Globalization, the Palestinian Economy, and the "Peace Process"

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ALTHOUGH GLOBALIZATION IS AN INTERNATIONAL PHENOMENON, ITS EFFECTS ARE experienced differently in advanced capitalist countries (the center) and in "developing" countries (the periphery). Thus, while Western capitalist countries benefit from the liberalization of trade, access to expanded markets, and free movement of capital and goods (though not labor power), the effects of globalization for the periphery lead to the decline of the nation-state's power, restriction of its markets, and further blocking of its development.

These effects have been known for some time and have been raised in many international fora. At the ninth session of the U.N. Conference on Trade and Development (UNCTAD) in May 1996, for example, "several leaders from developing countries described how globalization and liberalization had forced their local companies out of business and marginalized their economies" (*Third World Network*, 1996). Tanzania's President Benjamin Mkapa told UNCTAD that countries undergoing liberalization and privatization under World Bank/IMF-style policies have suffered heavy social costs, including job losses, cuts in health care and education, and instability (*Third World Economics*, 1997).

This article examines the effects of globalization on the West Bank and Gaza (WBG), territories occupied by Israel in 1967 and subsequently integrated into its own economy, which is highly integrated into and heavily subsidized by the world capitalist center. Despite the "peace process," those parts of the occupied territories that have come under the jurisdiction of the Palestinian Authority (PA) have remained dominated by Israeli economic policies. Moreover, the entire WBG has been subordinated to the prescriptions of international financial institutions, mainly the World Bank and the IMF, the principal vehicles for the economic globalization that constitutes this latest phase of capitalist development.

Unlike other formerly colonized countries, the PA's economy may be alone in having been designed from its very beginning by the policies and prescriptions of

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globalizing institutions. In the immediate wake of the Oslo signing, the international community, led by the World Bank, drew up the Emergency Assistance Program for Palestinian infrastructure development and institution building. The private sector was given a central role: one of the program's principal aims was to "stimulate private investment in sectors such as industry, tourism, housing, telecommunications, and agriculture by channeling long-term finance to local entrepreneurs" (World Bank, 1993: 4). It was also the World Bank that in essence created the Palestinian Economic Council for Development and Reconstruction (PECDAR), whose main function was to disburse the donor funds ($2.4 billion pledged) according to the Bank's directives (al-Labadi, 1999: 382). As for the possibility of an *independent* Palestinian economy, "for the World Bank, the economic delinking of the self-rule areas from the Israeli economy is a contradiction of the Paris Protocol. It should be noted that assistance to the Palestinians is based on these protocols" (Inbari, 1995).

The "peace process" launched in Madrid has unfolded during a period when globalization has dominated international relations. Consequently, as long as the "peace process" sponsored by the United States (the main controller of globalizing financial institutions) continues, the occupied territories will continue to be deeply affected, economically and socially, by these institutions to the extent that PA policies will be globally, not internally, oriented. Despite the experiences of the many developing countries that have already taken this route, the PA unquestioningly adopts the wave of globalization, with seemingly little awareness of alternatives.

The Legacy of Direct Occupation

Within days of Israel's conquest of the WBG in June 1967, the Israeli military governor began to issue military orders that would reshape the lives of the territories' residents. No less than half of these orders involved economic matters (Samara, 1988b: 58–64), for a principal aim of the Israeli occupation was and continues to be to "adjust" the economy of the territories to fit in with the interests, needs, and structure of its own economy. These interests include the employment of a cheap labor force. Military orders cut the occupied territories off from the rest of the world, making Israel their main supplier (90% of the occupied territories' imports come from or through Israel). Thus, the wages paid to the workers were returned to Israel as payments for Israeli consumer goods. By absorbing the labor force, while at the same time pursuing a policy of rejecting Palestinian applications for licenses to start productive projects (Bahiri, 1987), the Israelis were able to destroy the occupied territories' economic infrastructure, thus facilitating the integration of the latter's economy into that of Israel.[1] This process forced all Palestinian social classes to interact directly with the Israeli economy, thereby creating and reinforcing Palestinian economic dependency.

For the Palestinian working class, as already mentioned, Israel became the main outlet for employment: surplus labor power, especially from the refugee camps and the rural areas, became increasingly dependent on the Israeli market. On the eve of the *intifada* in 1987, the number of such workers in Israel had reached nearly 165,000.

For the business class, the only route open was to become commercial agents marketing Israeli products in the occupied territories. When Israeli businessmen realized how profitable it was to invest in certain sectors of the occupied territories' economy, they teamed up with Palestinians. This led to the evolution of a subcontracted Palestinian business class, which dominated and even replaced the weak nationalist bourgeoisie that had been privileged under Jordanian rule. Israel thus annexed to its own economy two of the three main classes of Palestinian society, the workers and the capitalists. Accordingly, the natural equation of labor to capital found in most societies was deformed in the occupied territories, since both the working class and the capitalist sectors became integrated, separately, in the Israeli center.

The peasant class, meanwhile, had been further weakened by Israel's policies of land confiscation (more than 60% of the land, especially the most fertile parts, had been expropriated or come under Israeli control), the banning of Palestinian agricultural exports, and encouragement of the production of crops required by the Israeli market (Samara, 1989). Those harmed most were the independent and small producers who were either hit by land confiscations or unable to compete with crops imported through or produced by Israel. As a result, the surplus rural labor power that failed to find jobs in the towns, or was unable to emigrate to the oil-rich Arab countries, looked for work inside Israel. Fundamentally, the colonial-settler Israeli occupation targeted the land and, unlike the Palestinians, had a clear strategy for its use (Samara, 1997).

The Oslo Context and the Paris Agreement

The Paris Economic Protocol of April 1994 is, in fact, worse than the Oslo Accord that laid the groundwork for it. Both agreements (Oslo I and Paris) ignored the issue of Palestinian sovereignty over land, which means that the Palestinians are unable to put forth a real development strategy, especially in agriculture, the main economic sector in the WBG. Far from guaranteeing Palestinians the freedom to import and export without Israeli supervision, the Paris Protocol explicitly restricts the PA to specific quantities of goods that can be imported and exported. The protocol also creates a joint economic committee to deal with all economic affairs, essentially giving Israel veto power over PA requests (Jerusalem Media and Communication Center, 1996: 264). Israeli exports to the Palestinian territories amount to $1.2 billion and move freely, while Palestinian exports to Israel reach only $210 million and are subjected to tough restrictions (*PECDAR INFO,* 1996: 8).

The PA is well aware of the shortcomings of the agreement. The Palestinian Minister of Trade at the time, Maher al-Masri, noted, "All economic agreements following the Declaration of Principles were dangerous and have had a negative impact on the economy" (*PECDAR INFO,* 1997: 4–5). Masri also stated that the "Israelis control Trade Protocols, through their restrictions on dealings with the Arab world, in order to limit the amount and quality of goods we are allowed to import outside Israeli customs tariffs.... They impose their own specifications and measurements on the imported goods" (*Ibid*.). In essence, the Paris Protocol did not effect any change in policy from the direct occupation era to the postdirect occupation era. This is why the PA has repeatedly tried to have the Paris agreement amended. Not surprisingly, Israel has refused, given that it is in Israel's interests to use its new regional relations against Palestinian economic interests.[2]

Regarding the labor force, the Paris agreement states that "the two sides will work towards a normal work force movement between them, taking into consideration the right of each side to decide at one time or another the extent and conditions of workers' movement in its area. If normal movement is cut from one side, it should immediately inform the other. The other side would be able to discuss the subject in the joint economic committee" (Jerusalem Media and Communication Center, 1996: 281). Instead, using the "security" issue as an excuse, Israel has repeatedly imposed closures on the WBG and banned Palestinian workers from entering Israel without even informing the PA. The PA's only response to these measures has been futile complaint. In essence, the PA has given priority to the continuous employment of WBG workers inside Israel, when the alternative should be devising a development strategy to employ them in the territories.

As a result of the closure policy, the PA tax department estimates that it has lost 50 to 70% of its potential revenue from the value added tax paid by Palestinians for their imports from Israel, the tariffs paid at the border for imports from abroad, and the income tax deducted from the wages of Palestinians working in Israel (*al-Quds*, 1996a: 11). The closure policy led some Palestinians to argue that since the Paris agreement permits each side to boycott the other's products (*al-Quds*, 1996b), the Palestinians should boycott Israeli products. However, even if this were accurate, how could the Palestinians replace Israeli imports, when all trade routes are in the hands of the Israelis?

PA Economic Policy and Nation-Building

The PA leadership deeply admires neoliberal economic policies, which it endeavors to apply. These policies are inspired by a free-market ideology: no protectionism, no economic regulation, no conditions on money transfers abroad, and so on. Such policies require the PA's full application of the prescriptions of the international financial institutions that support and even sponsor globalization. In return, the PA expects some positive input from these institutions (PPIP, 1997).[3]

On the practical level, the PA has approached development in conventional terms: spending tax income, loans, and grants on either short-term employment or infrastructure for the purpose of enticing foreign (including diaspora Palestinian) investors.[4] In Palestinian towns, the most obvious sign of development is the construction of hotels, offices, and new buildings. To have a "stand-by economy," the PA needs to prepare a special infrastructure that meets the demands of tourists, businessmen, nongovernmental organization (NGO) managers, top-ranking PA officials, and so on. But how much does the population really benefit from these investments? To what extent are the land and capital of the WBG being directed toward the kind of production that meets the population's needs? The new buildings, supermarkets, and luxury restaurants in Ramallah and other West Bank towns, far from constituting development, merely prepare the ground for the "casino economy" that is the end result.

During the period 1993 to 1998, the cumulative totals of international donations to the PA reached $3.55 billion in pledges and $2.45 billion in disbursements (World Bank, 1998a), yet the GNP dropped by 3.4, 10.1, and 2.9% for the years 1993, 1995, and 1996, respectively. At the same time, the rate of unemployment jumped to 30%, compared to five percent in the pre-Oslo period (Ishtayia, 1999: 91). Although recent employment trends suggest an improved outlook for 1998 and 1999, the source of this growth stems from an external factor. Even the PA's own publications acknowledge that a major reason for the increased outflow of labor from the WBG is construction in Israel and Israeli settlements (*Ibid*.: 6).

Certainly, the PA's modus operandi cannot be divorced from the economy's lamentable performance. The PA's corruption, by now almost universally recognized, and financial mismanagement of donor funds flow from the mentality of a guerrilla organization that continues to prevail, wherein the leadership cannot be questioned and operates in secrecy and without accountability (Bergman and Ratner, 1997; Hirst, 1997; Palestinian Authority, n.d.). Hence, the PA's parallel budgets, one public and one covert, the latter containing hundreds of millions of dollars of public money distributed to buy loyalty for the regime rather than going into development or building infrastructure.[5] Hence, too, the PA's creation of a huge bureaucratic structure, now numbering more than 100,000 civilian and military personnel totally dependent on and therefore loyal to the regime. In this the PA resembles the Arab regimes, but unlike them, it lacks the resources to sustain such a "state" apparatus.

One result is that, besides mismanaging donations, the PA has created its own monopolies. According to officials from the U.S. State Department, "there are at least thirteen known monopolies under the control of no more than five individuals who are members of the PA's inner circle" (Roy, 1996: 38). Monies from these monopolies, according to these same officials, are used in large part to pay the salaries of police and other agencies, which donors no longer finance. Yet the monopolies have a highly negative effect on the economy. Being neither public nor private, they are subject neither to public scrutiny nor to regulatory laws (Hooper, 1999).[6] Equally important is the fact that through these monopolies, which deal in such commodities as petroleum, tobacco, gravel, flour, sugar, soft drinks, vegetable oil, and so on, the PA has become a competitor to local business.[7] When a group of local businessmen signed an agreement with the Israeli cement company Nesher, for example, the PA rejected the deal and replaced the group with its own associates.[8] (The PA also monopolizes most of the marketing for large companies that supply the PA areas.)

Meanwhile, the PA is declaring that it will not "intervene" in the economy. Products are hence free of quality control, and the West Bank remains a free market in which Israel can dump defective and already expired products.[9] Businessmen, driven by the desire for easy profits and realizing that Israel will not allow any real flexibility for the self-rule economy, avoid investment in productive sectors and invest instead in construction and land speculation. The cumulative result of the open-door policy, the monopolies, and the encouragement of foreign (or *émigré*) capital at the expense of local capital is to weaken further and even destroy the small and independent Palestinian producers, causing higher unemployment, less capital accumulation, and more dependency on Israel.

In light of these results, one must ask: Why are the donors not protesting? If their donations are not geared to promoting employment growth, what are they geared to do?

Six years after Oslo 1, it seems clear that the aim of its architects was to usher in a new system that reorients the Palestinian people toward accommodation, thus limiting their goals of national liberation. The PA, created and financed by the advanced capitalist countries, has become directly involved in re-educating the people (including a political discourse that considers any resistance to the Israeli occupation to be against "peace" and indeed against the Palestinian people). In essence, the PA is collecting "political rent" for its role in supporting agreements that pave the way for world capital to achieve its policy of *class reordering* in the region. As long as the PA serves the demands of the globalized financial institutions, it can hope to continue receiving donations despite its corruption and performance.

Is the Private Sector a Priority?

The private sector is at the heart of the PA's development strategy. For example, the Palestinian Public Investment Program (PPIP) of 1997, the first development plan for which the PA had full responsibility (though under the close supervision of the World Bank and donor groups), states that:

> the philosophy underlying the planned 1997 Public Investment Program continues to be one of private sector-led development, with the public sector working to provide a stable legal, regulatory, and policy framework conducive to private investment and productive activity. In addition to this, it provides essential support to infrastructure and social services, which cannot be provided by the private sector. This is consis-

> tent with the PNA's overall developmental strategy identifying the private sector as the principal engine of growth (PPIP, 1997: 2–3).

The Palestinian Development Program (PDP), which replaced the PPIP in 1998, has continued with exactly the same emphasis. But the PA's globalizing orientation, which crystallized in its acceptance of the open-door policy, encourages and indeed privileges foreign corporations while weakening the position of the local private sector.

The PA's industrial policy is similar:

> despite only having a share of 8 percent of GDP, this sector is being targeted for development support by the [PPIP]. The program supports both large and medium export-oriented industries and small and micro enterprises. The PA strategy offers two broad packages of assistance: the first supports border and local industrial zones, which will be open to capital from domestic and foreign sources; the second is geared to small enterprises to complement industrial zones through industrial complexes and incubators (PPIP, 1997: 7).

Even if this policy were suitable, this seemingly good intention is totally unrealistic, since the investment law enacted by the PA in 1996 favors foreign capital, which, *if* it arrives, aims at accumulating profits, not providing welfare improvements for the people.

Concerning agriculture, the PPIP notes that "in spite of limited natural resources, efforts to develop this sector will be intensified as a major component of the private sector development strategy. The PPIP encourages private cultivation by improving the legal and regulatory framework, developing financial institutions, making technological advances in the sector, and improving access of agricultural products to regional and world markets" (*Ibid*.). Yet how can these goals be achieved when the banks, which in a normal situation must finance agricultural investment by loans, are transferring most of the savings abroad? And when other potential resources, such as donors and NGOs, avoid the agricultural sector? Moreover, the PA does not invest loans in a productive manner, a situation exacerbated by land confiscation and effective control over 85% of historic Palestine's resources by Israel's continuing occupation (Human Development Report, 1999: 7). This is in addition to the lack of a Palestinian strategy for land, or even a policy for land reclamation and development loans (Samara, 1997).

Investment and Banking

The PA's adoption of globalization (i.e., an open-door policy with no protection) has encouraged local and foreign banks to act freely regarding the transfer of public savings abroad, minimizing the size and amounts of loans, and imposing severe conditions for guaranteeing loans. It should be emphasized that decisionmaking in PA areas does not fall to the PA alone, but to the donors, the World Bank, the Israeli authorities, the NGOs, and the international organizations. If we add to this fragile situation the fact that the PA areas enjoy not sovereignty but self-rule, the difficulty of fostering development in these areas becomes clear.

The PA repeatedly reaffirms its commitment to the free-market economy, which enables the private sector to lead economic activity. Indeed, according to the PA, the role of the public sector is "to create the proper environment for a dynamic private sector, capable of shouldering the heavy responsibility of a prosperous and advanced economy" (*PECDAR INFO,* 1996: 7). Yet the PA's policies actually contradict its claim of building an independent and developed economy. Above and beyond the PA's monopolization of the granting of licenses (either for themselves or their cronies, or for the highest bidder — thus eliminating small competitors not on competitive grounds, but through corruption), the PA's investment law itself works against the development of a strong local economy. Item 21 of the law stipulates equal treatment of Palestinian capital and capital from abroad. However, treating strong, well-established foreign capital the same as weak, emerging local capital can only result in forcing local capital into subcontracting or driving it out of business altogether. Similarly, the investment law's unambiguous favoring of larger business interests perpetuates the weakness of small existing or potential projects, which have little capital and employ few workers, but are owned by skilled, well-trained, independent producers geared to local needs (Khalidi, 1996).[10]

In general, sound government policy would give priority either to foreign investments that do not encroach on local interests or to local investment linked to a national policy on agriculture, land, and industry aimed at providing basic needs. Only in this way could the government hope to lessen the severely unequal exchange relationship with Israel, for Palestinian economic resources not expended in productive investments will be spent on imports from Israel, i.e., rechanneled to the Israeli economy.

Interestingly, Jamil Khalidi, head of the PA's Investment Department, compares the PA's investment law unfavorably with the Israeli one: "despite the fact that the Israeli law (No. 1055) for investment came too late, i.e., not until the *Intifada* had happened, it was more flexible than the Palestinian one. The Israeli law offers three to six years of exemption for the local investors (Khalidi, 1996: 12). Because the PA is being subsidized by donor grants, the tax system it applies should be at least as flexible as Israel's in the last years of direct occupation or as Egypt's, whose economy is better established than Palestine's and which seeks to draw investors by offering 10 years of exemption in new industrial areas and remote areas and for new housing projects (*Ibid*.: 15).

In an era of globalization, capital (especially Third World capital) increasingly ignores nationality and national commitment. The more "national capital" is integrated with international financial capital, the weaker the national attachment becomes, unless the business environment in the particular country is attractive (either because investment is feasible or because of special offers from the regime). In this context, the deciding factors will not be tax exemptions, but the safety of the investment, availability of feasible projects, and cheap labor. The fact that Palestinian labor is expensive for the region (an average monthly wage of $500, compared to $90 for an Egyptian worker and $250 for a Jordanian [Byrne, 1997]) makes state intervention, the public sector, and protectionism all the more important, none of which are pursued by the PA's globalized policies. On the contrary, "the law of investment did not put a maximum percentage on foreign ownership of joint projects; neither did it put any restrictions on transfer of net profit" (Khalidi, 1996: 20).

Criticism of the practical application of the PA's investment philosophy comes not from the leftist or nationalist opposition (weak, accommodating, or even absent), but from the private sector itself. Muhammad al-Masruji, a well-established Palestinian businessman, for example, commented on the "lack of laws and regulations for the operating banks in the West Bank and Gaza. Accordingly, monetary policy is decided by the Jordanian banks. The PA forced the Palestinian Commercial Bank to start with $10 million, while this ceiling was never applied to nonlocal banks."[11]

Most of the investments inside the self-rule areas and the occupied territories are for housing. These investments are likely to have reached one billion dollars, mainly in towns, since the Madrid process began. In villages, building licenses are still in the hands of the Israeli military authorities, who generally choose to withhold them. Despite promises, there has been little investment, and therefore little improvement, in infrastructure either by the donors or the PA.[12] PECDAR, like many donor organizations, devoted considerable effort to short-term job creation schemes with little developmental effects, for example, spending millions of dollars on cleaning up Gaza's dirty streets (Byrne, 1996).

Nine industrial zones are planned along the Green Line at a cost of five billion dollars. According to the World Bank,

> The initial conception of the industrial estate development program was one of fostering business clusters on the borders between Israel and the Palestinian territories ("border" estates), so as to permit employment by international and Israeli entrepreneurs of Palestinian workers free of security-related restrictions on the entry of Palestinians into Israel proper. Public investment costs for the full program of nine border estates and six local estates...are tentatively estimated at U.S.$120 million, excluding land costs (World Bank, n.d.: 10).

By creating a globalized Palestinian economy and labor force, these border industrial zones will obstruct the development of the industrial sector inside the WBG, which was already obstructed by the occupation. Although the economy of the territories under direct occupation lacked an industrial core (each area being connected with the Israeli economy separately), under the PA it will be connected not only to the Israeli economy, but also to the border industrial zones. The expected industries will be labor intensive, export led, and low tech, with few controls (environmental, etc.). Since the industrial base will be globalized, agriculture will likewise be export led. Tourism, mainly centered in Jerusalem, will either remain in Israeli hands or be internationalized. Many Palestinians can be expected to be employed in marketing Israeli products in Arab countries; in so doing, they would facilitate the Israeli market's invasion of the Arab world — an "Integration Through Domination" (ITD) that appears to be welcomed by many Arab regimes.[13] This economic phenomenon has its political counterpart: the PA and the comprador intellectuals who support it are "marketing Israel" through advocating normalization and holding donor-sponsored joint cultural and other seminars inside the territories and abroad.

Neither under direct occupation nor in the current situation are banks likely to offer much assistance to economic enterprises or play much of a developmental role. Back in 1967, during the first two months of the occupation, all Palestinian, Arab, and even foreign banks were closed, and 36 branches of the Israeli commercial banks were opened. As commercial banks, they had nothing to do with development. Following meetings between the Israeli Labor Party and Jordanian officials in London in 1986, the Israeli government decided to open two branches of the Cairo-Amman Bank and another of the Bank of Palestine. Since the Oslo agreements, nine banks and more than 60 branches have been opened in the Palestinian areas (Hamid, 1996).

In general, the PA has adopted a strategy of stimulating private-sector development and competition by encouraging the inflow of foreign capital through limiting restrictions on foreign remittances and dealings in foreign currency.[14] This very open policy benefits the banks more than the population. Its influence extends beyond the Palestinian investment law in encouraging foreign over local capital, playing a major role in money transfers abroad (Samara, 1996: 12). As for bank holdings, by March 4, 1996, total individual and private-sector deposits reached $1.35 billion, of which $310 million was out as loans and $938 million as bank deposits abroad.[15] By April 1997, the level of total deposits (which had been $219 million in 1993) had risen to $1.8 billion (Ishtayia, 1999: 285). The relatively high percentage of capital in current accounts in Palestinian banks (it was 60%, though it has decreased to 35%) benefits the banks, certainly not a country whose leadership claims to be "nation building," and where money for loans is very much needed.

Similarly, while the ratio of loans to deposits in 1996 was 80% in Jordan and 90% in Israel, in the West Bank it was 21.6% and in Gaza 18.6% (Hamid, 1996), improving slightly by 1997 to reach 28% (Ishtayia, 1999: 285). Some 72% of these loans are given on a very short-term basis to keep clients financially solvent. Real loans account for only six percent (*al-Quds*, December 25, 1995). The loan ceiling in the WBG did not exceed $30,000 to $40,000, and for sums above this the branch was required to seek approval from its headquarters abroad (Hamid, 1996).

In sum, banks in the WBG are clearly not working as vehicles for development. In a practice protected by PA laws, the local banks (almost all branches of banks headquartered in Jordan) encourage the population to save more and then lend their savings abroad. About 90% of Palestinian savings are deposited in Jordanian banks, and these savings are invested as the Jordanian head offices see fit — certainly not on developing the Palestinian economy.

This is a typical case of applying the World Bank and IMF liberal economic policy. The result will be a heavy burden of debt for the entire population, except for the small minority that is drawing large profits from their capital deposits abroad. It is worth noting that the PA has never to this day announced the availability of loans, talking of "assistance" instead, even though outright grants account for only a third of what is lent out. The higher taxes that will inevitably be imposed to repay nationalized individual debts will only add to the burdens already borne by the Palestinian people.

Donors

In the Palestinian context, donors have significant influence and control and basically determine how their money is spent; "Palestine" is thus constructed according to their wishes. For example, the Local Aid Coordination Committee (LACC), co-chaired by Norway, the World Bank, and the U.N., has met at least once a month since January 1995 with approximately 30 local donor representatives in attendance. In turn, the LACC has established 12 thematic sector working groups, each with one or more PA ministries as "gavel holder," a donor as "shepherd," and a U.N. agency serving as the "secretariat" (Brynen, 1996: 3–4).

On the political level, the donor's assistance aims to strengthen the PA and to create tangible benefits for Palestinians in the WBG, thereby generating support for the peace process. However, according to Rex Brynen, "individual donors ultimately retain control of their own individual programs.... Virtually all donors were driven by a desire to become involved in projects that maximized their political visibility and credit" (1996: 6–9). On the economic level, the donor situation is further compounded by commercial competition among financiers for projects that are thought to have some long-term economic benefit. Some aid has many strings attached, and procurement guidelines may mandate preferences for suppliers from donor countries. Considering that Israel still controls many aspects of the Palestinian economy, what will remain for the PA to control? This, in fact, is a good case study of what a globalized economy will look like.

Some of the donor funds are in the form of loans, which in principle must be repaid. Yet the PA's only source of income to repay the loans is taxes. Since the PA's expenditures are higher than what it collects through taxes, it is actually spending, not investing, the donors' money. This has one result: the accumulation of debts. Despite that, the PA continues to borrow.[16]

Considering that this money has been spent on bureaucratic and luxury items, the PA debt cannot be financed without incurring more debt. This will create a repayment crisis, but the solutions will not be those typically employed in Third World countries — i.e., the selling of public-sector assets (as, for example, in Egypt) or the nationalizing of the debts (there is no public sector to be sold, whether to local or foreign capital). In the Palestinian case, the price that will be paid is a political one: further concessions to Israel and its Western sponsors (Clark, 1999).[17]

Conclusion

The years of occupation have shown that there is no chance for real cooperation between the Israeli and Palestinian economies. The Palestinians, as the weak party, need more protectionism and economic delinking from the Israeli economy. Although globalization threatens to subsume national-level processes and increase dependency, poverty, and social tension in Third World countries in general, it is even more dangerous for the Palestinian economy, already captive to the Israeli economy. The PA's blind adherence from its creation to neoliberal polices has led to sharper class differentiation, corruption, and polarization inside Palestinian society. Israel, meanwhile, has transcended its traditional role as a Western outpost in the region to become a tool for regional globalization by integrating itself into the Arab world in terms of ITD and by becoming the "center" for the Arab "periphery."

The only reasonable way for any development in the occupied territories will be internally, through Development by Popular Protection (DBPP) (Samara, 1992; 1988a). Under direct Israeli occupation, and especially during the *intifada*, a popular economy did exist wherein investments were oriented toward direct needs in a policy of self-preservation. Even after Oslo, such a strategy remains valid: the PA's adherence to neoliberal policies should not per se prevent the population from renewing the DBPP of the *intifada* years or from giving priority to food security, basic needs, and the protection of the independent producers, especially those cultivating the land. It is imperative that the popular classes organize themselves and pressure the PA to adopt DBPP and to delink as fast as possible from the Israeli economy. Efforts must be made to establish more economic cooperation with Arab economies. Although the formal Arab boycott of Israel has by and large been terminated due to Palestinian formal normalization with Israel, it is through the DBPP that the feeble formal Arab boycott of Israel could be replaced by a strong popular boycott.

NOTES

1. "The Ministry of Industry and Trade and the administrative branch of the occupation may act to prevent the establishment of industries that are competitive to Israel, and administrative difficulties are placed in the way of competing exports" (Bahiri, 1987: 39).

2. For example, "when Israel decides to import fresh agricultural products, it will give top priority to Jordan if Jordan produces these products.... Jordan will not pay customs duties when it exports olive oil, sheep, goats, white cheese, and fresh fruits and vegetables to Israel. Israel will do its best to offer access and facilities to enable the Jordanian exports to reach the self-rule [Palestinian] areas" (*al-Nahar*, September 22, 1995). It is clear that Israel's aim here is to harm Palestinian producers.

3. "The PNA remained committed to the peace process in order to improve living conditions in the short run and to achieve a viable and promising future for the Palestinian people in the long run. The PNA is determined to realize these goals, with the assistance and support of the donor community and multilateral agencies" (PPIP, 1997).

4. In this context, see the papers presented by Muhammad Mustafa, George Abed, Edmond Asfour, and others at the conference, "The Palestinian Economy: Towards a Vision," Birzeit University, June 9 to 12, 1996, prepared by the Arab Economists Association in cooperation with Economic Development Institute and German Agency for Technical Assistance.

5. While international institutions and donor countries feign commitment to transparency, they never challenge the financial mismanagement of the PA, and, in cases where they note corruption, they do so indirectly. For example, the World Bank (1998b: 9) notes, "According to the latest statistics, gross domestic production (GDP) was valued at $3.1 billion in 1995 (although we estimate an additional $170 million due to revenue clearance leakage in 1995)." The question is, who received the leaked money?

6. Described as "semi-private/semipublic but wholly secret," the monopolies operate in a gray zone, with an unknown portion of their profits going to the handful of members of the new ruling elite (whose names are nowhere registered) that run them, with the rest going to PA bank accounts not controlled by the PA Finance Ministry (Hooper, 1999).

7. In the last two years, under pressure from the Palestinian Legislative Council and the donors, some of the monopolies (tobacco, for instance) have been, in principle, eliminated.

8. Interview with K. Hassouneh, Palestinian businessman, June 3, 1996.

9. Interview with Maher Dusoki, a member of the Consumer's Protection Committee, Ramallah, December 3, 1995.

10. According to the law, "Projects which invest $500,000 or employ 25 Palestinian workers will be offered income tax and fees exemption for five years when they will be due. Those who invest $150,000 and employ 15 Palestinian workers will be offered income tax and fees exemption for three years. Those who invest $70,000 and employ 10 Palestinian workers win be offered income tax and fees exemption for two years.... The board of directors of the investment department is allowed to give exceptional exemptions to projects of more than $5 million which employ more than 50 workers" (Khalidi, 1996: 44).

11. Muhammad al-Masruji, Palestinian businessman, commenting on Osama Hamid's "Lecture on Banking Systems" (Hamid, 1996: 12).

12. The only infrastructural area that has shown improvement is telephones, which have been privatized.

13. The Israel-Jordan Peace agreement paved the way for direct Israeli colonial investment in Jordan. According to San Proper, chairman of Israeli Industrialists, "Israel established the textile industry in Jordan to take advantage of the cheap labor force there and then market the products in Arab countries.... Israeli food industries have been established in Egypt, Jordan, and the PA areas.... The Israeli, Jordanian, Egyptian, and Palestinian entrepreneurs are keeping their names secret (*al-Quds*,

February 12, 1998). Mundhir Haddadin, the Jordanian minister of water and irrigation, stated, "Trade between Israel and Jordan has grown from almost nothing to $35 million....and more than 12 joint projects have been established in Jordan — from textiles to electronics — since the signing of the peace agreement in 1994" (*al-Quds*, May 31, 1998). Despite widespread protest, the Jordanian regime decided to let Israeli industrialists open an industrial exhibition in Amman in January 1997, thereby placing the comprador and popular classes in direct competition.

14. F. Bsaiso, quoted in *al-Ayyam* (January 4, 1997: 6).

15. Mohammed Qerrish, delegate of the Commercial Bank, quoted in *al-Ayyam* (July 24, 1996).

16. "Despite the fact that the PA previously decided to limit the assistance it would accept in grants and soft loans, $350 million of the aid pledged in Paris [November 1996] was actually in the form of loans. The $350 million pledged by the Arab Bank and the $150 million pledged by the European Investment Bank (EIB) were in the form of commercial loans" (*al-Amad*, 1996: 4).

17. To have an idea about how much the PA is controlled by the government of the United States (as the core of economic globalization crystallized in neoliberal policies), Israel Shahak noted: "All the officials of the many secret [police forces] are being trained in the United States by the CIA and to some extent the FBI. I believe, in fact, that American direct supervision of Arafat's regime carried out by the CIA has no parallel in the Arab world, even in the pro-American countries of the Arab world" (quoted in Clark, 1999: 12).

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