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# The Palestinian Poverty Problem in the Era of Globalization

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# The Palestinian Poverty Problem in the Era of Globalization

ARIEL J. LEINWAND\*

## INTRODUCTION

At the end of 2001, the Palestinian-Israeli conflict was again vexing not only the Israelis and Palestinians but also the international community. The new *intifada* (uprising) that began in September 2000 has produced widespread violence between Palestinians and Israelis, including Palestinian attacks on Israeli civilian populations and incursions of Israeli military forces into Palestinian-controlled areas on the West Bank and Gaza Strip (Palestinian Territories). The long, historical struggle between the Jews and Palestinians that began after the famous Balfour Declaration, in 1917, had entered one of its most violent and precarious stages.

One of the most serious consequences of the violence stemming from the new *intifada* has been a dramatic increase in poverty within the Palestinian Territories. Fears about the implications of this increase in Palestinian poverty for the Israeli-Palestinian relationship echo similar concerns about Palestinian poverty and the need for economic development in the Palestinian Territories made during the Oslo peace process. A tenet of the Oslo peace process was that peace would not be sustainable between Israel and the Palestinians unless the Palestinians experienced economic development and rising standards of living.<sup>1</sup> The framers of Oslo recognized that in order to stimulate Palestinian economic development as part of the peace process, the Palestinian economy must be connected to the processes of globalization. The Oslo process did not successfully reduce Palestinian poverty because the Palestinian economy did not adequately get connected to the global market. The dramatic increase in poverty within the

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1. David P. Fidler, *Foreign Private Investment in Palestine Revisited: An Analysis of the Revised Palestinian Investment Law*, 31 CASE W. RES. J. INT'L L. 293, 296 (1999).

Palestinian Territories since the beginning of the new *intifada* demonstrates that the Palestinian poverty problem remains central to the resolution of the struggle between Israel and the Palestinians. At present, no viable strategies to promote Palestinian economic development in the context of globalization are evident, leaving a cloud of uncertainty over the economic future of the Palestinian people and little hope for a final resolution of the Israeli-Palestinian conflict.

This note analyzes the Palestinian poverty problem in the global era. Part I describes the historical and contemporary features of the Palestinian poverty problem. Part II briefly outlines the dominant strategy on economic development and poverty alleviation in the context of globalization. This part serves as a prelude to the analysis of the strategy for economic development in the Oslo Accords (Part III), which attempted to establish a framework to develop the Palestinian economy in a matter consistent with the dominant strategy on economic development and poverty alleviation in the global era. Part III further discusses the failure of the Oslo strategy. Part IV then addresses the post-Oslo Palestinian economic crisis by examining the current Israeli thinking about separating Israel and the Palestinian Territories both physically and economically. I argue that the separation strategy does not represent a realistic solution to the deepening Palestinian poverty problem in the context of globalization. With a return to the Oslo approach equally unrealistic in the current climate of violence and distrust, prospects for alleviating the Palestinian poverty problem remain bleak.

#### I. THE PALESTINIAN POVERTY PROBLEM: HISTORICAL AND CONTEMPORARY PATTERNS

As with most politically exacerbated economic problems, the roots of the Palestinian poverty problem can be traced far back in history. Such deep historical context is beyond the scope of this note.<sup>2</sup> I begin my analysis of the Palestinian poverty problem with the period in which Israel occupied the West Bank and Gaza Strip (1967-1993). I then trace what occurred during the Oslo peace process in terms of the Palestinian economy 1993 through September

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2. For a discussion of the historical conflict between Arabs and Jews, see generally MERON BENVENISTI, *INTIMATE ENEMIES: JEWS AND ARABS IN A SHARED LAND* (1995); IAN J. BICKERTON & CARLA L. KLAUSNER, *A CONCISE HISTORY OF THE ARAB-ISRAELI CONFLICT* (3d ed. 1998).

2000. Finally, I describe the economic calamity that has befallen the Palestinian economy after the start of the new *intifada* in September 2000.

*A. The Palestinian Economy During Occupation, 1967-1993*

As a consequence of its victory in the 1967 Six-Day War, Israel occupied the West Bank and Gaza Strip. From 1967 until 1987, Israel integrated the Palestinian economy with the larger Israeli economy. This forced economic integration of the Palestinian and Israeli economies produced growth in the Palestinian economy.<sup>3</sup> From the end of the Six Day War until the beginning of the first *intifada* in 1987, Palestinian economic growth outpaced that of Israel's.<sup>4</sup>

While the Palestinian economy grew from 1967 to 1987 through contact with the Israeli economy, the growth was politically and morally objectionable to the Palestinians. Palestinian economic growth in this period was a function of what the Palestinians believed to be illegitimate occupation by a foreign power and thus in violation of the Palestinian right to self-determination under international law. Furthermore, Israel controlled the structure and dynamics of Palestinian growth, which was also unacceptable to the Palestinians. From the beginning of the occupation, Israel mandated that most Palestinian imports and exports flow through Israel.<sup>5</sup> The Palestinian's trade dependence on Israel not only involved goods, but also services.<sup>6</sup> Palestinian dependence on Israel is illustrated by the importance of the Israeli economy for Palestinian employment. By 1992, for example, thirty-four percent of the Palestinian labor force was employed in Israel.<sup>7</sup> The heavy reliance of the Palestinian labor force on the Israeli economy for employment is one of the leading reasons for decreases in the Palestinian poverty rate between 1967 and 1987.<sup>8</sup> Palestinian trade, services, and

3. ARIE ARNON, *THE PALESTINIAN ECONOMY: BETWEEN IMPOSED INTEGRATION AND VOLUNTARY SEPARATION* 21 (1997).

4. Barbra Kotschwar, *Small Countries and the Free Trade Area of the Americas*, in *TRADE RULES IN THE MAKING: CHALLENGES IN REGIONAL AND MULTILATERAL NEGOTIATIONS* 134-36 (Miguel Rodriguez Mendoza et al. eds., 1999).

5. YEZID SAYIGH & KHALIL SHIKAKI, *COUNCIL ON FOREIGN RELATIONS, STRENGTHENING PALESTINIAN PUBLIC INSTITUTIONS* 94 (1999), <http://www.cfr.org/public/pubs/palinstfull.html>.

6. See generally *PALESTINE ECON. POLICY RESEARCH INST. (MAS) & WORLD BANK, DEVELOPMENT UNDER ADVERSITY: THE PALESTINIAN ECONOMY IN TRANSITION* (Ishac Diwan & Radwan A. Shaban eds., 1999), <http://www.palecon.org/wbdocs> [hereinafter MAS].

7. *Id.* at 5.

8. *Id.* Though the flow of Palestinian labor benefited both economies, the reliance of Palestinian workers on Israel for employment has proven to be one of the most debilitating features of Palestinian economic dependence on the Israeli economy during and after the period of Israeli occupation. *Id.*

employment, thus became structurally dependent on Israel's economic infrastructure and occupation policies.

*B. The Palestinian Economy During the Oslo Peace Process 1993-2000*

When the Oslo peace process started in 1993, it ushered in a new era for the Palestinian economy. Israel, the Palestinian Liberation Organization (PLO), the World Bank, and other participating countries recognized that without more economic growth and opportunity for the Palestinian people, peace between Israel and the Palestinians would remain elusive. The strategy for Palestinian economic development in the Oslo process is discussed in Part III of this note. This section presents the state of the Palestinian economy between 1993 and 2000.

Palestinian economic development during the Oslo peace process exhibited a pattern of growth followed by economic hardship that coincided with acts of violence committed against Israel by Palestinians opposed to the peace process. Because imports and exports of goods and services into and out of the Palestinian Territories depended on the Israeli trade infrastructure, such imports and exports were very vulnerable to Israeli border closures. From 1993 to 2000, Israel often closed its borders with the Palestinian Territories as a security response to Palestinian violence against Israel.<sup>9</sup> Export-driven economic growth in the Palestinian Territories never developed because of the repeated border closures and constant uncertainty about when closures would be lifted or imposed again.

The border closures also caused the Palestinian economy great distress in connection with Israeli employment of Palestinian workers. The border closures and a general Israeli policy to try and reduce the level of Palestinian employment caused the percentage of Palestinian labor to drop from thirty-four percent in 1992 to five percent in 1996.<sup>10</sup> Israeli employers also began to use workers from other regions, such as Eastern Europe and South Asia, as a permanent substitute for Palestinian labor.<sup>11</sup> These changes caused further damage to the Palestinian economy because it no longer benefited from Israeli-source wages and thus increasingly suffered the burden of growing unemployment. This set the stage for widespread poverty to emerge in the Palestinian Territories.

The economic vulnerability of the Palestinian economy during the Oslo process is further illustrated by comparing the impact of the economic

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9. *Id.* at 4.

10. *Id.*

11. *Id.* at 3.

dislocations on Israel. In December 2000, the *New York Times* reported that the projected growth domestic product (GDP) of the Palestinian Territories for the year 2000 would be negative ten percent.<sup>12</sup> Israel, on the other hand, had a projected GDP growth of four percent for the year 2000.<sup>13</sup> These statistics do not mean that the Israelis are not economically effected by the lack of peace, but rather this comparison shows the much more dramatic effect that the border closures and rise in Palestinian unemployment had on the Palestinian economy.

Other deficiencies in the Palestinian economy exacerbated the economic impact of border closures on exports of Palestinian goods, services, and labor.<sup>14</sup> During the Oslo period, the Palestinian Territories witnessed very little investment in the private sector, which was in direct contrast to the enormous growth of the Palestinian public sector.<sup>15</sup> Though expansion of the Palestinian public sector was necessary to build a modern Palestinian economy, public sector growth alone could not sustain growth in the overall Palestinian economy. Furthermore, the type of growth occurring in the Palestinian public sector was not all positive. Most of the expansion involved hiring civil servants while public investment in basic infrastructure was negligible.<sup>16</sup> Between 1993 and 1996, total infrastructure investment in the Palestinian Territories amounted to less than two percent of GDP per year.<sup>17</sup> Developing nations as a whole have an average investment in infrastructure of four percent and in certain cases up to eight percent of GDP.<sup>18</sup>

The combination of a rapidly growing but unproductive public sector with the lack of public and private investment in infrastructure and productive capacity created an inefficient and poorly paid public sector.<sup>19</sup> Public-sector hiring became a short-term policy response to growing Palestinian unemployment caused by Israel's border closure and restrictions on Palestinian workers by Israel in response to Palestinian violence. Toward the end of the Oslo period, it became more apparent that public sector hiring to ease unemployment temporarily among

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12. William A. Orme Jr., *Palestinian Economy in Ruins*, *U.N. Says*, N.Y. TIMES, Dec. 6, 2000, at A12.

13. *Id.*

14. See WORLD BANK, POVERTY IN THE WEST BANK AND GAZA (2001), [http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Poverty+Report+WBG/\\$File/poverty+report.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Poverty+Report+WBG/$File/poverty+report.pdf). This report complements the study by the National Commission for Poverty Alleviation, *Palestinian Poverty Report 1998*, and is intended to increase the understanding of the causes of poverty in order to find ways to reduce poverty among the Palestinians.

15. WORLD BANK GROUP, WEST BANK AND GAZA IN BRIEF I (2000), <http://lnweb18.worldbank.org/mna/mena.nsf/All/F192A5DA7D266F048525694700278825>.

16. MAS, *supra* note 6, at 7.

17. *Id.*

18. *Id.*

19. *Id.*

Palestinians was simply unsustainable as a strategy to deal with Palestinian poverty.<sup>20</sup>

Policy experts and scholars recognized from the beginning of the Oslo process that the key to successful Palestinian economic development would have to be the private sector.<sup>21</sup> However, in the Oslo period, both domestic and foreign private investment failed to materialize on the scale and in the amounts needed for successful economic development. Border closures, increasing violence, mounting unemployment, and a bloated public sector made for an unattractive environment for private investors during the Oslo period. The lack of significant private investment simply magnified the growing crisis in the Palestinian economy.

The steadily declining condition of the Palestinian economy in the Oslo period was connected to other powerful forces pushing many Palestinians toward poverty. One such force has been the incredible population growth in the Palestinian Territories. The World Bank noted that the demographic growth rate in the Palestinian Territories "is among the highest in the world."<sup>22</sup> Thus, the Palestinian population was dramatically increasing at the same time economic prospects for Palestinians were worsening. The demographic problem has already caused serious crowding problems in housing for low-income Palestinians, who make up the majority of the Palestinian population.<sup>23</sup> The poor housing situation in the Palestinian Territories also brings to light the economic nightmare that would occur when a final settlement between Palestinian and Israelis allows Palestinian refugees living in other countries to return to the Palestinian Territories. The return of Palestinian refugees to the Palestinian state would simply aggravate a terrible economic situation.

### C. *The New Intifada: September 2000 to Present*

The final phase in this overview of the devastated Palestinian economy is the dark period after the new Palestinian *intifada* began in late September 2000. The new *intifada*, and the Israeli reaction to it, essentially meant the Oslo peace process was over. This new wave of violence occurred when the Palestinian

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20. *Id.*

21. See generally David Fidler, *Peace Through Trade? Developments in Palestinian Trade Law During the Peace Process*, 38 VA. J. INT'L L. 155 (1998); see also Mel Levine, *Palestinian Economic Progress Under the Oslo Agreements*, 19 FORDHAM INT'L L.J. 1393 (1996).

22. WORLD BANK, *supra* note 14, at 1.

23. MAS, *supra* note 6, at 24.

economy was on the edge of the abyss, and the new *intifada* and Israeli responses have pushed the Palestinian economy over the edge. The United Nations estimated that Palestinian poverty increased fifty percent in the first three months of the new *intifada*, placing the overall Palestinian poverty rate at thirty percent.<sup>24</sup> The World Bank echoed such pessimistic observations by predicting that the Palestinian poverty rate would soon reach fifty percent of the overall Palestinian population living in the Palestinian Territories.<sup>25</sup> These staggering poverty statistics illustrate the current scope of the Palestinian poverty problem.

## II. ECONOMIC DEVELOPMENT, POVERTY ALLEVIATION, AND GLOBALIZATION

As Part I indicated, the Palestinian poverty problem arises from a myriad of causes that relate to the unique political, geographical, and cultural context of the Israeli-Palestinian conflict. Addressing this problem will involve overcoming region—and dispute—specific issues. At the same time, focusing on the importance of globalization in connection to alleviating Palestinian poverty is crucial. While some blame globalization for many of the world's current problems, rarely is the discourse about the process of globalization connected to the Palestinian-Israeli conflict because the conflict is decades old and has unique characteristics not seen in other parts of the world. However, Palestinian economic development must occur in the context of globalization that now confronts every country and region. The Palestinian poverty problem and its resolution are, thus, linked to globalization.

“Globalization” is not easily defined and tends to mean different things depending on the context in which it is used.<sup>26</sup> I do not intend to try to provide a definitive definition for globalization in this note. Rather, I want to focus on the more general connection between the processes of globalization and economic development and poverty alleviation. Globalization literature is full of arguments that globalization both alleviates and causes poverty, and I do not intend to resolve

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24. OFFICE OF THE U.N. SPECIAL CO-ORDINATOR, THE IMPACT ON THE PALESTINIAN ECONOMY OF CONFRONTATIONS, MOBILITY RESTRICTIONS AND BORDER CLOSURES (2000), <http://domino.un.org/UNISPAL.NSF/22f431edb91c6f548525678a0051be1d/a2a4763bcfa5fe13852569ac00638c4c>.

25. WORLD BANK, THE IMPACT OF PROLONGED CLOSURE ON PALESTINIAN POVERTY (2000), [http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/closure/\\$File/Closure+Article-H.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/closure/$File/Closure+Article-H.pdf).

26. See, e.g., Alfred C. Aman, Jr., *Indiana Journal of Global Legal Studies: An Introduction*, 1 IND. J. GLOBAL LEGAL STUD. 1 (1993).



that dispute either.<sup>27</sup> My focus is on a basic observation: economic development and poverty alleviation today require a global strategy that connects an economy with other markets, technologies, capital, and resources.

During the Cold War, communist and capitalist states waged an ideological battle about the proper approach to economic development. Developing countries added to the diversity of approaches to economic development by adopting various forms of autarkic growth or hybrids of socialist/capitalist models. For socialist and many developing countries, interconnectedness with capitalist economies was anathema, and thus, a theme of economic planning was to disconnect national economies from international markets and market forces. These different attitudes toward economic development involved, of course, different perspectives on how to deal with poverty. The Cold War period did not exhibit any consensus or unity on how states should approach poverty alleviation and economic development.

In the post-Cold War period, the ideological and political differences on economic development strategy that characterized the Cold War have largely disappeared. One does not see today policy-makers or academics arguing for poor countries to disengage from international markets as the best method to deal with poverty. Many factors contribute to this dramatic change in world politics, but key among them are: (1) advances in new forms of technologies, especially information technologies; and (2) the dominance of liberal or neo-liberal economic thinking in international economic policy-making.

New advances in information technology, international communications, and global transportation have made the world a much smaller place.<sup>28</sup> The flow of goods, services, and knowledge now traverse the globe much more rapidly, especially because of innovations such as the Internet.<sup>29</sup> Advances in technology have forced governments and companies to become more aware of technology being used elsewhere in the world in order to remain internationally competitive.<sup>30</sup>

This dynamic further advances globalization because states must reduce their control of new technologies in order to allow domestic companies to compete abroad.<sup>31</sup> The technological advances create an environment in which economic

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27. WORLD BANK, POVERTY IN AN AGE OF GLOBALIZATION (2000), <http://www.worldbank.org/html/extdr/pb/globalization/povertyglobalization.pdf>.

28. *Id.*

29. *Id.*

30. DAVID P. FIDLER & FADI G. HARB, IN PALESTINE AND INTERNATIONAL LAW: ESSAYS ON POLITICS AND ECONOMICS (forthcoming 2002).

31. *Id.*

enterprises need to be connected electronically and commercially with other companies and markets.

Liberal or neo-liberal economic thinking reinforces this need for global connectivity. Neo-liberalism as a strategy for economic development stresses four basic things: (1) the flow of capital, goods, and services free from state or government interference; (2) deregulation, allowing the market forces to self-regulate; (3) privatization of public enterprise and state owned economic assets; and (4) a greater move to individualism and individual responsibility.<sup>32</sup> The removal of trade barriers such as tariffs, regulations, certain standards, legislation and regulatory measures, as well as removal of restrictions on capital flows and investments play a crucial role in accomplishing the economic and political goals of neo-liberalism. The objective of the neo-liberal approach is essentially to make trade and commercial activity among nations easier.<sup>33</sup> The thrust of neo-liberalism is to connect companies and national economies in global markets. The technological advances mentioned earlier fit powerfully into the neo-liberal conception of economic development.

For purposes of Palestinian economic development and poverty alleviation, the main message of the above analysis is not that neo-liberalism and technology are panaceas but that any strategy for Palestinian economic development has to factor in the need for global connectivity created by the processes of globalization. Although the Israeli-Palestinian dispute has its own unique circumstances, the protagonists of this conflict cannot ignore that globalization affects how Palestinians, Israelis, international organizations, and other countries approach the alleviation of Palestinian poverty.

The crafters of the Oslo peace process understood the demands globalization placed on strategies for Palestinian economic development by trying to develop a framework in which the Palestinian economy could be connected with the global marketplace. Part III describes Oslo's globalization approach to Palestinian economic development and the reasons why this approach ultimately failed. The collapse of the peace process has brought forth new strategies from the Israeli government that would take the Palestinian economy in a direction contrary to the global connectivity required by globalization. Part IV then explores these

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32. Elizabeth Martinez & Arnoldo Garcia, *What is "Neoliberalism"? A Brief Definition for Activists*, at <http://www.corpwatch.org/issues/PID.jsp?articleid=376> (last visited Dec. 16, 2001).

33. Global Issues, *A Primer on Neoliberalism*, at <http://www.globalissues.org/TradeRelated/FreeTrade/Neoliberalism.asp>.

disturbing developments and their implications for the Palestinian poverty problem.

### III. THE PALESTINIAN ECONOMIC DEVELOPMENT STRATEGY IN THE OSLO ACCORDS AND ITS FAILURE

#### A. *Introduction to the Peace Process*

The peace process between Israel and the Palestinians formally began on September 13, 1993 when Israel and the PLO signed the Declaration of Principles on Interim Self-Government Arrangements (Oslo I).<sup>34</sup> As stated in the preamble of Oslo I, the goals of the peace process were to “put an end to decades of confrontation and conflict, recognize their mutual legitimate and political rights, strive to live in peaceful coexistence and mutual dignity and security and achieve a just, lasting and comprehensive peace settlement and historic reconciliation through the agreed political process.”<sup>35</sup> Israel and the PLO were to achieve these goals in phases; and follow-up agreements, commonly known as Oslo II and Oslo III, focused on the concrete implementation of the Oslo I goals.<sup>36</sup> The Palestinians were to govern themselves in the Palestinian Territories and directly elect their government; public order and security was to be turned over to the Palestinians in the Palestinian Territories; Israel was to withdraw its forces from the Palestinian Territories; and the framework was to be laid for Palestinian economic development.<sup>37</sup>

During the peace process, economic development in the Palestinian Territories was seen as crucial to securing a lasting peace in the region. On that premise, the negotiators of the Oslo Accords attempted to craft a framework to stimulate Palestinian economic development and contribute to a sustainable peace.

The Oslo economic development strategy contained four elements that were central to encouraging growth in the Palestinian economy: (1) the flow of international aid; (2) continued close Israeli-Palestinian economic relations; (3) the

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34. Declaration of Principles on Interim Self-Government Arrangements, Sept. 13, 1993, Isr.-P.L.O., 32 I.L.M. 1525 [hereinafter Oslo I]; available at <http://www.us-israel.org/jsource/Peace/dop.html> (last visited Nov. 19, 2001).

35. *Id.*

36. The Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, Sept. 28, 1995, Isr.-P.L.O., 36 I.L.M. 551 [hereinafter Oslo II], available at <http://www.soas.ac.uk/Centres/IslamicLaw/AIIA.html>; Israel-Palestine Liberation Organization Protocol Concerning the Redeployment in Hebron, Jan. 17, 1997, Isr.-P.L.O., 36 I.L.M. 650 [hereinafter Oslo III].

37. Oslo I, *supra* note 34.

influx of foreign investment; and (4) Palestinian access to foreign markets.<sup>38</sup> Each element of the Oslo economic development strategy attempted to connect Palestinian economic development to regional and international economic forces.

International aid from donor countries was to play a key role in the development of a modern economic infrastructure for the Palestinian Territories. The building of such an infrastructure would attract foreign investment, which would stimulate private sector growth.<sup>39</sup> Utilization of international aid was critical in the Oslo strategy for Palestinian economic development because it was apparent to all involved with the peace process that aid would be needed to lay the groundwork for the Palestinian economy to attract foreign investment and access regional and global markets. International aid would thus facilitate the Palestinian economy's connectivity to the rest of the world.

Continued close economic relations between the two parties would provide Palestinian goods access to Israeli markets, which would facilitate Palestinian economic integration into the larger regional economy.<sup>40</sup> The Israeli economy is the biggest and most technologically advanced economy in the region. It is also very connected to both European and North American markets.<sup>41</sup> With access to the Israeli market, the Palestinian economy would connect not only to the opportunities in Israel but also to the trade and commercial paths forged by Israeli economic development beyond the Middle East. Thus, the Palestinian economy could create synergies with Israel's responses to the processes of globalization. The Oslo agreements attempted to achieve connectivity between the Israeli and Palestinian economies through the establishment of a modified customs union between Israel and the Palestinian Territories.<sup>42</sup> The modified customs union gave Palestinian products access to Israel's market and provided generally that imports into Palestinian areas be subject to Israel's customs laws.<sup>43</sup>

The next strategic effort to connect the Palestinian economy with the rest of the world was the Oslo emphasis on the importance of attracting foreign

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38. Fidler, *supra* note 1, at 297.

39. David P. Fidler, *Foreign Private Investment in Palestine: An Analysis of the Law on the Encouragement of Investment in Palestine*, 19 FORDHAM INT'L L.J. 529, 533 (1995).

40. *Id.*

41. Israel Ministry of Foreign Affairs, *Agreement on the Establishment of a Free Trade Area between the Government of Israel and the Government of the United States of America*, <http://www.mfa.gov.il/mfa/go.asp?MFAH00ub0> (Apr. 22, 1985); see also Jewish Virtual Library, *Israel-European Union Trade Agreement*, <http://www.us-israel.org/jsource/Economy/eutrade.html> (Nov. 20, 1995).

42. Fidler, *supra* note 21, at 163; see also Protocol on Economic Relations between the Government of the State of Israel and the P.L.O., Apr. 29, 1994, 33 I.L.M. 696 (1994).

43. Fidler, *supra* note 21, at 163

investment into the Palestinian Territories. The crafters of the Oslo Accords believed that the private sector should be the engine of Palestinian economic development and thus made foreign investment a priority issue for the Palestinian Authority.<sup>44</sup> Foreign investors would bring capital, technology, and experience that would connect the Palestinian economy to the processes of globalization at many different levels.

The fourth strategic element was creating access for Palestinian enterprises to trade with countries other than Israel. The Oslo agreement granted the Palestinian Authority the power to negotiate trade agreements to create foreign market opportunities for Palestinian products.<sup>45</sup> Such trade agreements and the commerce conducted under them would further stimulate interdependence between the Palestinian economy and other countries. Connectivity to the global economy would thus be achieved.

The Oslo strategy for Palestinian economic development is more complex than what I present above.<sup>46</sup> However, the four strategic elements discussed above demonstrate that the Oslo strategy conceived of Palestinian economic development with the processes of globalization in mind. The strategy envisioned a connected, outward-looking Palestinian economy able to take full advantage of technological advances and the opportunities of neo-liberal economic interdependence. The Oslo strategy aimed to globalize Palestinian economic development and poverty alleviation efforts.

### *B. The Failure of the Oslo Economic Development Strategy*

As Part I indicated, the Oslo peace process unraveled completely after the new *intifada* began in September 2000. The violence committed by both sides after September 2000 has adversely affected the Palestinian economy; but, as this section explores, the Oslo strategy for Palestinian economic development broke down long before the new *intifada*. None of the objectives targeted by the Oslo strategy were achieved, leaving the Palestinians in very bad economic straits that only continued to worsen after the new *intifada* began. The Oslo vision of assisting the Palestinian Territories onto the path of globalization shattered under the combined weight of violence, security measures, and continuing distrust and

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44. Fidler, *supra* note 1, at 299

45. *Id.*

46. See FIDLER & HARB, *supra* note 30.

hatred between the two sides. Oslo's seeds of global economic connectivity for the Palestinians were planted in barren soil.

*1. The Breakdown of the Four Pillars of the Oslo Strategy for Palestinian Economic Development*

*a. International Aid*

The international aid distributed by donor countries and international organizations, such as the World Bank, never provided the economic stimulus for private-sector investment anticipated at the beginning of the Oslo process. The Palestinian Authority utilized most of the international aid for emergency funding of various programs designed to maintain the economic status quo, rather than to make significant infrastructure improvements.<sup>47</sup> The amount of donor aid declined<sup>48</sup> because of various factors, including donor uncertainty about the peace process, differences between the Palestinian Authority and donors regarding priorities for use of the aid, and the failure of the Palestinian Authority to commit its own funds to public investment.

*b. Close Israeli-Palestinian Economic Ties*

Israeli border closures in response to acts of Palestinian violence against Israel wrecked the Oslo objective of creating close economic relations between Israel and the Palestinian Territories through the modified customs union. The lack of secure and continuous access to the Israeli market crippled Palestinian businesses that tried to take advantage of this large and affluent market.

*c. Attracting Foreign Investment*

The transference of international aid into nonproductive expenditures and the repeated border closures created an environment in the Palestinian Territories that was not attractive to foreign investors. Inflows of foreign capital were deemed vital in the period of the peace process to stimulate the growth of the Palestinian private sector, which the policy makers expected to be the real engine of

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47. World Bank, *West Bank and Gaza Update*, at <http://www.palecon.org/update/mar98/contents.html> (First Quarter 1998).

48. UNSCO, *Report on the Palestinian Economy, Autumn 1999*, at <http://www.arts.mcgill.ca/MEPP/unsco/palecon99/000.htm>.

Palestinian economic development. These crucial inflows of foreign capital never materialized.

Another reason why foreign investors were scared off involved the political and economic mismanagement of the Palestinian Authority. Two tremendous problems facing the Palestinian Authority have been corruption and mismanagement.<sup>49</sup> One internal audit revealed that the Palestinian Authority could not account for approximately U.S. \$326 million, which amounted to forty percent of its annual budget.<sup>50</sup> The scale of mismanagement not only made international donors weary of providing the Palestinian Authority with further aid, but also undermined the confidence of many foreign investors looking at the Palestinian Territories as a potential investment location. The Palestinian Authority further damaged prospects for Palestinian economic development when it attempted to monopolize sectors of the Palestinian economy.<sup>51</sup> The Palestinian Authority tried to mitigate some of this damage by privatizing certain industries; however, experts argue that more had to be done by the Palestinian Authority in order to encourage private sector growth.<sup>52</sup> Finally, foreign investors were deterred by the lack of an adequate legal and regulatory framework in the Palestinian Territories to support and protect commercial activity at international standards.<sup>53</sup>

#### *d. Trade Relations with Other Countries*

While the Palestinian Authority exercised its power to enter into trade agreements and arrangements with other countries, these agreements did not provide a basis on which Palestinian economic growth could occur.<sup>54</sup> Because all Palestinian trade remained dependent on the Israeli trade infrastructure, border closures wreaked havoc on Palestinian exports to markets beyond Israel.

This brief overview of the breakdown of the Oslo strategy for Palestinian economic development illustrates that the peace process failed to produce the desired connectivity between the Palestinian Territories and the processes of globalization.<sup>55</sup> Far from being globalized, the Palestinian economy remained

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49. See Fidler, *supra* note 21, at 184-85.

50. Fidler, *supra* note 1, at 304.

51. See *id.*

52. SAYIGH & SHIKAKI, *supra* note 5, at 101.

53. *Id.* at 94-95, 100.

54. FIDLER & HARB, *supra* note 30, at 28.

55. See Fidler, *supra* note 1, at 300-09.

trapped and virtually isolated. The peace process was not delivering higher standards of living for Palestinians, a situation which helped fuel discontent among Palestinians with the peace process itself.

*2. Insecurity and Ideology: Factors Behind the Collapse of the Peace Process*

The biggest factors in the failure of the Oslo strategy for Palestinian economic development were insecurity and ideology. A central bargain in the peace process was to be Israel's withdrawal from occupied Palestinian land in exchange for territorial security and security for Israel's citizenry. Repeated acts of Palestinian violence against Israelis meant that the peace process did not deliver security for Israel. In the eight years since the peace process began, Palestinians have killed more Israelis than in the prior fifteen years.<sup>56</sup> Under Oslo II, the Palestinian Authority was given the responsibility of preventing the planning and execution of Palestinian attacks against Israel from areas under its jurisdiction.<sup>57</sup> With the increase in Palestinian violence after September 1993, it is clear that the Palestinian Authority failed in this responsibility. The government of Israel, which is responsible for the protection and security of its citizens, took action in response to the frequent terrorist attacks. Israel's response, from border closures to military retaliation, set in motion a downward cycle of reprisals and further violence. In this environment, the Palestinian economy suffered terribly, leading to harsh living conditions for Palestinians. These conditions fueled more Palestinian bitterness, which triggered more violence and of course more border closures and reprisals from Israel.

The extent and scale of the violence during the peace process also suggested that neither side was ideologically committed to the vision of the Oslo peace process. The following passage summarizes the heart of the problem by addressing how each of the parties viewed one another during the peace process:

The two "sides" have nurtured their belief-systems, self image, and image of the other in total isolation, each in the conviction that they are right, of course, and that all "decent people" believe

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56. Israel Gov't Press Office, *The Prime Minister's Report: In 5 Years Since Oslo, More Israelis Have been Killed by Palestinian Terrorists than in the 15 Years Prior to the Accord: Death Toll Since Oslo is 50% Greater Than During the Intifada*, at [http://www.freeman.org/m\\_online/oct98/gpo1.htm](http://www.freeman.org/m_online/oct98/gpo1.htm) (Sept. 11, 1998).

57. See Oslo II, *supra* note 36.



as they do. To a large extent, each side view themselves as “innocent victims” and the other side as “perpetrators.” Palestinians see themselves as dispossessed and disenfranchised. Israelis see Palestinians as terrorists and aggressors. Palestinians see Israelis as all-powerful conquerors, and themselves as helpless victims. Israelis look at Israeli soldiers and see in them their precious little children. Palestinians look at the same soldiers and see instruments of occupation and oppression. An Israeli settler is convinced that “everybody” has agreed that the settlements will never be returned to Palestinian sovereignty. A Palestinian is convinced that “everybody” agrees that Jerusalem belongs to the Palestinians alone, and that the “everybody knows” that the war in 1948 was begun by the Zionists.<sup>58</sup>

Palestinian children continue to be taught to hate the state of Israel as well as all Jews and are prevented from learning anything about Israel<sup>59</sup> other than what they learn battling with Israeli soldiers. The Palestinian Authority verbally attacks both Israel and the Jews through state run media and state-backed preachers in mosques.<sup>60</sup> Similarly, during the peace process, Israeli settlers, supported by the government, continue to build new settlements in disputed areas they knew would incite anger among Palestinians.<sup>61</sup> Israeli discontent with the peace process also registered in the 1996 election of Benjamin Netanyahu, who came into office hostile toward the peace process and the Palestinian Authority.

In short, the Oslo strategy for Palestinian economic development unfolded in an environment that was perhaps never conducive to a globalization of Palestinian economic horizons. Through the Oslo process, experts perceived that globalizing the Palestinian economy would provide the path for Palestinians to reduce and perhaps escape deeply entrenched and worsening poverty. In the case of the peace process, a globalization strategy foundered on violence and hatred endemic to the Israeli-Palestinian dispute.

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58. Ami Isseroff, *This is PEACE*, at <http://www.ariga.com/peacewatch/story1.htm> (Aug. 1998).

59. David Makovsky, *Middle East Peace Through Partition*, FOREIGN AFF., Mar.-Apr. 2001, at 28, 34.

60. *Id.*

61. *Id.* at 39.

#### IV. CURRENT ISRAELI PERSPECTIVES ON PALESTINIAN ECONOMIC DEVELOPMENT AND POVERTY

##### A. *Double Rejection: The New Intifada and the Election of Ariel Sharon*

The death knell of the Oslo peace process began to ring in late September 2000 when the Palestinians began violent protests and attacks in what is referred to as the second or new *intifada*. For many, the moment of Israeli rejection of the peace process came in February 2001 when the Israeli people elected Ariel Sharon to be Prime Minister by the widest margin of victory in Israeli history. As Part I indicated, the deteriorating situation since late September 2000 has left the Palestinian economy in shambles and Palestinian poverty reaching astounding levels. The Palestinian poverty problem is worse than it has ever been. These developments raise, of course, questions about what may be on the horizon for dealing with this serious and disturbing increase in poverty and its attendant suffering in the Palestinian Territories. In this part, I examine the Sharon government's strategy to separate the Israeli and Palestinian people as a solution to the current crisis. I describe the nature of this "separation strategy" and critically analyze its implications for the Palestinian poverty problem.

##### B. *The Sharon Government's Separation Strategy*

Ariel Sharon has consistently argued that the Oslo peace process is dead:

The Oslo accords are dead. Period. . . . The basis of those accords was that all disputes must be settled at the negotiating table, not by violence. As long as there is violence, it means very clearly that the Oslo accords can no longer exist. . . . I am saying it very clearly, they no longer exist. Period.<sup>62</sup>

Sharon's alternative vision for a settlement with the Palestinians represents a radical departure from the assumptions and strategies seen in the Oslo process.

In July 2000, before elected Prime Minister, Sharon outlined his broad vision for peace in what he called the "Six Red Lines for Peace."<sup>63</sup> His vision called for

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62. *Israel's Sharon Pronounces Oslo Accords Dead*, INQUIRER INTERACTIVE, at <http://inquirer.net/24h/jan10/afp3.htm> (Jan. 10, 2001).

63. Ariel Sharon, *Six Red Lines for Peace*, JERUSALEM POST: INTERNET EDITION, <http://www.jpost.com/Editions/2000/07/21/Opinion/Opinion.9914.html> (July 21, 2000).

the following six principles: (1) An undivided Jerusalem under full Israeli control; (2) Israel will retain under its full control sufficiently wide security zones in both the east and west; (3) Jewish towns, villages, and communities in Judea, Samaria, and Gaza, as well as access roads leading to them with sufficient security margins will remain under full Israeli control; (4) Israel does not recognize any right of return for Palestinian refugees; (5) Israel will control the fresh-water aquifers in western Samaria; and (6) Areas under control of the Palestinian Authority will be demilitarized, the Palestinians will have no army and only a police force, and Israel will control the air space above the Palestinian Territories.<sup>64</sup>

Sharon's "Six Red Lines for Peace" contains nothing that deals with the Palestinian poverty problem. The exclusive focus is on Israeli security. The assumption in the Oslo peace process that continued Palestinian poverty would be a threat to sustainable peace between Israel and the Palestinians finds no expression in the "Six Red Lines for Peace." Although not explicit, many of Sharon's "red lines" would, if implemented, cause enormous problems for Palestinian economic development, especially the demands for security zones between Israel and Palestinian areas, no Palestinian right of return, and Israeli control over fresh water. The tone of "Six Red Lines for Peace" also suggests that Sharon has no intention of creating and nurturing close economic ties between Israel and the Palestinians.

The objective of "Six Red Lines for Peace" appears to be isolating the Palestinian Territories on terms conducive to Israeli security. How the Palestinian people are supposed to deal with poverty simply is not a concern. As the violence between Israel and the Palestinians has intensified and spread in 2001, Sharon's ideas for a "settlement" between the warring sides have become more extreme and point to a full, physical separation of the Israeli and Palestinian peoples. This "separation strategy" appears to contemplate sealing off the Palestinian Territories with concrete barricades and waterless moats.<sup>65</sup> In the past, Sharon proposed building tunnels between the West Bank and Gaza Strip for Palestinian traffic to allow Israelis and Palestinians to avoid each other, which is another example of the mentality of a separation strategy.<sup>66</sup>

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64. *Id.*

65. Suzanne Goldenberg, *Sharon Tightens Grip on Palestine*, GUARDIAN UNLIMITED, at <http://www.guardian.co.uk/elsewhere/journalist/story/0,7792,449018,00.html> (Mar. 9, 2001).

66. Dan Pery, *Israelis Turning to Once Dismissed Ideas*, CANOE, Mar. 31, 2001, at [http://www.canoe.ca/CNEWSMideast0103/31\\_mideast-ap.html](http://www.canoe.ca/CNEWSMideast0103/31_mideast-ap.html).

In some cases, the Sharon government has already taken steps to move toward a unilateral separation. In Ramallah, Israeli troops dug a moat around Bir Zeit University, which is a center for activism.<sup>67</sup> A similar moat was dug around Jericho to prevent anyone from leaving the desert town.<sup>68</sup> Israelis have also accelerated measures to seal off a forty mile section of the West Bank behind watchtowers and electronic fences in order to protect the Israeli coastal town of Netanya.<sup>69</sup> Security officials estimate that in order to lay down concrete and metal barriers across link roads between the West Bank and Israel will cost an initial seventeen million pounds.<sup>70</sup> On the few roads left open, security forces will establish checkpoints and monitor traffic with motion-sensitive cameras and watchtowers.<sup>71</sup> Currently, a majority of Israelis support a unilateral separation from the Palestinians.<sup>72</sup>

The development, however sketchy and haphazard, of a "separation strategy" illustrates the extent of the fear, frustration, and despair at the collapse of the peace process in Israel. If implemented, the separation strategy would result in economic genocide for the Palestinians. Physical separation would prevent Palestinian goods from flowing to Israel and to countries beyond the region. Sealing off the West Bank would throw two million Palestinians out of work.<sup>73</sup> In Ramallah, the moat the Israelis dug around Bir Zeit University caused 65,000 villagers to lose water and power because utility lines were cut,<sup>74</sup> which provides some indication of the economic hardship more widespread implementation of the separation strategy would cause Palestinians. The separation strategy, simply put, is a recipe for a catastrophic increase in the Palestinian poverty problem.

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67. Goldenberg, *supra* note 65.

68. Iqbal Siddiqui, *Sharon's Strategy Against the Intifada: Targeted Force and "Suffocation,"* CRESCENT INTERNATIONAL, at <http://www.muslimedia.com/archives/world01/sharon-suffoc.htm> (Apr. 1-15, 2001).

69. Goldenberg, *supra* note 65.

70. *Id.*

71. *Id.*

72. *Id.*; see also Lary Derfner, *The Separation Option*, JERUSALEM POST: INTERNET EDITION, Aug. 14, 2001, at <http://www.jpost.com/Editions/2001/08/12/Features/Features.32381.html>; Ellis Shuman, *Media Roundup: What the Heck is "Unilateral Separation"?*, ISRAELI INSIDER, Aug. 31, 2001, at [http://www.israelinsider.com/channels/diplomacy/articles/dip\\_0082.htm](http://www.israelinsider.com/channels/diplomacy/articles/dip_0082.htm).

73. Goldenberg, *supra* note 65.

74. *Id.*

## CONCLUSION

The Palestinian poverty problem has reached tragic proportions and is still worsening. The prevailing approach to economic development and poverty alleviation in the era of globalization involves technological and economic openness and connectivity between countries and companies. The Oslo strategy for Palestinian economic development incorporated this approach; and, despite the collapse of the peace process, it is difficult to see how the Palestinian poverty problem can be adequately addressed today without giving the Palestinian economy and people the connectivity that characterizes and drives global commerce. Palestinian poverty will not be reduced without Palestinian participation in the processes of globalization.

Yet, relations between Israel and the Palestinians have deteriorated to the point where nearly three-quarters of the Israeli population favors a “solution” to the crisis that is, economically speaking, medieval in its techniques—walls and moats—and disparity vis-a-vis the Palestinian people. At the same time, given the nature of the violence and distrust on both sides, a return to the Oslo vision of a globalized Palestinian economy looks equally unrealistic. The existing state of affairs is enough to make even the staunchest opponent of human poverty despair for those in the Palestinian Territories living in utter poverty and with no hope of relief from their misery on the horizon.