alternative Information Centre explains in the following manner,

Despite the fact that East Jerusalem Palestinians usually hold low-paying and low-prestige jobs, the Palestinian economy in the OPT has become dependent on their income nonetheless, as a result of many years in which Israel prevented the independent economic development of the OPT. In fact, of all the areas of the

²⁰² Anita Vitullo "The Long Economic Shadow of the Wall" from Against the Wall Ed. Michael Sorkin. New York Press, New York 2005 p. 114

OPT, Jerusalem has the highest average wage (mainly because of its proximity to Israel). While the average wage in Gaza was US\$13.8 just prior to the Israeli withdrawal from Gaza in 2005 and the average daily wage in the West Bank at the same time was US\$16.4, the average daily wage in Jerusalem was US\$27.2.²⁰³

The Barrier cuts communities off from Israel and the West Bank. Previously Jerusalem's Palestinians went shopping in the West Bank as well as in Israel. The Palestinians who are on the Israeli side of the Barrier are no longer able to travel freely to Ramallah and Bethlehem and are forced to stay in their communities. As well, the Palestinians who were Jerusalem residents are no longer able to travel to West Jerusalem to shop and buy their goods. By forcing these Palestinians to only shop in their own communities it encourages price increases. Without the competition of towns for consumers the prices can rise and this hurts the Palestinians. As well Israelis who used to travel to the Palestinian territories no longer do because of the safety risks that are associated with traveling in those areas. This also contributes to the decline in the Palestinian economy. Anita Vitullo writes,

For residents of East Jerusalem, the wall also deprives Jerusalemites of sustaining contact with other areas of the West Bank, including extended families; it shrivels local businesses and forces the redirection of their economic activities toward Israel. It will, no doubt, dramatically raise the cost of living in East Jerusalem to near Israeli levels.²⁰⁴

The Barrier is the final chapter in the story of the second Intifada. The Intifada was waged as a response to the inaction of Palestinian leaders and the treatment of Palestinians after the Oslo process. The Barrier has brought increased hardships instead. The building of the Barrier brought an end to the Intifada by taking away the Palestinian ability to spread terror in Israel proper and by cutting of the traditional revenue streams of

²⁰³ Shir Hever The Separation Wall in East Jerusalem, Economic Consequences Alternative Information Centre Jerusalem no. 11-12 January-February 2007 p.33

²⁰⁴ Vitullo p. 114

Palestinians. The Palestinians have been continually disadvantaged by Israeli policy starting with the Oslo period. The history of dependence has only exacerbated the problem of poverty and the decimation of the Palestinian economy. Before Oslo the Palestinians were completely dependent on the Israeli economy, but after the history of closures and the building of the barrier these Palestinian workers are now still dependent on Israel but are not able to get the jobs they once had.

Dependence in the Israeli-Palestinian Conflict

The Israeli policies that have been outlined in this chapter have greatly contributed to the dependence of the Palestinians on Israel. Israel has perpetuated this relationship by taking certain actions that Wallerstein outlines as contributing to dependence. Historically when Israel has come close to peace with the Palestinians²⁰⁵ it has not gone far enough to sever the relationship of core and periphery. As much as Israeli leadership in the past has expressed the need for an independent Palestinian state, they never mention an ending of this core-periphery relationship. In order for Israel to stop dominating the Palestinians through this relationship, Israel would need to allow the Palestinians full rights as a state and treat it as any other. There is much talk among scholars such as Sara Roy, that the dependence needs to be lessened or ended but they never mention the relationship of core-periphery. This is an important point because Israel is not prepared to sever these important ties. The relationship is too important for Israel in terms of economics but also security. Israel needs to be able to dictate conditions to the Palestinians, even if there was to be a Palestinian state. In order for there to be less

²⁰⁵ One could argue that Israel and the Palestinians were close in 1993-1995 after the first Oslo Agreement and in 2000 at the Camp David II summit.

dependence, Israel has to accept that the Palestinians would be just another country in the region and needs to stop trying to be a core state, to the Palestinians and the greater Middle East as well.

The establishment of an independent Palestinian state would require a serious commitment from Israel and the international community in order to avoid the pitfalls of other post-colonial situations. All too often in the past a colonizer has left its colony too quickly only to see the newly established state degrade into a civil war or a safe haven for terrorists and criminals. There would need to be development programs and a willingness by Israel and the rest of the world to ensure that the Palestinians are not forgotten and that they are given the chance to develop on their own terms with control over their own policies.

Wallerstein explains that in order for a state to move from a periphery to a core there needs to be more equal exchange between trading nations. The second Intifada was an effort by the Palestinians to force Israel to grant the Palestinians more control over their economy and their borders.

Critique

Frank and Wallerstein both assert that the main reason for the development/underdevelopment paradigm is capitalism itself. They state that if the world moved to a system with more socialist ideals then the problems of capitalism would cease to exist. Capitalism does not promote equality because the top of the chain must always be taking from those beneath it.

It does not seem reasonable that the only answer to the underdevelopment problem is a wholesale transformation of the system. There are merits to socialist ideals, but trying to alter completely the system seems unreasonable. Israel was built using socialist ideals and has since its inception been able to balance the capitalist and socialist realms and because of this fact capitalism must not be the main obstacle to development.²⁰⁶ This is a major shortcoming of both theories. The core states would never be willing give up their status as a core and short of a revolution in the Western capitalist states, this idea is unthinkable.

In terms of the Israeli-Palestinian conflict, in order to change the relationship of dependence, the Palestinians need more independence, rather than Israel and the Palestinians becoming socialist states. They need to be able to formulate their own economic policy and not be dictated to, and perhaps more importantly, they must have control over their own borders. This might be their biggest obstacle to worthwhile development. By not having control they are at the mercy of Israel in terms of which goods enter and which do not. Every state has control over its own borders; which is one of the main tenets that define states. Without control over borders, states would just be under the control of another entity.

Economically the Palestinians need to be able to form their own policy and not be dictated to by Israel; they would need their own currency and be able to control inflation and interest rates as well as their own national bank and investment funds. In order for the Palestinian economy to flourish it would need to be as separated as much as possible from the Israeli economy just like any other state would be.

²⁰⁶ The Kibbutz movement outdates the State of Israel. The Kibbutzim are socialist communal agriculture communities that housed the many immigrants who came to Palestine before and after 1948.

Both theories do have some major issues in terms of explaining the Israeli-Palestinian conflict. Neither theory deals with anything other than the economy. In the frame of this conflict the military and political realities cannot be omitted, yet there is no room for them in the theory. The theories have little analytical power concerning the realities of the Israeli-Palestinian conflict or any other ethnic conflict. Viewing this situation or any core-periphery relationship without looking at political and military issues seems too simplistic. There is more to every situation than just the economy and how close or far a state is to the core. While the economics of any given situation are of the foremost importance, the military realities cannot be ignored.

The second Intifada was fought using military means and because of this these theories cannot sufficiently explain the reasons why it failed. The economic aspects of the second Intifada point to a furthering of the dependence between the two entities. The military aspects of the Intifada really demonstrate its failure. The Palestinians fought the Intifada with suicide bombings and the Israelis fought with military operations in the West Bank and Gaza Strip. The consequence of suicide bombings was increased restrictions on the movement of Palestinians in and out of the Palestinian territories as well as the building of the security Barrier. While there are serious economic implications surrounding the erection of the Barrier, the restriction of movement placed on the Palestinians has curtailed the entry of suicide bombers into Israel. This reality is something that both theories cannot account for because it is not an economic matter.

Both theories also do not account for racism. Over the past 400 years there has always been one group of white males that has been dominating peripheral colored nations. Slavery contributed to the development of the USA, yet both Wallerstein and

Frank never seem to acknowledge this fact. Israel is not a racist state, but certainly the fact that Israel is made up of one ethnic group and the Palestinians another should not be ignored. While there is an Arab minority in Israel that does have full rights as citizens, it is the white Ashkenazi Jews (Jews of European decent) who make the military and economic decisions for the state. This difference in ethnic makeup is at the core of the entire conflict and has been at the core of every colonial dispute since the beginning of colonial times.

Conclusion

The framework of dependency theory and world systems analysis offers an interesting perspective on the Israeli-Palestinian conflict. When a conflict like the Israeli-Palestinian dispute is viewed through the lens of a theory it brings some important points to light. The relationship between Israel and the Palestinians should be viewed as a relationship of a core state dominating a periphery and not just as one 'nation' over another. According to both theories Israel has not occupied the Palestinian territory because it hates Arabs or because they want to kill Arabs but rather because of the nature of the capitalist system. Israel needs to use the Palestinians to accumulate more capital and grow economically. This is one of the main economic reasons why Israel has tried to perpetuate this relationship for so long. Israel has a totally unfettered market for its goods. It needs the Palestinians in order for this market to stay healthy. Israel has devastated the Palestinian economy through its various policies and this has enabled Israeli industry to ensure that an indigenous Palestinian industry cannot rise up to push these Israeli enterprises out.

In terms of both theories discussed in this chapter, the Intifada only deepened the level of dependence between these two entities. Through the various Israeli policies and up to the building of the Security Barrier, Israel has altered the economy of the Palestinians. Prior to the first Intifada and the Oslo period, the Palestinians were the primary work force in Israel. Once the Israeli policy of closure was instituted, unemployment in the territories soared and the Palestinians could not find work. Because the Palestinians depended on Israel for a large number of jobs the loss of these jobs and the high unemployment rate demonstrate the importance of the Israeli labour market to Palestinian workers. Palestinians figuratively (and literally) live and die by the hand of Israel. When there are no jobs for Palestinians, they are completely dependent on Israel. There is a major humanitarian crisis currently going on in Gaza because of the Israeli blockade. The Palestinians need Israel for aid, money and movement, all things currently denied to them by Israel. Because of this blockade the Palestinians are at the mercy of Israel and are completely dependent on it.

If the goals of the second Intifada were to gain more independence, it failed. Through the relationship of dependence, Israel has continued to subordinate the Palestinians instead of allowing them greater freedom. The Intifada failed because of this very fact. The Palestinians were fighting for greater freedom and instead only received greater hardships. The Palestinians did not achieve any of their goals when it came to fighting the Intifada and this can be explained through the theories of dependency and World systems analysis. The fact that Israel and the Palestinians are so closely tied together prevented the Intifada from having a real lasting positive impact.

This relationship of dependence only helps Israel, the core. In order for the Palestinian economy to grow and become independent it needs to be more self-reliant. This relationship has not worked for the Palestinians and therefore must change. If Israel and the Palestinians continue down the current road then this relationship will only deepen and the Palestinian economy will be devastated even more.

Conclusion

Introduction

The relationship between the Palestinians and Israel has always been one of conflict and dependence. As has been demonstrated throughout this thesis the relationship of dependence has only become more engrained since the outbreak of the second Palestinian Intifada. The Intifada was a way for the Palestinians to express their displeasure with their leadership's inability to change the relationship with Israel and to demonstrate to Israel that the Palestinians were willing to fight for change. The various Israeli policies towards the Palestinians over the past 17 years have only deepened the relationship of dependence.

This conflict started in earnest in 1967 when Israel became a core and the Palestinians the periphery. Since that time the Palestinian economy has not been allowed, or able to develop on its own. There are a few issues that need to be highlighted when discussing the relationship of dependence. The one with the most direct impact on the Palestinians has been the Israeli policy of closure. Without free movement within the Palestinian territories and between the West Bank and the Gaza Strip the Palestinians will never be able to reach their full potential. Economically the Palestinians have been devastated by this policy and have not recovered from the almost constant closures as a result of the second Intifada. The restriction on the movement of Palestinians within the West Bank has also had irreversible economic effects.

Another major issue that contributes to the relationship of dependence is the lack of control the Palestinians have over their own borders. By not being able to control who and what enters and exits their territories the Palestinians are at a serious economic disadvantage. Connected to this issue are the lack of sea and airports in the Palestinian

territories. Without these important conduits of trade, Palestinian goods have to go through Israel and could be subject to certain tariffs that the Palestinians would otherwise not have to pay. As well when the borders are closed, Palestinian goods destined for other markets cannot reach them because of these closures.

The 2005 election of the Islamist organization Hamas has also contributed to the worsening of humanitarian and economic conditions in the Gaza Strip. Since this election, Israel has imposed a blockade on the Gaza Strip and this has meant that the unemployment rate has soared and now over eighty percent of Gazan residents live below the poverty line.²⁰⁷

These policies are just more examples of how Israel has continued to encourage the relationship of dependence between itself and the Palestinians. As the both Immanuel Wallerstein and Andre Gundar Frank have asserted, the core state's development is dependent on the periphery's underdevelopment. Israel has ensured that the Palestinians remain in an underdeveloped pseudo-state without control over the most important aspects of their economy. Palestinians are still unable to control their own borders, set tariffs on imported goods, and to find markets for their goods. They are at the mercy of Israel in terms of the route of the Security Barrier and when it comes to the expansion of existing settlements. Without more Palestinian control over these issues, the Palestinian economy will never grow to its full potential.

It is still important to remember that there are two sides to this conflict and until the Palestinian leadership is willing to curb violence in an earnest way there will never be peace and the economy will continue to suffer. Israel has consistently pointed to this

²⁰⁷ B'stelem http://www.btselem.org/English/Gaza_Strip/ October 13, 2009

violence as the reason for its policies. Israel has the right to protect its citizens from indiscriminate violence and is willing to go to great lengths in order to do so.

At some point both sides will have to come to an agreement on the final status issues: water, borders, refugees, settlements and Jerusalem. Without a lasting agreement on these issues the prospects for peace are fairly slim. Both sides need to realize that they will not be able to receive all that they want. Israel will never grant the over three million Palestinians the right of return because that will spell certain death for Israel as a Jewish state and the Palestinians have to come to terms with this reality. On the other hand Israel will have to cede some sovereignty over the Temple Mount because the Palestinians see it as the most important part of Jerusalem and as the heart of the Palestinian people.

More importantly are the economic aspects of a future peace. Israel will have to honestly and actively help the Palestinians to develop. The initiatives that were outlined in the Oslo Agreement and the Paris Protocol need to be re-examined and reapplied to this conflict. A port in Gaza and a road that connects the two territories so that goods and people can travel from one to the other and out for export are of the utmost importance. In order for the Palestinians to control their own economy they need to be able to decide for themselves what enters and exits their areas. Just like any other country the Palestinians need to be granted these rights. Moreover a Palestinian currency and central bank are integral to the Palestinian economy becoming viable.

It seems that when Shimon Peres wrote the “New Middle East”, he was on to something. If the Europeans were able to get over their differences (differences that were the cause of the two worst wars the world has ever seen) for the sake of their own development then why the same thing could not be done for the Israeli-Palestinian

conflict is the ultimate question. A Middle Eastern regional alliance or bloc would encourage massive investments from all over the world. The Middle East is literally in the middle of the world and strategically this could prove to be an advantageous location for manufacturing and business in general. Close to Asia and Europe, the Middle East is one of the last unexplored business frontiers.

When the “New Middle East” was written in 1993, the whole region was different than it is now. If the Americans are successful in Iraq and that country becomes a democracy and more friendly towards Israel then there could be real possibilities of regional economic integration. The Gulf states already have de facto economic ties with Israel and if a Palestinian state was established, the other more confrontational countries would have no reason to be hostile towards Israel. Israel and Dubai could lead the way for the Middle East much the same way Taiwan, Hong Kong, Singapore and South Korea did for Asia. It seems that now is the time for this type of development.

The future of the Palestinian-Israeli conflict holds much uncertainty. The recent election and re-emergence of the Right-wing Likud party and its leader and current Prime Minister Benjamin Netanyahu could spell a return to increased closure and non-agreements as were seen ten years ago when Netanyahu was Prime Minister the first time around. As well, the growing rift between the two Palestinians territories could mean a move closer towards a Palestinian civil war in which case there could be no possibility of peace.

Until the Palestinians reach an agreement among themselves and until Israel recognizes whatever agreement comes about, there will be no real negotiations. Even recently at the fall 2009 United Nations meeting when President Obama met with both

PM Netanyahu and President Mahmoud Abbas, this meeting did not see any real results and was not expected to. The Americans know that there cannot be an agreement that only applies to one of the two Palestinian territories. Hamas and Fatah need to come to some agreement and settle their differences and provide a united front to Israel, the Americans and the rest of the world.

Throughout this thesis the relationship of dependence between Israel and the Palestinians has been explained through the theories outlined by Frank and Wallerstein. According to both theories things would have to drastically change economically in order for there to ever be a resolution to this conflict. The periphery would have to move closer to the status of a core state. Israel would have to stop using the Palestinians solely as their periphery and would need to incorporate them more into the global economy. By doing so the Palestinians could encourage trade with other nations and then move away from dealing with just one state as well as using goods and labour from other states in order to move up the chain of capitalism. While both Wallerstein and Frank would disagree with this assessment based on their distaste for capitalism in general, it seems like it is the only real and viable option. If one state can only develop at the expense of another state then the Palestinians need to not become a core in the vein of Israel but need to develop using resources from states that could be below them on the food chain of capitalism.

Once again there are some major shortcomings to both theories that make them at times difficult to apply to the Israeli-Palestinian conflict. The fact that the theories cannot account for violence really exemplifies its weakness. Aside from this conflict, to apply both theories to any relationship and not be able to account for violence or the threat of violence does the theory a serious disservice. This rather large omission makes these

theories problematic. There are some definite merits to the theories as was explained in this thesis but the fact that violence does not make an appearance means that it could never be used to fully explain the relationship between Israel and the Palestinians.

The reality that so much has been written on this topic highlights the complexity of this situation. While this situation is most definitely unique there are similar conflicts in the world today such as the Russia-Chechnya situation as well as the conflict in Sri Lanka between the government in Columbo and the Tamil Tiger rebels. Both of these conflicts pin two different ethnic groups competing against each other as well as a government versus autonomous regions or pseudo-states. it is important to explain and understand the path of the conflict and what is needed to achieve lasting peace agreements.

It would be beneficial for Israel and the Palestinians to look to dependency theory, even with its short comings, to try to shape their policies. Israel needs to realize the economic damage it is forcing on the Palestinians and understand the impact that is having on the relationship of dependence. If Israel were to use dependency theory to shape its policies then perhaps this devastation would not be so great. As well the Palestinians could better understand the situation they are currently in and try to use the theory in order to better themselves economically.

Conclusion

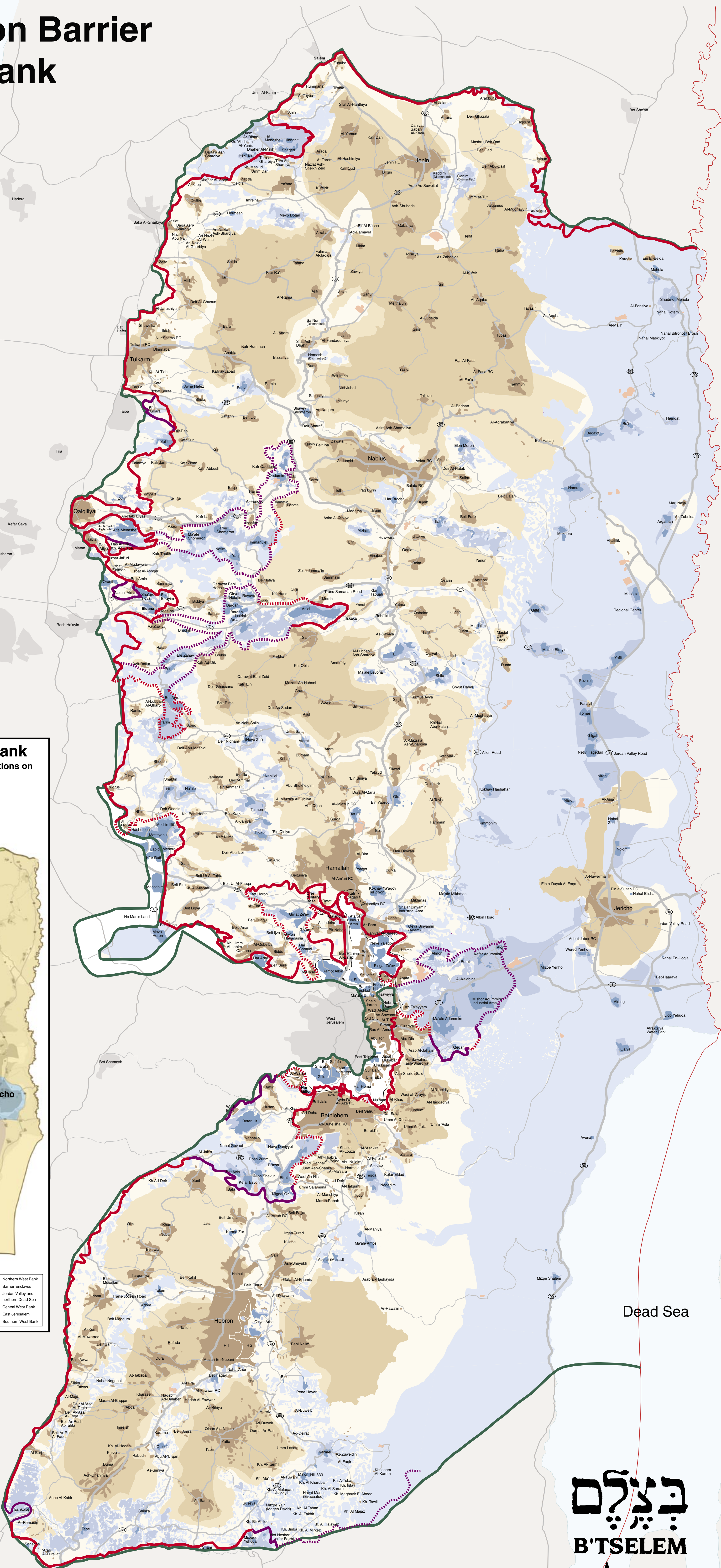
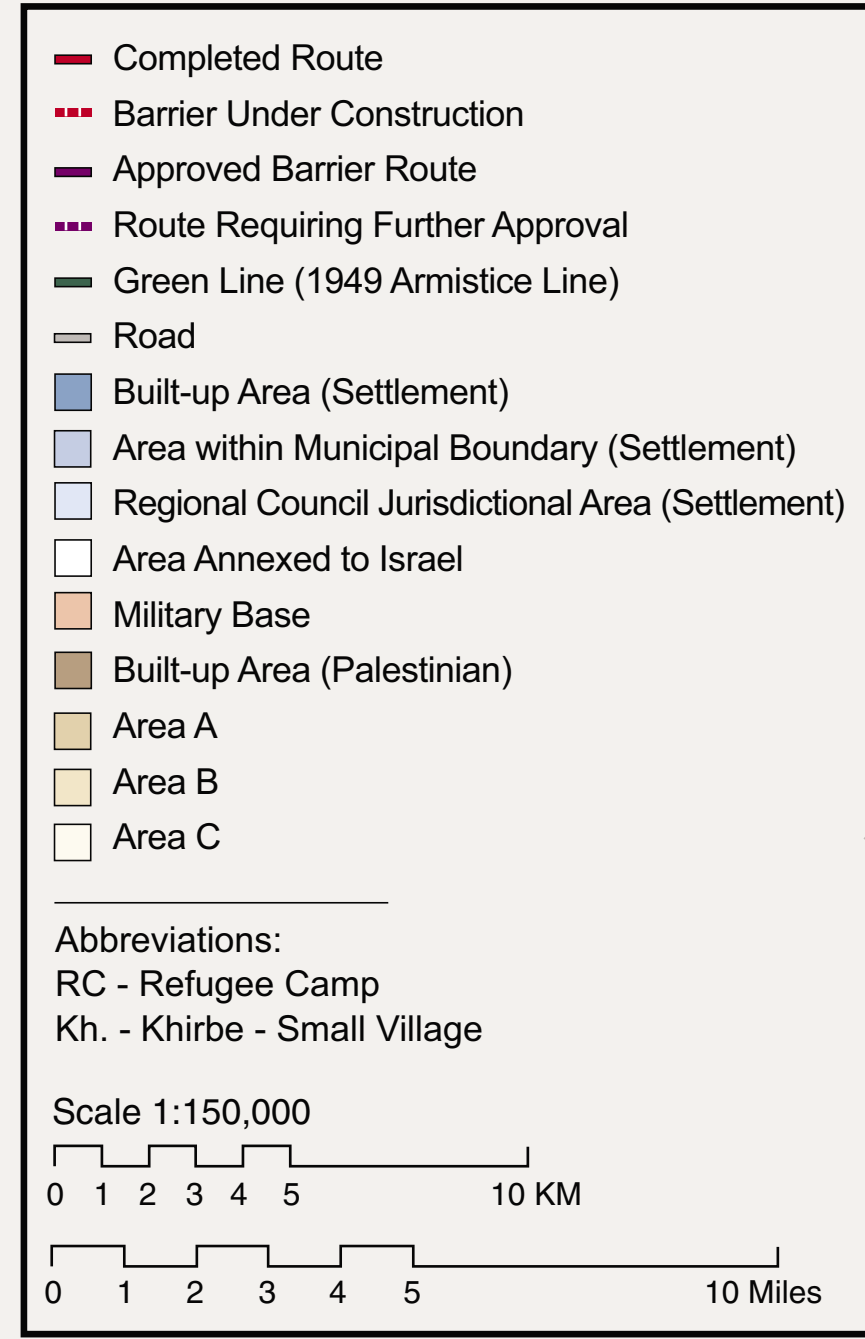
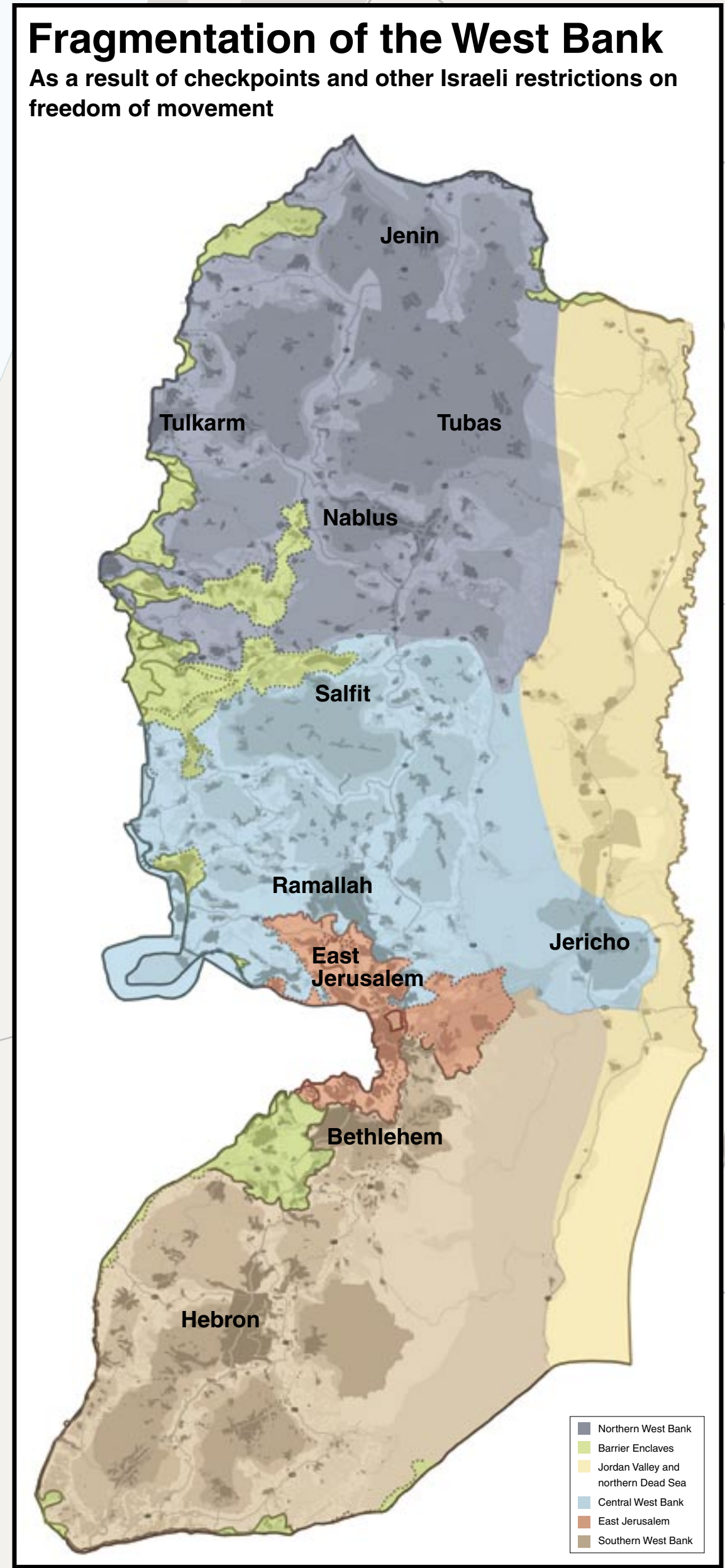
It is hard to visualize a Middle East without violence and without the Israeli-Palestinian conflict. The key to an everlasting peace agreement is through economic agreements. Israel needs to give the Palestinians more of a reason not to use violence against it and that would mean a nurturing stronger Palestinian economy. Currently,

Palestinians do not have anything to lose by using violence against Israel and, therefore, terror organizations use it to their advantage against civilians and soldiers. If the Palestinian economy was stronger and not just at the mercy of Israel, the Palestinian people would see the importance of curtailing violence in favour of dialogue and mutually beneficial business practices.

If Israel and the Palestinians had a common goal of economic prosperity, the violent aspects of the conflict would cease and this would truly be the greatest achievement in ending this conflict. Hatred of one group by another could take generations to change, but business and economics could change events on the ground immediately. That is why it is so important for the relationship of dependence to end. There are many issues that surround this conflict, but if dependence ends then one of the biggest obstacles to peace could be overcome.

The Separation Barrier In the West Bank

February, 2008



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