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THE POLITICAL ECONOMY OF ISRAELI OCCUPATION:
What is Colonial about it?

By

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Introduction

The Palestinian economy of the West Bank and Gaza Strip is on the verge of collapse. During the five years of Al-Aqsa Intifada, per capita income fell by 35%, GDP shrank by 28%, unemployment touched 38% of the Gaza working labor force and 25% of the West Bank's, and poverty reached 60% of the population. The Palestinian economy lost potential income worth of $6.3 billion dollars, the equivalent of twice the amount of its yearly GDP output. According to the World Bank, the Palestinian economy would have been destroyed were it not for donors' aid, which amounted to yearly sums of $800 million, or an average of US$ 258 per Palestinian person.[1] The Israeli unilateral disengagement from the Gaza Strip so far did not alter the oblique economic situation, even before the Hamas election and the Israeli decision to close borders and stop transfers of funds to the Palestinian authority.

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

[1] World Bank (2004a), *Four Years: Intifada, Closures and Palestinian Economic Crisis: An Assessment*, November 2004, World Bank, Washington D.C.

political problem has often been defined as the lack of Palestinian sovereignty and the solution the establishment of a viable independent Palestinian state in the WBGS.

This paper argues that the economics of Israeli occupation is not ephemeral, nor simply tied to clear political objectives, or lack thereof. It is rather a structural relation of domination that transformed the prospects for a future political solution. The paper seeks to explore in what ways Israeli occupation has been colonial, and what is the analytical usefulness of using such a term, a quite unpopular one to say the least, and which made many researchers avoid using it, even if they insinuated it. The aim, though, is not to accuse or condemn but rather to analyze the peculiarity of Israeli economic structure of domination and its implications for a political settlement.

The central argument of my paper is that Israel's management of the West Bank and Gaza Strip has been colonial is so far as it expropriated Palestinian land and disarticulated the Palestinian economy, making it fully dependent on the Israeli economy, even after Oslo. It is different from other colonial experience, though, in so far as it did not seek economic exploitation per se. It rather sought to appropriate the land without the people. This colonial relation was redefined rather than demolished with the Oslo peace process. The Oslo agreements, and the process of their implementation, made the concept of Israeli security - and *not* its illegal occupation- the defining element of Palestinian political and economic life. The Al-Aqsa Intifada years further consolidated the dominance of Israeli security considerations. The institutionalization of Israeli security concerns has been colonial in two major ways. First, it allowed a continuous expropriation of Palestinian land as is best seen with the latest construction of the Israeli separation wall. Secondly, it sought to obtain an international endorsement, if not legitimacy, of the priority of Israeli security concerns over the illegality of its occupation.

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

What is colonial about Israeli occupation?

Colonialism is a relation of domination by which an invading foreign minority rules over an indigenous population, often to the interest of a metropolis.[2] Originating with the age of exploration, it has come in various types. As Elkin and Pedersen (2005) have argued, 17th and 18 centuries new world colonies differed from settler colonial projects the 19th and 20th centuries, in so far as it did not eliminate the indigenous population and did not relied on an institutionalized legal structure of segregation between natives and colonizers. Settler colonialism itself came in various variants.[3] The experience of colonial Algeria was not analogous to Japan's colonization of Korea as much as South Africa settler colonial project was different from Israel's creation in 1948. What is colonial about all these projects is that they involved a setter community seeking to dominate, and in some case eliminate, the indigenous population in order to create an exclusive polity. What is different about them is how they dealt with the three central elements to any colonial endeavor, namely:

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

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[2] Osterhammel, J. (1995), *Colonialism: A Theoretical Overview*, translated by S.Frisch (Princeton, N.J.: Markus Wiener, 1997), 16-17

[3] Elkin, C. and S. Pedersen (2005), *Settler Colonialism in the Twentieth Century*, London: Routledge,

It is not so obvious that by using these criteria it is possible to judge Israeli occupation of the West Bank and Gaza Strip as colonial for two main reasons. First, Israel did not seek to dominate the Palestinian population or to exploit them economically. Israeli official discourse has always insisted that the 6 days war was a pre-emptive war that sought to defend Israeli's precarious existence and deter Arab countries from invading it. The Israeli cabinet at the conclusion of the war debated whether or not to annex the occupied territories, but decided not to in order to protect the Jewish character of the Israeli state. The Israeli military and political establishment regarded the territorial acquisitions of the 1967 war as bargaining chips to be used for diplomatic gains, namely the Arab countries' recognition of Israel's right to exist.[4]

Secondly, the international legal framework governing Israel's occupation of the West Bank and Gaza Strip was key in distancing this occupation from a typical colonial experience. The international community was neither complacent nor legitimizing of the occupation, the way that the League of Nation was with regards to the European mandate of Middle Eastern states in the 1920s, for example. The superpowers, as well as the UN, condemned the 1967 war and reaffirmed the inadmissibility of the acquisition of land by war. UN Security Council Resolution 242 in November 1967 did not bestow any legitimacy on Israel' occupation of the West Bank and Gaza Strip and called on it to retreat from occupied territories in exchange for peace. The 4th Geneva convention applied to the WBGS (UNSCR 237, June 1967), which meant that Israel was not allowed to change the demographic, political or economic structure of the land it took under its control. While Israel only accepted the principle of the Geneva Convention in its humanitarian dimension, the international community has refused Israel's interpretations and contested many of its actions in the occupied territories, the latest example being the ruling of the International Court of Justice against the Israeli separation wall in the West Bank. The international community sought to prevent the creation of a colonial relation between Israel and the Palestinian occupied territories.

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[4] see for example Gazit, S. (1995) *The Carrot and the Stick: Israel's Policy in Judea and Samaria: 1967-1968*, Washington: B'nai B'rith. Allon, Y. (1976) "Israel: The Case for Defensible Borders" *Foreign Affairs*, 55: 38-53; Aronson, G. (1987) *Creating Facts: Israel, Palestinians and the West Bank*, Washington, D.C: Institute of Palestine Studies.

Yet, however anti-colonial the international legal framework has been, and however true that Israel's occupation of the WBGS is to be analyzed from the prism of the ongoing Arab-Israeli conflict over land and nation-building, Israel's occupation has been colonial in so far as it consisted of a foreign entity dominating a large indigenous majority for the sake of creating an Israeli hegemony. It is, however, a *distinctive* colonial endeavor because of the way Israel dealt with the three key elements to any colonial projects, namely the question of the indigenous population, the issue of land control and the economic structure of domination.

Military rule

The first distinctive element about Israel's colonial structure of domination is the role that the Israeli military came to play in it. In the aftermath of the 1967war, Israel came in control of nearly 1 million Palestinian, most of whom did not flee and who came to represent 30% of the population under its total control. They were not incorporated in the Israeli policy but rather put under the control of the Israeli military. According to the 4^{th} Geneva convention the military was the only entity allowed to rule over the population of the occupied territories until their sort was to be determined. It had the mandate not the change the demographic and territorial character of area it came to control, but it became the *de facto* tool that allowed such a change, and thereby a colonial reality to get established. The Israeli military produced over 200 military orders and established a large civil administration that ruled over the population according to military laws. Its responsibility ranged from formulating the elements of the WBGS agricultural policy, to issuing birth certificates, travel passes and work permits, building bypass roads for settlers and marshal courts for the Palestinians. While such a large investment of the occupier's resources is not unique to Israel and can be seen in Japan's colonization of Korea or Taiwan for example, it is original in so far as it was not conducted for economic purposes, but rather to expand Israel's 1948 boundaries. It was also subject to a different international legal framework. It remained colonial in so far as the military provided the conduit for land appropriation through land expropriation and settlements construction.

Land and settlers

During the first decade of occupation, the military issued a number of decrees for acquiring land, mainly by declaring them state or absentee land, (military orders no. 58 and 59). It prevented Palestinians from registering their land, and from investing in it without obtaining military approval. It also established the high planning committee made of military officials that took control of land administration and planning in the occupied territories (military order no. 418), and created a special department for the transactions of land and registration of settlements (military order 569). The military was thus able to take direct control of 35-40% of land of the West Bank and Gaza Strip and supervised the whole settlement movement with whom it remains closely tied.

Like other colonial movements, the Israeli military relied on settlements as a means to establish a territorial claim over an indigenously populated area. As Moshe Dayan put it in 1971, Israeli settlements in the occupied are essential "not because they can ensure security better than the army, but because without them we cannot keep the army in those territories. Without them, the IDF would be a foreign army ruling a foreign population" (quoted in Aronson 1996: 4). While illegal according to the 4^{th} Geneva Convention and numerous UN resolutions, Israel built over 178 settlements between 1972 and 2003, and allowed the transfer of 400,000 Israeli citizens into the occupied territories, half of which transferred during the Oslo peace process years. The peculiarity of Israeli settlements as a central element in Israeli colonization of the WBGS stems in part from the fact that settlers did not come, or were brought, in to exploit the Palestinian or in search of economic gains. Unlike the settlers in Algeria, the whites in Kenya or Zimbabwe or the unionists in Northern Ireland, Israeli settlers did not make a living in the occupied territories as much as used it as a subsidized dormitory. Still in 2000, less than 44% of settlers worked in the settlements in the WBGS, with the majority commuting to Tel Aviv or Jerusalem.[5]

Yet, settlers remain a central pillar of Israeli colonial structure not only because they provided a means to create a claim over Palestinian land, but also because they allowed the

[5] ICBS (2003) *Labour Survey 2000-2001*, Jerusalem.

institutionalization of a legal system of segregation, an element common to most other colonial experiences. The Israeli military instituted two different legal systems in the OT: one for the settler and the other for the Palestinian. The settlers were governed by Israeli civilian law while the Palestinians were ruled by military law. The Israeli military ruled the Palestinian through a series of military orders that combined some aspects of international law governing populations in times of war with specific Israel's specific concern for settlements. It created a legal structure that ensured territorial incorporation of the land but functional separation between Israelis and Palestinians. The Israeli Civil Administration was created in 1981 (military order 947) to handle the daily issues of Palestinians' life while the Military Governor (to whom the Civil Administration remained accountable) allowed Israeli citizens to live and work in the West Bank after 1987 although the 4th Geneva convention forbids them.[6] Israeli settlers were protected and accountable to Israeli law, while Palestinians were subject to military laws. Meanwhile, settlements became administered like any town in Israel, including rights to local planning, levy taxes, right of zoning and urban planning, which was forbidden to Palestinians. Israel created a *de facto* institutionalised system of legal segregation between Palestinians and Israelis, albeit an original one. It was original in so far as Israel did not want not, and could not from an international legal point of view, include the Palestinian into its Israeli polity as citizens or residents[7], even as second hand residents. At the same time, it kept their legal and political status unresolved, left to the outcome of the Israeli-Palestinian negotiations.

The economics of occupation

The third factor that gives Israeli occupation its distinctive colonial character is the way it dealt with the Palestinian economy, and particularly with Palestinian labor. As is well documented by now, Israeli economic policy in the area was not based on any grand strategy for economic exploitation or investment. Chief economists consulted by the military at the end of the 6 days war argued that economic integration, based on free movement of capital and labor across the green line, would be most beneficial to both

[6] Under military order no. 1213 (3 December 1987) Jewish settlers in the WBGS were considered local Israeli residents. During the early years of occupation, Israelis were not allowed to live or work in the West Bank. For further details on the Israeli measures see Shehadeh (1988: 79-93).

[7] with the exception of East Jerusalemites, an act considered illegal from an international legal point of view.

Israelis and Palestinians, in the long run. This is because it would allow an efficient allocation of resources between two economies with different resource endowment. This suggestion was rejected.[8]

Instead the military decided to incorporate, rather than separate, the Palestinian economy into Israel in a way that would facilitate maximum territorial incorporation of the land but without creating an Israeli dependency on Palestinian labor. One of the main factors that prevented Israel from undergoing a South African Apartheid or a Zimbabwean colonial experience was its decision to choose a historical and economic path that refused to rely on indigenous labor. Before 1948 less than 30% of the Jewish sector relied on Palestinian/Arab labor, and after 1948 the Israeli Arabs came to represent 15-20% of the Israeli labor force. After 1967, Palestinian labor from the WBGS represented less than 7% of the Israeli labor force. [9]

Yet, the economics of occupation has been colonial in far as it was based on a system of economic integration that made WBGS' economy dependent on Israeli demand and regulations, unable to compete with Israeli products on an unequal basis, internally disconnected, unable to provide the basis for an independent Palestinian state. While Israeli occupation was not conducted for the *purpose* of economic exploitation, it was *structured* to ensure Israel's economic and territorial domination. The economics of occupation relied on 4 main pillars which included:

1- First, Israeli military control of the land, a key economic asset, and definition of economic policy in the WBGS. This economic policy has been mainly guided by a concern to pacify economically the Palestinian population while preventing any competition from Palestinians goods or factors of production.
2- Second, the integration of the Palestinian economy into Israel through the creation of a "one-sided" customs union that allowed Israeli products free

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[8] See for example Arnon, A., I. Luski, A. Spivak, and J. Weinblatt al (1997) *The Palestinian Economy: Between Imposed Integration and Voluntary Separation*. Leiden: Brill. Roy, S. (1995) *The Gaza Strip: The Political Economy of De-Development*, Washington D.C: IPS, Farsakh, L. (2005a) *Palestinian Labor Migration to Israel*, London: Routledge.
[9] see Farsakh (2005) *op.cit*, chapter 6.

access to the Palestinian markets but restricted the entry of Palestinian goods, particularly agricultural one, into the Israeli economy

3- Third, the restricted investment and capital flows, something that would have logically flown from Israel into the occupied territories because of their lower labor costs in the WBGS. The Palestinian population was also taxed heavily but investment in local infrastructure remained low.[10]

4- Fourth, the flow of Palestinian labor into Israel while forbidding the flow of Israeli workers into the territories, as stipulated by the 4th Geneva Convention.

As is well documented by now, the economic effects of the occupation has been the "paradoxical" income of rising Palestinian per capita income but diminishing productive capacities. Per capita income doubled between 1970 and 1987 and GNP grew by an average of 3% per annum. The rise in per capita income has been sustained thanks to the flow of Palestinian workers into the Israeli economy. Palestinian workers employed in Israel represented 45% of the Gaza labor force in the mid 1980s and 32% of West Bank workers. Their income represented 25% of Palestinian GNP and financed the trade deficit formed with Israel. Israel remained the market for 70% of Palestinian export and the source of 90% of its imports.[11] Palestinian migrant or commuter workers to Israel were the main anchor of the Palestinian economy growth, a growth that relied principally on access to Israel.

The Oslo Process:

The Oslo peace process promised to change this structural inequality, largely by helping the Palestinian economy diversify its markets and by preparing the Palestinians for independence. The literature addressing the Palestinian economy during the Oslo years though is not unanimous on the extent to which the WBGS succeeded in separating from Israel. According to a number of authors, the "peace process" perpetuated the structure of

[10] Despite the taxes and revenues collected by the Israeli Civil Administration, which amounted to 21.7% of the WBGS GDP between 1987 and 1991, development spending in the WBGS was of the order of 3.5% only (World Bank (1993), *The Occupied Territories: An Investment in Peace*, Washington: World Bank, vol 2: 35).

[11] For more details see Farsakh (2005a), *op.cit.*

integration that had been imposed on the Occupied Territories since 1967. According to others, it led to a *separation*, rather than integration, of the WBGS from the Israeli economy. For Sara Roy, the Oslo accords enhanced the process of de-development. [12]

My contention here is that Oslo years neither separated nor integrated the Palestinian economy into Israel. They rather reshaped, not demolished, the political economy of occupation, creating thereby a new structural relation of domination. This new structure was based on three new foundations. These include the creation of the Palestinian authority with limited autonomy, the institutionalization of Israeli security concerns as a governing principle for political and economic activity, and the subcontracting of Israeli responsibilities as an occupier to the international community, something that did not exist before 1993. The institutionalization of Israeli security concern was not the outcome of the political opposition to Oslo. While this opposition strengthened the hold of military considerations, security was embedded in the agreement signed. It was structured in the scope of jurisdiction that the Palestinian authority was given, in the way trade relations were regulated, in the way the territorial question was handled and in how the question of Palestinian labor was dealt with.

A Lame Palestinian Authority

The Oslo Interim Agreement devolved Israeli rule to an elected Palestinian authority, but without dismantling the Israeli military infrastructure in the West Bank and Gaza. The elected Palestinian authority, though, was given mainly functional, rather than full territorial, jurisdiction. In other words, the PA could run the civilian and economic affairs of the 93% of the Palestinian people, but could not fully control the Palestinian land. Up until 2000, the PA had direct control, but no sovereignty, over only 20% of the WB land and 70% of the Gaza Strip. The bulk of the Interim Agreement rather concentrates on establishing the prerogatives of the Joint Israeli-Palestinian Committees, which implemented the transfer of authority from the Israeli Civil Administration, which managed the WBGS between 1981 and 1993, to the newly elected Palestinian National Authority. These committees, even when it came to economic matters, were not

12 See for a fuller discussion about these different assessments see Farsakh (2005a), *op.cit* Chapter 7.

composed of civilians only but also of representatives from military and security branches. Among the first stipulation of Oslo was the creation of a Palestinian police force which will ensure public order and will cooperate closely with the Israeli side on security issues (DOP article VIII, X; Oslo II Chapter 2, article XIII).

The Palestinian authority was given the responsibility to manage the Palestinian economy, thereby freeing the Israeli Civil administration from this task. The ability of the PA to manage the Palestinian economy, though, was constrained not only by the limited territorial jurisdiction but also by the nature of the trade relations established with Israel. The Economic protocol of the Oslo II agreement did not abolish the *de facto* custom unions set in place, nor established a free trade agreement between the two entities largely because of territorial considerations. It rather set a new customs union which allowed for the free movement of capital, gave the Palestinians limited leeway in monetary and trade policy,[13] and allowed them to trade directly with Arab and foreign countries for a limited list of goods.[14] However, Palestinian trade remained bound by Israel's trade policy, as Israeli tax rates (both direct and indirect) remained the governing guidelines, as were Israeli standards and import regulations. Israel, though, accepted to remit to the Palestinian economy VAT and custom taxes collected on goods specifically destined to the WBGS, something it never did before 1994.

In other words, Oslo restructured the nature of Palestinian dependency on Israel. The Israeli military retreated from being the direct manager of the Palestinian economy to being the gatekeeper of Palestinian finance and access to the world. Custom revenues, collected by Israeli Ministry of finance on goods imported to the Palestinian economy, became the most important source of finance for the Palestinian authority. It represented 60-70% of the PA revenues and 30% of Palestinian GNP.[15] The entity responsible for

13 In monetary policy, the PNA was not allowed to issue its currency, but was allowed establish a monetary authority. This was responsible for the management of banks and control of financial activity in the area.

14 These include the lists A1, A2, B. Quantities to be imported under these lists are to be determined by some agreed estimates of Palestinian market needs. Imports of goods A1 and A2 were not subject to Israeli imports duties but were regulated by Israeli standards and regulations.

15 World Bank (2002) Long-Term Policy Options for the Palestinian Economy, Washington, D.C.: World Bank.

the transfer of fund was no longer the civil administration, but a committee composed of the Israeli Ministry of Finance, the Israeli Military and the Prime Minister's office. The Israeli National Security Council, not the Ministry of the Economy, was also directly involved in all meetings with the PA over custom revenues. Custom revenues became one of the major leverages that restricted the PA scope of action, one solely in Israeli hand.

Security First and Last:

The economics of occupation after Oslo became structured along Israeli security concerns. These concerns were best institutionalized with the Oslo agreements dealt with land, closures, checkpoints and permits, all key factors to any prospect for economic growth in the occupied territories. The interim agreement kept Israel in control of 59% of the West Bank, which came under area C (Article XI.c of the Oslo II). Article IX of the Protocol of Redeployment and Security Arrangements (PRS) clearly states that Israel alone has the right to close its crossing points, prohibit or limit the entry of persons into its areas, and determine the mode of entry of people into its areas (including areas C). Different articles of the agreement also recognized Israeli sole jurisdiction over Israeli settlements and its right to protect its settlers, (e.g. Articles 12, 22 and 27 from Protocol III). It affirmed Israel's right to intervene in any Palestinian area and at any time in case of perceived threat. The Interim Agreement thus made closure not a violation of the agreement but an accepted prerogative of Israel. Between 1994 and 1999, Israel imposed 499 days of closures, the equivalent of 3 months per year and installed as many as 230 removal checkpoints that stalled all economic viablity. While it is true that these closures were imposed as a result of growing number of suicide bombers into Israeli by parties opposed to the peace process, the fact remains that Oslo structure facilitated such restriction and offered no way out of them.

The institutionalization of Israeli security concerns has been particularly significant with regard to the labor question. Despite the importance of Palestinian migration to Israel to the Palestinian economy, the Oslo agreement did not promise to protect it. While both Israeli and the PA were keen to reduce Palestinian dependence on the Israeli labor market, both were aware that this cannot be done abruptly. Economic protocol sought to create the conditions for increased local employment that will replace the need of workers to be employed in Israel. However, the question of labor flows was not left to the economists, nor dealt with as an economic issue. It was rather left to the military that regulated it according to security considerations. Palestinian labor flows became a function of the permit system first introduced in 1988 but institutionalized in the Oslo Agreement, particularly with the Protocol of Civil Affairs. Any Palestinian seeking to enter Israel for work needed to apply for a permit issued by the Israeli civil administration after undertaking a security clearance (Article 11.2.3.4; Protocol III, Oslo II). This applied to workers as much as to business men, to women as well as to men.

As explained elsewhere, the effect of the permit policy, combined with Israel's fragmentation of Palestinian land and push for settlement construction was two fold. First, it ended practically the employment of Gaza workers in the Israeli economy while shifted the employment of West Bankers towards Israeli settlement rather than inside Israel.[16] Palestinian labor dependency did not end, but shifted, reflecting continuous integration between the West Bank and Israel and separation between Gaza and Israel. Secondly, the institutionalization of Israel security consideration created a Bantustan reality, as Palestinians became confined to *de facto* population reserves out of which they cannot get out without a permit and at the merci of checkpoints.[17]

The International Community

The third major structural change brought by Oslo is the central role it gave to the international donor community in managing of the Palestinian economy, something it did not have before 1993.[18] The World Bank, IMF and the Ad Hoc Liason Committee (AHLC) become the advisor of the PA, helping it in formulating its economic policy as much as managing it. The IMF effectively has oversight of the Palestinian Finance

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16 Farsakh, L. (2002) "Palestinian Labor Flows to Israel: A Finished Story?" *Journal of Palestine Studies*, vol. 32, no.1, Autumn 2002.

17 see Farsakh (2005a) *op.cit*, and Farsakh (2005b) "Independence, Cantons or Bantustans: Wither the Palestinian State", *Middle East Journal*, vol.59, no.2.

18 The various Oslo documents explicitly mentions the international community as a key player for the success of the peace process, even if they do not define explicitly what its role is.

Ministry, helping it plan the Palestinian taxation system as much as supervise its internal accounts. It also has become the interlocutor with the Israeli Finance Ministry, ensuring that custom revenues are being transferred to the Palestinian authority. The World Bank has become effectively the manager of the donor's funds, deciding its allocation by sector as much as by ministry. Between 1994 and 2000 the donor community disbursed 3.2 billion dollars the equivalent of a yearly WBGS GDP. This money was put in generating employment project as much as paying the salaries of the PA employees and sustaining the PA's budget. This strong international financial intervention raises the question of the extent to which the cost of the occupation is being subcontracted to the international community which has always refused to legitimize it. The latest World Bank report on the disengagement from Gaza, entitled *Stagnation or Survival? Israeli Disengagement and Palestinian Economic Recovery* (2005), does not mention the occupation as the source of Palestinian economic demise, but the issue of closure. It does not call for abolishing the closures but for finding ways to accommodate them. This is a significant development that reflects the way that the international community might become complacent and indirectly legitimize a fundamental colonial relation based on land expropriation in the name of security. Between 1994 and 2001 Israel confiscated 120,000 dunums and built over 125 new settlement outposts.[19]

Economic Implications

The economic implications of this new structural relation were massive. Income wise, the Palestinian economy and people suffered under Oslo under more than one level. Real GDP in the WBGS grew by 2.3% per annum between 1994 and 1999, implying a decline in per capita income, in view of the population growth rates of 4%. It grew by over 3.3 per cent per annum since 1997, but its growth remained precarious.[20] GDP per capita in the WBGS fell by 18% between 1995 and 1996, which were years of frequent border closures. It fell again by over 35% between 2000 and 2005. Poverty, define as earning less than US$2, attained 23.2% of the total Palestinian population in1998, touching 46% of those living in the Gaza Strip compared with 15.4% in the West Bank. It rose to cover

[19] MAS (2001), *The Economic Monitor, 1994-2000*, Ramallah, p. 161.
[20] IMF (2003) *Economic Performance and Reform under Conflict Conditions*, Middle East Department, West Bank and Gaza Strip office, Washington, D.C., p. 22 ..

60% of the population after 2001.[21] The economy became hostage to the closure and checkpoint system, growing when they are not in use and suffering when they are. It was prevented from collapsing thanks to donor's aid that amounted to 20% of WBGS GDP, replacing thereby the role of remittances in sustaining Palestinian income in the 1980s. As economic life became conditional on Israeli security consideration, three major trends developed.

First, public employment became important, especially in Gaza as workers could not access to Israel. Public sector employment absorbed nearly 30% of the Gaza labor force compared with less 15% of the West Bank's between 1996 and 2000.[22] Public sector employment though was also dominated by security forces which represented between 60,000-80,000 employees. Their wage bill represented a significant drain on the PA financial burden, one that was often bailed out by international organizations who ironically opposed public employment and wanted private sector development. Second, the Oslo economic and security structure facilitated the creation of monopolies, as these were more successful than individual companies in claiming custom clearance and centralizing it. These monopolies included PA and private sector actors closely linked with the procurement of security services and closely tied with Israeli military companies or para-statal Israeli monopolies such as cement or tobacco. The development of rent seeking activities of such sort was unavoidable but highly costly for private sector development the donor community is keen on developing. They indicate a restructuring of economic dependency on Israel rather than its elimination. Third, the economies of the West Bank and Gaza Strip grow further apart and related differently to the Israeli economy. Trade between the West Bank and Gaza fell by 30% between 1993 and 1998 while Gaza trade with Israel shrank by 25%. Employment in Israel represented less than 8% of Gaza workers in 1999 compared with 35% in 1992. The figures for the West Bank stood at 22% and 25% respectively. Still in 2005 and despite the Al-Aqsa Intifada 55,500 Palestinian from the West Bank worked in the Israeli economy, reflecting continuous integration of the West Bank into Israel.

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[21] World Bank (2001) *Poverty in the West Bank and Gaza Strip*, Washington D.C.; World Bank (2004a), op.cit.

[22] MAS (2001), *The Economic Monitor, 1994-2000*, Ramallah,xix-xx.

The Intifada, the Separation Wall and the Disengagement

This institutionalization of Israeli security concerns that further fragmented Palestinian land was consolidated by Israel's response to the Al-Aqsa Intifada. It is best exemplified with the construction of the Separation Wall. In April 2002 Israel declared that the WBGS would be cut into 8 main areas out of which Palestinians cannot exist without holding a permit.[23] Meanwhile, settlements expansion went on unabated as more than 2500 new houses were built and 52 new settlement outposts constructed between September 2000 and January 2003.[24] In June 2002 Israel started to build a separation wall between it and the West Bank, but one which is not along the Green line. By July 2005, 205km of the Separation Wall have been constructed, mainly in the Northern part of the West Bank, and including 22 km around East Jerusalem. It has been constructed by Palestinian workers who cannot find work at home. So far it has trapped 44,273 Palestinians from 1149 localities between the wall and their land. It separated farmers from 301,122 dunums of agricultural land to which they can only access through one of the 40 gates that Israeli army have constructed.[25] Military order 378 in October 2003 has declared all West Bank land between the security wall and Israel closed military zone, and thus prone to confiscation. Upon completion the Wall would leave 395,900 Palestinians (including 220,000 living in the suburbs of East Jerusalem) isolated outside the Palestinian enclaves that the "Separation Wall" would have created. This is equivalent to 10% of the Palestinian population.[26] This population will not be incorporated into Israel, although their land will be on the "Israeli" side of the Wall. They will be forced to transfer quietly into the Palestinian enclaves. Meanwhile, the Wall will integrate 90-95% of settlers into what would become the borders of Israel. It would establish an Israeli unilaterally defined border that violates the 1967 boundaries, and

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23 See ARIJ (2002), *The Israeli Security Zone make up 45.25% of the West Bank, including 158 Israeli Colonies*, in www.poica.org/casestudies/security-zones/
24 FMEP, *Report on Israeli Settlements in the Occupied Territories*, vol 12/2, 2002.
[25] PCBS (2005), *Survey of the Impact of the Expansion and Annexation Wall on the Socio-Economic Conditions of Palestinians Localities which the Wall Passes Through*, June 2005. Ramallah; 6-8.
[26] Lagerquist, P. (2004) "Fencing the Last Sky: Excavating Palestine after Israel's 'Separation Wall'", *Journal of Palestine Studies*, 33, no. 2: 5-35.

leaves the Palestinians with control over less than 53% of the West Bank.[27] Although the International Court of Justice and the Israeli Supreme Court ruled against the route of the wall, its construction has not stopped. It seals a colonial endeavor of land expropriation that has been going on for 39 years.

Israeli disengagement does not offer a way out of Israeli occupation. The last text of the disengagement plan, just like the Oslo agreement, does not mention the word occupation. Israel however considers itself, upon its completion of its disengagement, exempted of any responsibility for the Gaza Strip. The UN has not confirmed this reading, all the more as Israel kept control of borders, airspace and of present water and economic infrastructures. Economically, the disengagement is likely to depress the Palestinian economy rather than enable it to be a solid base for a viable state. Although article X expresses an Israeli commitment to previous economic agreements, other parts of the Plan suggest a severance of economic relations between Israel and the Gaza Strip, without ensuring free access to the outside world or to the West Bank. Israeli officials have already made it illegal for Israelis to work in Industrial parks in the Gaza Strip, intend to terminate permits to Palestinian workers in Israel by 2008, and to end custom arrangements with the Strip (World Bank 2004b, Aix Group 2005).

Conclusion:

So what is colonial about the political economy of Israeli occupation and how useful is such a categorization? The resistance to use this term stems from the fact that the intention of Israeli occupation have not been economic or exploitative per se. It is also a term that is not too politically correct, especially in the US. Yet, the economics of Israeli occupation has been colonial, by default if not by design, by its consequences rather than by its intention, in so far as it is based on a structure of domination that enabled Israel to appropriate Palestinian land, maintain a political and economic hegemony over the

27 United Nations Office for Coordination of Humanitarian Affairs (OCHA) (2005), *The Humanitarian Impact of the West Bank Barrier on Palestinian Communities*, UN, 5.

Palestinian economic life, and prevent the Palestinian economic and political entity from becoming independent of Israel. We are not in a post-colonial scenario because the occupation is not yet over. Yet we are surely in a new colonial, and dangerous, reality given the institutionalization of Israeli security considerations, the subcontracting of Palestinian economic survival to the international donor community, and the absence of a new Palestinian resistance strategy that tries to counter this reality.