



DE-DEVELOPMENT REVISITED: PALESTINIAN ECONOMY AND SOCIETY SINCE OSLO

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The years since the Oslo agreement have seen a marked deterioration in Palestinian economic life and an accelerated de-development process. The key features of this process have been heightened by the effects of closure, the defining economic feature of the post-Oslo period. Among its results are enclavization, seen in the physical separation of the West Bank and Gaza; the weakening of economic relations between the Palestinian and Israeli economies; and growing divisions within the Palestinian labor market, with the related, emerging pattern of economic autarky. In the circumstances described, the prospects for sustained economic development are nonexistent and will remain so as long as closure continues.

EVEN IF A PALESTINIAN STATE IS DECLARED IN MAY 1999, the fifth anniversary of the Cairo Agreement, it will be very different from the one envisioned by Palestinians at the time of the Oslo Accord in September 1993. It will be a weak and increasingly impoverished state, almost totally dependent on Israel and other external forces for its survival. The "peace process," which was supposed to end the conflict between Palestinians and the State of Israel and allow the Palestinians greater independence of action, has done quite the opposite, and tensions between the two protagonists remain high.

The Palestinian entity, furthermore, is characterized by severe economic decline, social regression, and political repression. As such, "de-development," a process this author first articulated in 1987 to describe the relationship between Israel and the occupied territories, continues unabated. In fact, not only has the peace process failed to mitigate—let alone end—de-development, it has accelerated the process by introducing into the Palestinian economy new dynamics that have further attenuated an already diminished socioeconomic base.

DE-DEVELOPMENT AND UNDERDEVELOPMENT

De-development is perhaps best understood when compared to underdevelopment.¹ Both processes describe a structural relationship between

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a stronger (dominant) and weaker (subordinate) economy. But while most definitions of underdevelopment allow for structural change and reform within the weaker economy (though that change often is disarticulated because it is oriented to the needs of the dominant economy), de-development not only distorts the development process but undermines it entirely.

Thus, many underdeveloped economies possess the components critical to any development initiative: a modern industrial sector, the capacity to accumulate capital (i.e., large-scale investments in land, human resources, and physical equipment), and political and economic alliances among elites within and between the dependent and dominant economies and between the dependent economy and the international financial community. In this way, the disarticulation of economic activity in the weaker economy does not preclude a process of development, however skewed. By contrast, a de-developed economy is deprived of its capacity for production, rational structural transformation, and meaningful reform, making it incapable even of distorted development.

Prior to Oslo, Palestinian economic de-development was advanced by a range of policies that together effectively precluded the kind of indigenous economic and institutional change necessary for structural transformation and capital accumulation. The first category of such policies, relating to expropriation, dispossessed Palestinians of key economic resources (through outright confiscation of land and water and restrictions on planning and use of resources) critical to the formation of productive capacity.

A second category of policies leading to de-development involved integration and externalization, which conditioned Palestinian economic growth (as seen in its gross national product; GNP) on employment opportunities in the Israeli market and on externally generated sources of income. These policies reoriented the West Bank and Gaza labor force to semiskilled and unskilled employment in Israel and the Arab states and away from indigenous agriculture and industry (sectors critical to the development of productive capacity). Redirecting trade primarily to Israel (and to a lesser extent to Arab states) deepened Palestinian dependence on Israel for commercial access to international markets, while Palestinian agriculture and industry came to rely disproportionately on the export trade (largely with Israel) for sectoral income and growth.

Throughout the period, levels of public investment in the local economy and infrastructural development were very low. In sum, policies of integration and externalization not only mediated the economic transfer of Palestinian resources to the Israeli economy but delinked local economic activity (employment, trade, personal income) from market forces, making them increasingly dependent on demand conditions in Israel. The result was the steady weakening and disablement of Palestine's economic base, an eroding productive capacity, and the growth of the service sector as the largest domestic employer.

A third category of policies undergirding de-development relate to deinstitutionalization, a logical consequence of dispossession and externalization. Such policies severely restrict the development of Palestinian institutions, and, by extension, institutional arrangements between the formal (governmental) and informal (nongovernmental) sectors needed to coordinate and implement development policy. Indigenous structural reform, institutional development, and infrastructural growth were confined within narrow structural parameters. In Palestinian industry, for example, Israeli restrictions since 1967 have meant that product lines have remained labor-rather than capital-intensive. In this way, Israeli policy directly undermined the development of an institutional infrastructure (e.g., financial, credit, and banking systems, local government structures, and appropriate educational and health institutions) so critical to the development process. In the absence of major development planning by a national authority, "development" activities fell, in large part, to the initiatives of the weakened informal sector and international agencies.

The de-development of an economy does not mean that individual production cannot be increased or individual living standards improved, as occurred in the West Bank and Gaza Strip during the first decade of Israeli occupation. Hence, although a process of structural change (as opposed to reform) was clearly evident after 1967, it was aberrant change precluding the qualitative transformation of positive growth into sustained economic development.

KEY FEATURES OF THE PRE-OSLO PALESTINIAN ECONOMY

The effect of all these policies was that by September 1993, when the first Oslo agreement was signed, the Palestinian economy was weak, dependent, and sectorally imbalanced.² Almost three decades of restrictive Israeli policies combined with the highly damaging impact of the intifada and the Gulf War had exposed the tiny Palestinian economy to disproportionate external shocks that directly shaped indigenous economic patterns. Two such patterns were the declining demand for unskilled Palestinian labor in Israel and the disappearance of Persian Gulf markets as a source of demand for newly educated Palestinian labor.

Given that the two primary axes of economic integration between the Israeli and Palestinian economies were labor and trade, Israeli policies were premised on open borders. Over time, the Arab labor force became deeply integrated into the lowest occupational rungs of the Israeli work force, and Palestinian trade relations were restructured to favor Israel. Integration policies also were supported by the expropriation of land and water from the Arab sector and low levels of government investment in the economy's productive sectors, which diminished the local economic base and markedly increased its dependence on Israel.

By 1993, Palestinian agriculture and industry, the productive backbone of the economy, had weakened dramatically due in large part to Israeli-imposed restrictions on sectoral expansion and internal reform, as evident in the largely unchanged balance of output since the 1960s. Industry, for example, confined primarily to subcontracting for Israeli firms, accounted for the lowest share—7–8 percent of gross domestic product (GDP), compared to 25 percent in Jordan. In the mid-1980s, the size of the average industrial establishment in the West Bank and Gaza was no larger than the average such establishment in Palestine in 1927 (4.2 persons).³ An underdeveloped industrial sector naturally produced distortions in manufacturing and other related economic activities, such as trade and infrastructure. Imports, averaging 70 percent of GDP in value between 1970 and 1990, consistently exceeded exports, which averaged 20 percent.

Infrastructure experienced similar developmental deficiencies resulting from Israel's neglect of basic services, such as electricity, sanitation, roads, and telecommunications. For example, by 1993, electric power distribution reached only 13 kW for every 100 people in the West Bank and Gaza Strip compared with 25 kW in Jordan. Furthermore, only 25 percent of Palestinian households had sanitation, compared with 100 percent in Jordan. The weakness of the productive sectors, coupled with myriad Israeli restrictions on the development of the private sector and economic reform overall, resulted in the primacy of the service sector within the local economy and in a situation where housing became the primary form of investment.

The Palestinian economy was further characterized by labor market imbalances and a heavy dependence on external income sources. Diminished productive capacity, combined with official restrictions on regional and international trade and on the development of a viable financial system, forced the Palestinian labor force to seek employment outside its own economy. Between 1972 and 1990, for example, Palestinian labor increased by 64 percent while domestic employment increased by only 28 percent. Labor became a key export of the Palestinian economy, with nearly half the labor force working in external markets in the early 1990s.

By 1993, the integration of the two economies was deep. The Palestinian economy could generate only two-thirds of its national income. Hence, consumption exceeded production and the resulting deficit was filled by imports—largely from Israel. And because most exports and imports came from trade with Israel, the Palestinian economy was deeply tied to economic conditions there, not only for employment and trade but for its consumption. Remittance income was very large relative to total income, widening the gap between the GNP, the measure of national income, and GDP, the measure of economic activity inside the West Bank and Gaza. Thus, when the first Oslo agreement was signed, Palestinian economic priorities were employment generation; improving productive capacity, especially in agriculture and industry, through heightened investment; enhancing private sector growth;

improving the quality of education, training, and health; and ending dependency on Israel.

DE-DEVELOPMENT POST-OSLO

Since September 1993, the peace process has created rather than mitigated economic hardship for the majority of Palestinians in the West Bank and Gaza.⁴ Arguably, there never has been a period since the beginning of Israeli occupation when the Palestinian economy has been so vulnerable. In fact, measured against the advances made by other states in the region, the Palestinian economy is weaker now than in 1967.⁵ The characteristic features of the de-development process—expropriation, integration, and deinstitutionalization—not only have continued but have accelerated since Oslo, their detrimental impact heightened by new economic realities, particularly closure.

Closure, the sealing off of the territories from Israel, from other external markets, and from each other, is the defining economic feature of the post-Oslo period. Never lifted since 1993, closure has proved extremely damaging to the Palestinian economy, particularly labor and trade, and has resulted in two new processes: growing economic "enclavization" and emerging economic autarky in an economy already weakened by de-development. Enclavization results from the diminution of economic activity between the occupied territories and Israel (and international markets) and the virtual termination of activity between the territories themselves. Economic enclaviza-

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tion describes a process of growing economic separation or partition and bifurcation that strikingly parallels its political counterpart, Bantustanization. Economic autarky, which is linked to enclavization, refers to a turning inward of economic behavior away from international market relations toward more traditional activities and production modes.

These new dynamics, expressed in employment, trade, and income patterns, have further crippled the Palestinian economy.

It is important to note that the economic reality of the West Bank and Gaza after 1993 was shaped by the policy parameters of the Oslo accords and the Paris Economic Protocol, which collectively defined a legal framework for Palestinian economic activity and Palestine's economic relations with Israel. While it is beyond the scope of this article to detail the various agreements and their implications for Palestinian economic activity,⁶ three critical features of this framework must be mentioned: the retention of Israeli military law (and the economic restrictions therein) during the interim phase; Israel's full control over key factors of production, such as land, water, labor, and capital; and Israel's complete control over external borders and the perimeters of Palestinian areas. The closure policy, furthermore, supersedes the economic cooperation and openings formalized in the various

Oslo agreements, including the Paris Economic Protocol, thus making the legal openings effectively irrelevant.

CLOSURE'S IMPACT ON THE PALESTINIAN ECONOMY

It was in March 1993, several months before Oslo, that closure was first imposed on the occupied territories as a long-term measure. As mentioned, it has never been lifted, although its intensity varies. Indeed, closure assumes three forms: general, total, and internal.⁷ *General closure* refers to the overall restrictions placed on the movement of labor, 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. *Total closure* refers to the complete banning of any movement and typically is imposed in anticipation of, or after, an extremist attack in Israel.⁸ *Internal closure* restricts movement between Palestinian localities within the West Bank itself.

Closure has almost entirely eliminated movement between the West Bank and Gaza, in effect isolating the two territories from each other, and has severely diminished economic activity between the territories and Israel. Furthermore, by restricting Palestinian access to Jerusalem, the closure policy has bifurcated the northern and southern regions of the West Bank, whose primary road connections pass through Jerusalem. Since East Jerusalem is the commercial heart of the West Bank, closure has debilitated the city's Arab economy. In fact, by early 1998, less than 4 percent of Palestinians living in the West Bank and Gaza Strip had permission to enter Jerusalem.⁹

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.¹⁰

Labor and Employment

As a result of three decades of Palestinian-Israeli economic relations based on open markets for labor and goods, one-third of the total Palestinian labor force (70 percent of Gaza's) worked in Israel prior to the Gulf War. By substantially reducing the number of workers entering Israel, closure has resulted in widely fluctuating unemployment rates (by as much as two-thirds within a given 3–4 month period¹¹) and the introduction of permanent unemployment for growing numbers of workers.

During the first three years of closure, the unemployment rate in the West Bank and Gaza Strip almost tripled, from 11 percent to 28 percent. Following the total closure of March–April 1996, 66 percent of the Palestinian labor force was either unemployed or severely underemployed.¹² Although unemployment rates in Gaza and the West Bank declined after closure was

eased in June 1996 (to 39.2 percent and 24.3 percent, respectively), they remained among the highest in the world.¹³ A year later, in June 1997, Palestinian unemployment still averaged 20.5 percent—17 percent in the West Bank and 25 percent in the Gaza Strip.¹⁴

Following the imposition of a total closure in August–September 1997, the official unemployment rate shot up to more than 60 percent, with the inclusion of the severely underemployed and discouraged workers.¹⁵ Indeed, by including the latter categories of workers in the standard definition of unemployment, the real unemployment rate prior to the 1997 total closure could have been as high as 49.1 percent, more than double the official rate.¹⁶ During the first half of 1998, the unemployment rate stood at 21.1 percent in the West Bank and 29.9 percent in the Gaza Strip.¹⁷

Although average daily labor flows from the West Bank and Gaza Strip into Israel increased during the first half of 1998, to about 45,800, they were still well below pre-Oslo levels.¹⁸ Even so, employment in Israel accounted for 65.3 percent of all job growth, with 68 percent of Palestinian jobs in Israel being in construction. These levels were further reduced in September 1998 following the imposition of yet another total closure (and the invalidation of all work permits) on 11 September.¹⁹ When new permits were issued later that month, the average daily number allowed to enter Israel had dropped to 27,350, 44 percent below the average for July and August.²⁰ What is shocking is not only the absolute decline in the number of workers but the speed of the decline. Thus, for September alone, reduced labor flows resulted in an estimated wage income loss of \$11.4 million for official workers and perhaps more for unofficial workers.²¹ In this way, the effects of a total closure quickly limit if not negate whatever modest improvements do occur.

Although the number of jobs in Israel could increase in keeping with demand, these jobs are tenuous and subject to wide fluctuations. It is highly unlikely that employment levels ever will return to their historical (pre-intifada) levels, a reality underlined by Israel's absorption of more than 200,000 legal and illegal foreign workers from Eastern Europe and South Asia. According to a report by the World Bank and the Palestine Economic Policy Research Institute, "Palestinian employment opportunities in Israel have been permanently reduced."²² This reduction occurs within a demographic context whereby the population of the Gaza Strip and West Bank is expected to double between 1995 and 2010. In order to prevent unemployment from exceeding 1997 levels, 450,000 new jobs will be needed in the Palestinian economy, an impossibility under current conditions.²³

Parallel with the drop of Palestinian employment in Israel has been the growth of the Palestinian public sector, a reality greatly facilitated by donor aid and tax clearance revenues. Between 1993 and 1997, the Palestinian Authority (PA) created at least 65,000 jobs.²⁴ It is striking that during the first quarter of 1997, the PA employed more Palestinian workers (18.7 percent) than manufacturing (16.6 percent) or agriculture (11.6 percent) in the occupied territories and Israel combined and was virtually tied with construction

(19.0 percent) as the largest employer of Palestinian labor.²⁵ By mid-1998, the PA employed 48,138 civilian workers and 40,992 police for a total of 89,130 public servants (excluding local government workers and daily paid workers).²⁶ By the end of the year, the PA had absorbed 20 percent of the total Palestinian labor force.²⁷ During the first half of 1998, 46.9 percent of the job growth in the territories came from the PA.²⁸

The dramatic rise in public sector employment has been accompanied by an equally significant rise in government recurrent expenditures (from \$258 million to \$779 million between 1993 and 1996, respectively). Almost 60 percent of the 1998 Palestinian budget was earmarked for public sector salaries, "a level that risks serious inadequacies in other essential non-wage expenditures."²⁹ According to the World Bank,

because the share of budget resources has risen in favor of general government functions, resources for education and health services have declined in proportional terms at a time when demographic trends actually support greater spending on social services. With high population growth rates, reduced budgets will make it increasingly difficult to sustain current social indicators with respect to primary enrollment rates and access to health care.³⁰

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.³¹ However, with no guaranteed access to markets due to closure and the severe reductions in labor and trade income that result, the private sector has weakened and remains well below its potential.

According to the World Bank, private sector losses are directly linked to low levels of foreign and domestic investment and to a reduction in the overall efficiency of investment "as production activity becomes increasingly autarkic, using local inputs to produce goods for the local market."³² Indeed, the private sector in the West Bank and Gaza consists of 60,000 individual establishments, the majority of which employ fewer than three persons and are capitalized for approximately \$10,000.³³ This highly underdeveloped structure represents a major obstacle to economic growth and will continue to do so as long as closure remains in place. Hence, the largest component of private investment—85 to 90 percent—has remained residential housing, which contributes little to economic development.

In 1993, private investment stood at \$529 million, or 21 percent of GDP. By 1995, investment had dropped to 8 percent of GDP, or \$320 million, although it increased slightly, to 12 percent, in 1997.³⁴ According to the World Bank, "the economic situation in 1995–96 was [so bad] that the hopes for private-sector-led development had to be set aside by the international

agencies involved in organizing aid to the Palestinian economy.³⁵ In fact, the economic pressures imposed by closure forced the donor countries to redirect as much as 40 percent of their disbursements from long-term investment to emergency budget support and employment generation.³⁶ Given the manifest inability of the PA, the donor-financed construction projects and emergency employment initiatives, and the private sector to generate enough jobs for new entrants to the labor force and displaced workers from Israel, it is virtually certain that massive unemployment will continue as an economic fact of life well into the future.³⁷

Trade

Despite the celebratory rhetoric of Oslo's economic strategists, who at the signing of the April 1994 Paris Economic Protocol envisioned the development of an export-oriented economy that would generate domestic job growth and lessen Palestinian dependence on Israel, Palestinian trade relations after Oslo are strikingly similar to its trade relations before: Israeli dominance as a trading partner; the preservation of the one-way trade structure that insures unimpeded Israeli access to Palestinian markets while blocking Palestinian access to Israeli markets; an excess of imports over exports; and limited access to international export markets.

Yet post-Oslo Palestinian trade relations are distinguished by new and interrelated features that result directly from closure. These features will be examined below.

A Declining Israeli Market

Since 1993, all movement between the West Bank/Gaza Strip and the international market has occurred through three points of entry: Israel, Jordan, and Egypt. Israel has remained Palestine's most important market, accounting for about 90 percent of trade. However, reduced access to that market because of closure has resulted in a substantial and apparently permanent reduction of Palestinian exports to Israel. This reduction has not been compensated by new markets elsewhere, increasingly confining Palestinians to a tiny market overall and incurring enormous losses for the economy.³⁸

According to World Bank estimates, direct and indirect losses from closure (largely in trade with Israel) amounted to at least \$2.8 billion between 1993 and 1996. This loss is equivalent to one year's GDP, or \$1,500/person, and is nearly double the \$1.5 billion in donor aid disbursed during the same period.³⁹ The immediate losses from total closures are also striking. During the August-September 1997 total closure, for example, the Palestinian economy lost \$4 million to \$6 million per day (a total of \$227 million) or 40 to 60 percent of total income and output in the West Bank and Gaza.⁴⁰

Historically, Palestinian trade with Israel has been mainly industrial. Given that Palestinian industry has always relied heavily on Israel for raw materials and as an export outlet, the disruption to trade caused by closure has had a pronounced impact on industrial production in the West Bank and Gaza

Strip. In addition to the obvious difficulties that result—difficulties in receiving production inputs coming from or via Israel (thereby lowering production and sales and hindering production planning), in reliably transporting goods to Israeli customers, and in conducting normal business transactions—Palestinian industrial firms face increased production and operation costs resulting from the following closure-related problems:

- the inability to collect payment, the demands of Israeli suppliers for advance payment, the unwillingness of banks to extend credit, and the rising costs of credit; and
- the need to introduce new procedures to accommodate closure. These include the institutionalization of a back-to-back system of transporting goods between the West Bank, Gaza, and Israel, requiring goods be loaded onto Palestinian trucks and then off-loaded onto Israeli trucks at the border for distances that are typically between 50 and 100 miles. This process involves additional costs for security checks, clearance, storage, spoilage, and shipping.

A U.S. State Department report, after attributing the "most difficult obstacle" in the economy to closure, described the difficulties facing Gazan exporters as follows:

[T]here is currently no possibility of Gaza exporters moving goods according to international standards: movement by container or by shipping pallet . . . into Israel or Egypt for onward shipment is forbidden by Israeli security restrictions. Produce bound for the West Bank or Israel—the biggest markets for what is the largest contributor to Gaza's gross export earnings—is permitted only via small boxes through a cumbersome back-to-back arrangement at the Qarni/al-Muntar cargo terminal; textiles and other products which cannot be folded to fit through the existing security inspection machines must undergo Israeli hand inspections, which can result in damages to the products or packaging. Because of difficulties in inspection, some traditional Gaza exports to the West Bank (water tanks, for example) are now forbidden outright, while others are no longer marketable because of the higher costs associated with the current trading arrangements.⁴¹

In short, not only are goods more costly to deliver, but their delivery cannot be assured. During the comprehensive closure of August-September 1997,

the number of Palestinian trucks crossing Gaza borders declined from a "normal" level of 4,000 to a low of 721.⁴²

The upshot of these constraints has been a loss of the Israeli market share on which Palestinian firms have grown dependent. For example, for nine Palestinian firms surveyed after the total closure of spring 1996, which lasted almost two months, drops in sales averaged 57 percent and for some went as high as 90 percent.⁴³ Between 1992 and 1996, merchandise exports lost almost half their value, declining from 11 percent to 6 percent of GDP.⁴⁴

Because of the growing unreliability of doing business with Palestinian firms under closure, Israeli businessmen are increasingly turning to markets such as Egypt and Jordan, where transactions are regular and labor costs cheaper. Not only does this structural change increasingly confine the Palestinian business sector to its own local market, forcing it toward greater insularity, it also effectively pits one Arab market against the other. Additionally, Palestinian firms are less competitive domestically since Israeli exports have virtually unimpeded access to Palestinian markets during closure.

The critical percentage loss of the Israeli market has proved extremely damaging to the Palestinian economy because under closure Palestinians have few ways to make up for it. At present, and despite openings created under the Paris Economic Protocol, Palestinians for all practical purposes do not have access to Egypt, Jordan, or Europe. Such trade as existed with the Arab world since 1993—which has accounted for only a small percentage of Palestinian trade overall—has been almost exclusively one way. In 1997, for example, trade between Egypt and Gaza was composed entirely of imports from Egypt. Furthermore, Egyptian goods accounted for only 1 percent of Gaza's total imports (or \$6.9 million), with the remaining 99 percent coming from or through Israel.⁴⁵

These figures point to another troubling and increasingly prominent feature of Palestinian trade: the preponderance of imports in the balance of trade and the suppression of economic growth that results. Indeed, for 1997, the Palestinian Ministry of Finance valued imports at \$1,965 million and exports at \$289 million.⁴⁶ During the first half of 1998, furthermore, trade with Israel stagnated "as the value of West Bank/Gaza Strip exports declined and that of imports rose by 2.6 percent."⁴⁷

Separation of the West Bank and Gaza Strip Markets

For more than twenty-five years, the West Bank and Gaza were characterized by the relatively free movement of people and goods between them. The period following Oslo, however, has witnessed the steady severing of such ties. From March 1996 to June 1997, for example, only 500 persons (excluding VIPs) out of a population of more than 2 million were permitted to move between the territories.⁴⁸ In terms of the impact of this economic partition of the territories, between 1995 (when Palestinian trucks with permits could still travel between the two territories) and 1996 (when all trucks were

prohibited), trade between the West Bank and Gaza Strip dropped to a mere 20 percent of its former value.

A stark illustration of the impact of economic partition can be seen in Palestinian agricultural trade. In 1997, Gaza's produce sales to the West Bank, formerly Gaza's largest market, were one-third of 1993 levels. Between 1993 and 1997, the West Bank's share of Gaza's total sales fell by half, from 96.4 percent to 48.2 percent.⁴⁹ Furthermore, whereas in 1993, Gaza sold more than 700 times as much produce to the West Bank as to Israel, by 1997 the West Bank and Israeli markets were almost equal in size, and together still did not equal Gaza's pre-Oslo sales level to the West Bank alone.⁵⁰ Indeed, agricultural production in the West Bank and Gaza Strip declined more than 40 percent between 1992 and 1995 due in large measure to closure.⁵¹

The bifurcation of Palestinian markets has been exacerbated by decreased trade flows to Israel and discriminatory application of border closure, which favors Israeli producers over their Palestinian counterparts. For example, although Gaza's citrus exports in 1997 were only 73 percent of their 1993 levels, citrus exports from Israel to Gaza increased by more than 32 percent during the same period.⁵²

It should be noted that the declines described above also result, in part, from constraints that would have led to reduced agricultural output even without closure, including high water salinity, high land prices, and declining levels of cultivated land. However, the above cited U.S. State Department report is clear in its emphasis on Israeli security policies and closure as being responsible for the downward pressure, noting,

In particular, these changes [in policy], almost all of which were adopted after the signing of the Declaration of Principles in 1993, have virtually severed the West Bank and Gazan markets. In political terms, the once-anticipated peace dividend has not been delivered to the Gazan agricultural sector. By contrast, Israel, during the 1993-1996 period, consistently increased its citrus, produce, and cut-flower exports.⁵³

Because agricultural producers have no reason to assume closure will end in the short-to-medium term, production is beginning to shift to lower value but less perishable crops, such as potatoes and onions, for which there is guaranteed domestic demand. By reorienting production toward the domestic market, producers earn less but do not incur the far greater financial risks connected to closure. If closure continues as an economic fact of life in the West Bank and Gaza, and if current patterns remain, Palestinians in both agriculture and industry increasingly will produce for the domestic rather than the export market. Hence, rather than moving toward the development of an integrated economy, Palestinians are moving toward individual pro-

duction units with few if any extradomestic links. Under such a scenario, economic activity will return to a more traditional, circumscribed, and autarkic base, further contributing to the de-development process.

Income

Since the imposition of closure, the Palestinian economy has been unable to grow and presently cannot sustain the people, resulting in substantially increased poverty levels. Palestinian economic decline is reflected in a number of indicators. Between 1993 and 1997, for example, real GNP in the Gaza Strip and West Bank fell between 10 percent and 15 percent, primarily due to the loss of employment in Israel and reduced trade flows resulting from closure.⁵⁴ Perhaps more telling is the decline in real per capita GNP, which has fallen by approximately 30 percent since 1993 and was estimated to have reached \$1,630 by the end of 1998.⁵⁵ Population growth rates of 5 to 6 percent annually in the West Bank and Gaza exacerbate the effect of closure on a declining GNP and living conditions. For per capita income to remain stable, national income must increase faster than the population, an impossibility under current conditions. To the contrary, the GNP is falling as the population is rising, which makes it difficult even to stabilize the per capita declines.

As for closure's impact on the family and household, per capita consumption expenditure, which measures reductions in income, has declined at least 30 percent since 1993. Real wage rates have also dropped dramatically. Between 1992 and 1994, these rates declined by 38 percent; between the end of 1995 and the end of 1997, they fell an additional 15 percent.⁵⁶

The rising poverty level is also telling. Between 1995 and early 1997, the number of poor in the West Bank and Gaza Strip doubled, from 20 percent to 40 percent of all Palestinians. These figures include both those *below* and *at* the poverty level, defined as \$650 per person per year (less than \$2 per day).⁵⁷ The following details emerged from the first comprehensive post-Oslo report on poverty in the West Bank and Gaza put out in 1998 by the National Commission for Poverty Eradication: 1) 51 percent of households in the southern Gaza Strip live in poverty, compared to 31 percent in the northern Strip and 39.5 percent in the middle regions; 2) in the West Bank, the incidence of poverty reached 18 percent in villages, 14 percent in refugee camps, and 11.5 percent in cities; 3) in the more impoverished Gaza Strip, poverty rates were 41 percent in villages, 42 percent in refugee camps, and 34 percent in cities; and 4) two out of three poor families in Gaza live in a state of absolute or deep (as opposed to general) poverty, which means they are unable to meet their basic needs of food, housing, and clothing.⁵⁸ It is important to point out that there is no known precedent for these poverty indicators in the territories during the last thirty years.

Closure's effect on the household is seen in rising child labor rates. In 1996, there were approximately 18,500 working children, from twelve to sixteen years of age, most of them full-time with their wages going toward the

maintenance of their households.⁵⁹ Meanwhile, average real monthly household expenditures (e.g., food, clothing, housing, medical care, education, and taxes) declined from \$801 during the first three quarters of 1996 to \$754.50 during the first quarter of 1997, a reduction of almost 6 percent.⁶⁰ Between the first quarter of 1997 and the first quarter of 1998, such expenditures declined another 10.6 percent, to \$674.⁶¹ The steady reduction in monthly household expenditures, particularly in the last year, suggests that "modest improvements in macroeconomic performance and reduced employment rates have been insufficient to positively affect living levels."⁶²

Closure has forced many households to deplete personal resources to maintain family consumption levels. During the spring 1996 total closure, for example, approximately 30 percent of households in the Gaza Strip were compelled to use savings or sell jewelry in order to buy food and other essential items.⁶³ The poorest segment of the population increasingly seeks cash or food aid from a number of providers, primarily the United Nations Relief and Works Agency (UNRWA) and the Palestinian Ministry of Social Affairs. In 1997, at least 8 percent of the total Palestinian population (approximately 200,000 people) received critically needed relief assistance.⁶⁴

During the spring 1996 closure, approximately 30 percent of all Gaza households were compelled to use savings or sell jewelry to buy food.

Before closing the chapter on income and poverty, a word should be said about regressive social trends, characterized by rising alienation and tribalism, especially in Gaza, that point to a definition of poverty that goes beyond income and consumption levels. During 1998, there was a significant increase in interclan violence, a phenomenon that had remained dormant, at least on a wider community level, for more than two decades. Clan violence has become so prevalent that a special unit now exists within the Palestinian security service to deal with it. Members wear masks to conceal their identity in order to prevent any form of retribution against their own families.

The question arises as to why Palestinians in the more impoverished Gaza Strip are reverting to tribal forms of organization and behavior. According to Dr. Eyad El Sarraj, this regression is due to growing alienation from authority—the PA—and to unabated economic distress, features that are likewise responsible for increasing rates of domestic violence, sexual abuse, and divorce. Rather than moving toward a common Palestinian identity, Gazans are reverting to the clan for security, identity, and a sense of belonging. This behavior is reinforced by the PA's reliance on clan politics to rule: in order to get a government job, one has to be from a big clan or belong to Fatah, the ruling party. Moreover, in an environment where security forces function above the law, even ignoring decisions of the High Court of Justice, individuals have little choice but to rely on their families for protection.⁶⁵

Such emerging social patterns, which are beyond the scope of this article, are strikingly similar to those seen at the economic level, where the development of an integrated economy slowly is giving way to the formation of lo-

calized economic units and where insularity and introversion increasingly define group behavior. This disintegration of the whole into isolated parts is a characteristic feature of de-development.⁶⁶

A NOTE ON PA POLICIES

Such PA practices as the establishment of import monopolies (for as many as twenty-seven commodities), increasing corruption (particularly with regard to the misuse of foreign assistance), mismanagement of the public sector, and the failure to establish an appropriate legal and regulatory environment capable of attracting essential foreign investment have unquestionably exacerbated current economic conditions. These practices have been detailed elsewhere.⁶⁷ But while the PA has played a damaging role economically, it is important to point out that this role is secondary to the one played by Israeli policy, which remains the primary determinant of Palestinian economic decline in the post-Oslo period.

THE WYE RIVER MEMORANDUM AND DE-DEVELOPMENT

The Wye River Memorandum, signed on 23 October 1998, represents the latest diplomatic attempt to move the troubled Oslo process forward. Hailed as a breakthrough, the Wye agreement contains economic provisions recognizing the "need to actively promote economic development in the West Bank and Gaza."⁶⁸ Yet the economic prescriptions articulated in the agreement will do little if anything to promote such development. First, the agreement makes no mention of the egregious impact of closure, implicitly accepting it as an economic fact of life in the West Bank and Gaza. Second, the agreement calls for the "timely opening of the Gaza Industrial Estate (GIE)," a project that in fact was launched on 14 December 1998.

The GIE, sited on the Gaza-Israel border, has been discussed for the last five years and has received considerable support from the PA, Israel, the United States, and other donors because it promises to create as many as 50,000 jobs for Palestinians. But it will take years for the GIE to attract the levels of foreign investment needed to generate 50,000 jobs, so whatever benefits may occur will be deferred. Nor will the GIE be immune to closure restrictions and cumbersome security arrangements, as planners expect. Indeed, after the 1993 Oslo agreement was signed, Palestinians working in the Erez Industrial Zone were required, for the first time, to obtain work permits from the Israeli authorities even though the zone lies completely within the borders of the Gaza Strip.⁶⁹

The Wye agreement also calls for the opening of the long-planned airport, which indeed took place in November 1998, and seaport in the Gaza Strip and the establishment of a safe passageway between the West Bank and Gaza. The security arrangements attending these projects not only will incur enormous expense (estimated in the billions) that will be paid for from

the donor aid given to the PA over the next five years, but the longer-term economic benefit for Palestinians, in all likelihood, will be minimal since the current labyrinth of restrictions imposed by closure will remain largely intact. The issue of safe passage, in particular, has been heralded as an important achievement of the peace process. Yet safe passage, though critical to establishing a much needed political and economic link between the West Bank and Gaza, represents a substantial loss to Palestinians and their economy when compared to the comparatively freer and more open borders to which they had access before 1993.

The Wye agreement further states that both sides will launch a strategic economic dialogue focused on the following four issues: Israeli purchase taxes; cooperation in combating vehicle theft; unpaid Palestinian debts; and Israeli standards as barriers to trade. None of these issues addresses the critical problems facing the Palestinian economy. Lastly, the Wye River Memorandum calls on the donor community to provide more assistance. At the ministerial conference in November 1998, the donor community pledged an additional \$3 billion for Palestinian development. While there is no doubt that donor aid has played an essential role since September 1993, this role has not promoted long-term economic transformation, but rather has financed the costs of closure in order to keep the "peace process" politically alive. How long will donors be willing to do this? Moreover, if the closure continues, the already limited impact of aid will diminish even more as the population increases.

The Wye agreement establishes a conditional relationship between Israeli compliance, especially with regard to redeployment, and PA measures against "terrorist groups" and their "infrastructure." This infrastructure includes Islamic welfare, education, health, and youth organizations that play an important (and in very impoverished localities, a vital) role in helping people survive. The closing on 9 November 1998 of the Anaqa' Islamic Women's Society in Bethlehem, including its outpatient health clinic and kindergarten, is one example of what Wye has made legal.

As long as closure remains in place—as seems likely given present circumstances—there will be no economic development or improvement in living conditions. A political "solution" that attempts to mitigate closure's damaging effects, rather than end closure altogether, will fail over the long term, whatever percentage of the West Bank is "returned" to Palestinian control. In the final analysis, peace must be predicated on dignity, but Oslo has never been that kind of peace.

NOTES

1. See Sara Roy, *The Gaza Strip: The Political Economy of De-development* (Washington, DC: Institute for Palestine Studies, 1995), pp. 128–32, from which this section is drawn.

2. See Sara Roy, "The Palestinian Economy and the Oslo Process: Decline and Fragmentation," *Emirates Occasional Papers* No. 24 (Abu Dhabi, UAE: Emirates Center for Strategic Studies and Research,

- 1998), pp. 4-7. Economic data in this section and in the section on the post-Oslo economy that follows are derived from this study, where the complete set of original references can be found. Individual references for this article will be provided when appropriate.
3. Jacob Metzger, *The Divided Economy of Mandatory Palestine* (Cambridge: Cambridge University Press, 1998), p. 210.
4. As indicated in fn. 2, this section of the article is drawn from Roy, "The Palestinian Economy and the Oslo Process," pp. 13-34.
5. George T. Abed, "Beyond Oslo: A Viable Future for the Palestinian Economy," in Sara Roy, ed., *The Economics of Middle East Peace: A Reassessment*, Research in Middle East Economics, Vol. 3 (Greenwich, CT: JAI Press, 1999).
6. For such an analysis, see Roy, "The Palestinian Economy and the Oslo Process," pp. 7-13. For other references on this point, see fns. 14-41.
7. United Nations Office of the Special Coordinator in the Occupied Territories (UNSCO), "Economic and Social Conditions in the West Bank and Gaza Strip, Quarterly Report." Prepared by Salim Ajluni et al., Gaza, 1 April 1997, pp. 41-42.
8. Human Rights Watch, "Israel's Closure of the West Bank and Gaza Strip," Washington, DC, July 1996, p. 3.
9. Salim Tamari, presentation on Jerusalem, Middle East Studies Association meeting, San Francisco, 23 November 1997.
10. World Bank and Palestine Economic Policy Research Institute (MAS), "Development under Adversity? The Palestinian Economy in Transition," Jerusalem, 30 October 1997, Executive Summary, p. 8.
11. Remarks by Radwan Abu Shaban in "New Visions for the Economic and Social Development of the West Bank and Gaza Strip," 16 October 1997. Available online at <http://www.palecon.org>.
12. The World Bank Group, "The West Bank and Gaza Country Overview," 10 March 1998, p. 4. Available online at <http://www.worldbank.org/html/extdr/offrep/mena/wb&g.htm>.
13. UNSCO, "Economic and Social Conditions in the West Bank and Gaza Strip, Quarterly Report." Prepared by Salim Ajluni et al., Gaza, 29 October 1996, p. 22.
14. The World Bank Group, "West Bank and Gaza Update, A Quarterly Publication of the West Bank and Gaza Resident Mission," September 1997, p. 4. UNSCO reports an unemployment rate of 20.5 percent during the first quarter of 1997. UNSCO reports that the full employment rate increased by more than 9 percent during the first quarter of 1997 over the 1996 average rate. See UNSCO, "Economic and Social Conditions in the West Bank and Gaza Strip, Quarterly Report." Prepared by Salim Ajluni et al., Gaza, 4 October 1997, p. ii.
15. UNSCO press release on its "Quarterly Report on Economic and Social Conditions in the West Bank and Gaza Strip, Summer 1997," Gaza, 2 January 1998.
16. UNSCO, 4 October 1997, p. ii.
17. UNSCO, "Economic and Social Conditions in the West Bank and Gaza Strip, Quarterly Report." Prepared by Salim Ajluni et al., Gaza, Autumn 1998, available online at <http://www.arts.mcgill.ca/mepp/unscounfront.html>.
18. Ibid.
19. Ibid.
20. Ibid.
21. Ibid. According to the Information Division of the Israeli Foreign Ministry, the annual wage of a Palestinian in the West Bank is \$1,700 while that of an Israeli is \$18,000. See Haggai Huberman, "A Prolonged Closure Is a Security Threat," Hatzofe, 16 September 1998, available on the Israel Foreign Ministry Information Division Web site at <http://www.israel-mfa.gov.il>.
22. World Bank and MAS, "Development under Adversity?" Executive Summary, p. 3.
23. Rick Hooper, "The International Politics of Donor Assistance to the Palestinians in the West Bank and Gaza Strip," in Roy, ed., *Economics of Middle East Peace*.
24. Palestinian Authority, Ministry of Finance, "West Bank and Gaza: Report on Fiscal Developments in October-December 1997 and Overview of Developments in 1997." Gaza, 19 April 1998, p. 5.
25. UNSCO, 4 October 1997, Table 6, p. 14.
26. World Bank, "West Bank and Gaza: Public Expenditure Review," Confi-

- denial Report #18712-G7, 11 January 1999, p. 9.
27. National Commission for Poverty Eradication, *Palestine Poverty Report 1998, Executive Summary* (Gaza: Ministry of Planning and International Cooperation, Palestinian Authority, 1998), p. 14.
28. UNSCO, Autumn 1998.
29. Nigel Roberts, "The Prospects for the Palestinian Economy." Paper presented at a conference entitled "Resolving the Palestinian Refugee Problem—What Role for the International Community?" University of Warwick, London, 22-24 March 1998.
30. World Bank, "West Bank and Gaza: Public Expenditure Review," p. 8.
31. UNSCO, "The West Bank and Gaza Strip Private Economy: Conditions and Prospects, Special Report." Prepared by Salim Ajluni et al., Gaza, February 1998.
32. World Bank and MAS, "Development under Adversity?" Executive Summary, p. 9.
33. UNSCO, February 1998.
34. Ibid.; and World Bank and MAS, "Development under Adversity?" chapter 1, p. 10.
35. Arie Arnon, Israel Luski, Avia Spivak, and Jimmy Weinblatt, *The Palestinian Economy: Between Imposed Integration and Voluntary Separation* (Leiden: E. J. Brill, 1997), p. 236.
36. World Bank, "A Background Note on the Economy," 6 November 1996; and Rick Hooper, "Donor Financing: Pledges and Disbursements," *New Visions for the Economic and Social Development of the West Bank and Gaza*, 16 October 1997.
37. Roy, "The Palestinian Economy and the Oslo Process," p. 20.
38. See United Nations Conference on Trade and Development (UNCTAD), *Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges* (Geneva: Author, 1998).
39. World Bank and MAS, "Development under Adversity?" Executive Summary, p. 7 and chapter 1, p. 6.
40. World Bank and UNSCO, "Closure on the West Bank and Gaza Fact Sheet," 31 August 1997. Also see Amira Hass, "Closure Costing PA \$5 Million Each Day," *Ha'Aretz*, 15 September 1998.
41. U.S. Department of State, "Gaza's Economy: Neither the Worst of Times or the Best of Times," unclassified cable, Tel Aviv 09841, June 1997.
42. U.S. Department of State, Coordination of Government Activities in the Territories/Economics Branch, U.S. Embassy, Tel Aviv, "Weekly Number of Trucks, Gaza Passages and W.B. Bridges," December 1997.
43. World Bank and MAS, "Development under Adversity?" chapter 3, pp. 12-13.
44. Data from the International Monetary Fund quoted by Roberts, "The Prospects for the Palestinian Economy."
45. U.S. Department of State, "Low-Level Egyptian-Palestinian Trade in 1997: The Year in Review at Rafah, According to Israeli Statistics," unclassified cable, Tel Aviv 01186, January 1998. Imports to Gaza from Egypt did increase by 37 percent in 1997 compared to 1996 because of permission given by Israel to allow the importation of Egyptian aggregate.
46. Palestinian Authority, Ministry of Finance, "West Bank and Gaza," p. 6.
47. UNSCO, Autumn 1998.
48. U.S. Department of State, unclassified cable, Tel Aviv 09841, June 1997. Palestinian government officials (VIPs) can move more freely between areas but are also subject to movement restrictions during periods of complete closure.
49. U.S. Department of State, "Inverted Cornucopia: Worsening Performance of Gaza's Agricultural Exports," unclassified cable, Tel Aviv 02913, March 1998.
50. Ibid.
51. Ibid.
52. Ibid.
53. Ibid.
54. UNSCO, Autumn 1998.
55. Ibid.
56. Ibid.; and UNSCO, 1 April 1997 and 4 October 1997.
57. According to the World Bank ("Development under Adversity?" chapters 1 and 6) and the PA Ministry of Economics and Trade (MAS Policy Notes, Issue No. 4, September 1996), 19.1 percent of the total population (or 532,000 people)—36.3 percent of Gazans and 10.5 percent of West Bankers—were living under the poverty line in early 1997, a percentage that had increased by the end of 1997 to 40.4 percent in the Gaza Strip and 11.1 percent in the West Bank (UNSCO, Autumn 1998). The comparable figure for the entire Middle East and North

Africa region is 32 percent and for sub-Saharan Africa 49 percent, according to UN data quoted in "Middle East Economic Association Newsletter" 9, nos. 1, 6. The additional 500,000 people living at the poverty line brings the number of impoverished to more than 1 million out of a total Palestinian population of 2.5 million (or 40 percent) in early 1997. See Roberts, "The Prospects for the Palestinian Economy."

58. National Commission for Poverty Eradication, *Palestine Poverty Report 1998*, pp. 4, 6-8, 15.

59. Save the Children Federation, United Kingdom, "Four Generations of Children in the Middle East Conflict," a position paper on the situation of children in the occupied territories of the West Bank and Gaza Strip presented to the 54th session of the UN Commission on Human Rights, 16 March-24 April 1998.

60. UNSCO, 4 October 1997, pp. 24-25.

61. UNSCO, Autumn 1998.

62. Ibid.

63. World Bank and MAS, "Development Under Adversity?" chapter 3, p. 11.

64. Milan Zavadjil et al., *Recent Economic Developments, Prospects and Progress in Institution-Building in the West Bank and Gaza Strip* (Washington, DC: International Monetary Fund, Middle Eastern Department, 1997), p. 23.

65. Eyad El Sarraj, "Kill Your Neighbor," Gaza City, Gaza Community Mental Health Program, September 1998, p. 3.

66. For a discussion of this particular point, see Roy, *Gaza Strip*, p. 129.

67. See, for example, Roy, "The Palestinian Economy and the Oslo Process"; Abed, "Beyond Oslo"; and Dov Alfon, "Europe May Suspend Funding to PA: Arafat Associates Suspected of Misappropriating EU Financial Aid," *Ha'Aretz*, 31 January 1999.

68. Wye River Memorandum, Article III.1. The text of the agreement is reproduced in *JPS* 28, no. 2 (Winter 1999), pp. 135-39.

69. Rick Hooper, lecture, Harvard University, Cambridge, MA, 19 November 1998.