

# **Economic Envelopment: Three Turning Points in Forty Years of Economic and Military Domination**

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Ever since the first days of the Israeli occupation of the West Bank and Gaza Strip, a peculiar pattern of military-economic domination over the Palestinian population has become established, which has hardly changed since. It was established in 1967-1968, modified slightly following the 1993 Oslo Accords, and reached crisis proportions following the IDF's withdrawal from the Gaza Strip in 2005. In the following article, I present a political-economic analysis of this domination pattern and the changes it has seen over the past forty years. This analysis diverges from those offered by mainstream economists, who tend to neglect relations of power and domination due to epistemological constraints of their discipline.

The pattern of military-economic control<sup>1</sup> reflects a commonality of interests between Israel's military and economic elites: both seek to establish relations of economic dependency that would allow the IDF to control the Palestinian population and secure profits for Israeli manufacturers, employers and merchants. This pattern seeks to maintain a captive market for Israeli goods and provide a reliable supply of cheap and non-unionized labor for the Israeli employer (Grinberg, 1993). Envelopment prevents development of and investments in the Palestinian economy and blocks the import of Palestinian goods which could compete with (more expensive) Israeli products. The need to specify this peculiar exploitative pattern derives from the clear difference between it and those established by imperialist and colonialist regimes, in which there is no territorial contiguity between the occupying power and the colonized country, protecting borders and border crossings is relatively easy, and the armed forces' role is limited to controlling the local population. In such cases, the economic regime is determined and administered by civilians – the central government and colonial bureaucracy. On the other hand, given the territorial contiguity in the Israeli-Palestinian case,

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<sup>1</sup> In what follows, I distinguish between the “pattern of economic-military domination” and the “military-industrial complex” within the borders of Israel proper (that is, behind the so-called “Green Line”), which I take to refer to the economic collaboration between the Israeli security establishment and capitalists and industrial workers who profit from the Palestinians' demand for their products (Bichler and Nitzan 2001).

the military is required to play a key role –the sovereign in the so-called “territories”.<sup>2</sup> The IDF controls the external and internal borders and designs the economic envelopment regime according to the requirements of military control. In doing so, it also serves the interests of powerful Israeli groups.

The pattern of military-economic domination established in the immediate aftermath of the 1967 War and the de-facto economic annexation of the “territories” was legitimized by the May 1994 Paris Protocol signed by Israel and the newly constituted Palestinian Authority (PA). Ever since then, economists have termed this agreement a “customs union” or “custom envelope”, although it has never provided for the first prerequisite of the customs union model (based on the economic relations in the European Union): free movement of people and goods among all parts of the “unified” territories. This peculiar domination pattern is composed of the following elements: forcing the Israeli currency and customs and taxation regimes on the PA, controlling the movement of goods out of and into the “territories”, controlling the movement of people and finally, turning them into a captive market for Israeli produce. This envelopment of the borders of the West Bank and the Gaza Strip from all sides strangles the Palestinian economy and prevents it from developing, as it does not allow it to enjoy the advantage of the smaller economy in the so-called customs union – namely free market competition among Palestinian and Israeli farmers, manufacturers, merchants and workers. The ostensible advantages of the Paris Protocol have been derived from liberal and neo-liberal economic theories, which consistently disregard political and military relations of power and domination, and the ability of the powerful to force their will. In fact, however, Israeli policies are determined by economically powerful interests, and coordinated by the IDF and the security establishment in general.

Despite being well aware of the injustices inherent in these power relations, Israeli economists continue to rely on normative models designed to “solve the problem”, rather than to analyze the forces which have created and which perpetuate the problem and prevent a solution. I argue that these economists’ search for a solution misses the point, which is that many Israelis profit from the Palestinians’ ongoing dependence on Israel. While normative neo-liberal economics is obsessed with designing abstract models in which politics is supposed to stop interfering with the proper workings of the so-called “free market”, political economics analyzes power relations and struggle among social groups and organizations which depend on the state for shaping the economic field characterized by conflict, coercion and

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<sup>2</sup> Deceptively neutral, this Hebrew term in fact serves to disguise the reality of military occupation and the Palestinians’ economic dependence on Israel. As opposed to previous, more ideologically charged terms (Occupied, Liberated or Administered), “territories” is now commonly used in a way which, I argue, serves to normalize the realities of occupation. Hence the quotation marks. For a more detailed discussion of the language of occupation, see Grinberg 2005.

domination.<sup>3</sup> We therefore face a fundamental contradiction: in political economics, power relations are used to explain differences and conflicts among social groups, while normative neo-liberal economics presumes that politics and power relations among groups are obstacles that prevent free markets from functioning properly, and they are therefore neutralized or removed from the analytic framework. In what follows, I rely on the political-economic framework to analyze past relations between Israelis and Palestinians as well as to point to present and future difficulties.

Many teams of economists in the World Bank and academic institutes in the United States and Israel struggled to find solutions for the Palestinian economy in the period between the First Intifada of late 1987 and the 1993 Oslo Accords.<sup>4</sup> They meticulously analyzed the Palestinian economy's problems and potential, but ignored the main obstacle: the determination of Israel's economic and military elite to continue ruling the Palestinians. The elegant term "customs envelope" is an economic misnomer, I argue, for what may be more aptly dubbed a "strangling envelope" preventing free competition between Israelis and Palestinians. In what follows, I seek to map the interests involved in the military-economic domination pattern and its dynamics, from the establishment of this pattern in the early days of occupation to the decision to unilaterally withdraw from the Gaza Strip.

The article will discuss three periods defined by turning points in border control: the 1967 military occupation, the handing over of Palestinian towns to the PA in 1994, and the withdrawal from Gaza in 2005. The last two changes were the result of the two Intifadas which broke out in 1987 and 2000 and which undermined the pattern's stability. Until late 1987, the IDF had exclusive control of all the "territories" and the crossings within and between them and their Arab neighbors and "Israel"<sup>5</sup>. In the post-1994 period, control was shared between the IDF and the PA, so that the IDF's supervision of population movements became tighter, and the border with Israel was often closed in order to pressure the PA politically. In the third stage, after the retreat from the Gaza Strip, the IDF was no longer in direct control of that territory, but its ability to tighten its external stranglehold grew since it no longer held itself responsible for whatever was happening within it. In this dynamic of

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<sup>3</sup> This is obviously a rather general definition, and there are many others. Political economics is a broad-based discipline which has yet to be formally recognized by universities. Beginning in the 1980's, it is being studied mainly outside the economics departments, in departments of political science, international relations, history, sociology, geography, labor studies, management and social work. Its founders were Karl Marx and Max Weber. See Grinberg 1996 for an introductory discussion.

<sup>4</sup> See, for example, Fischer, Rodrik and Tuma 1993; Fischer et al. 1994; and World Bank 1993.

<sup>5</sup> Next to "territories", the geographic term "Israel" should also be quotation-marked. In this context, the term designates the internationally recognized sovereign area within the so-called "Green Line". Since the State of Israel has historically tended to blur its boundaries, I use the quotation-marked term to refer to the pre-1967 geographic entity that still exists from the point of view of international law, as well as in terms of the rules governing economic activity and the restriction of movement (of both persons and goods) between it and the "territories".

military-economic control, economic strangling envelope only grew tighter, in direct conflict with the free market model. Why then do economists continue to use the whitewashed neo-liberal jargon even for the relations with Gaza after 2005? I would like to argue that they do so not out of any conscious intent or political conviction, but due to the limited vocabulary of the economic discipline and its epistemic assumptions.

## **1967: The Establishment of Military-Economic Control**

As mentioned above, the basic pattern of Israel's domination of the "territories" became established over the first year of the occupation of the West Bank and the Gaza Strip. This pattern was the outcome of a process of bargaining between the military, who sought to rule the Palestinian population and ensure its livelihood for that purpose, Israeli employers who wanted to benefit from cheap, non-unionized labor, and Israeli manufacturers and farmers who wished to avoid competing with low-cost commodities produced in or imported into the "territories". The interests of various Israeli labor unions and pension funds have also played an important part in shaping these pattern of domination (Gazit 1985; Grinberg 1993).

The first economic moves were to impose the Israeli currency on the occupied territories and seal its borders with neighboring Arab countries and "Greater Israel"<sup>6</sup>. This was the basic envelopment, later loosened gradually to allow the passage of persons and goods under military supervision, to serve the economic interests of various Israeli stakeholders. This process attests to the basic commonality of interests between the military and the economy: the IDF wishes to supervise the borders for reasons of national security while Israeli economy, or rather powerful groups within it, seek to prevent imports of cheap commodities and facilitate the entry of cheap workers.

In addition to preventing goods from entering "Israel" through the "territories", importing goods from Arab countries into them was also prevented. As already mentioned, this policy was mainly designed to force Palestinians to buy expensive Israeli products and turn them into a captive market. To better understand this motive, we should bear the historical context in mind: the war and the institutionalization of occupation followed a severe recession in Israeli economy, which lasted from late 1965 to May 1967. No more than ten days after the guns were silenced, IDF representatives held their first meeting with leading industrialists to discuss "marketing Israeli produce in the occupied areas".<sup>7</sup> Ever since then, no discussion of Palestinian economy can ignore Israel's interest in selling goods to its captive market and the

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<sup>6</sup> The term Greater Israel refers to the military domains of the IDF, including the West Bank and Gaza Strip.

<sup>7</sup> Lavon Institute Archive, IV-204-5-64, June 26, 1967. Also quoted in *The Histadrut above All*, Grinberg 1993, p. 176 (in Hebrew).

positive balance of trade it has consistently maintained. Ever since then, anyone seeking to promote Palestinian economic sovereignty must consider its effects on the Israeli economy, since this would mean that the Palestinians could import cheaper goods from the global market. As seen below, what was necessary to end Israeli economic recession in 1967 was still necessary in 1994, when the Paris Protocol was signed, as well as in 2005, when Israel decided to deny Palestinian economic sovereignty: maintaining a captive economy isolated from neighboring markets.

In addition to the embargo on imported commodities, there was the question of marketing cheap Palestinian goods. These were mainly farm products, since industrial manufacturing was prevented by administrative means: the Military Government of the “territories” simply did not issue the required permits. The most reasonable option, therefore, was to sell Palestinian farming products in “Israel”, where farmers could obtain better prices than in Arab countries. This is where Israel’s powerful farming lobby intervened. Preventing Palestinian farmers from exporting their produce to “Israel” was subsequently achieved through the "Open Bridges Policy", which allowed them to export to Jordan (across the eponymous river). This subterfuge and the aforementioned captive market constitute the basic tenets of the strangling envelope policy stifling Palestinian economic development: Palestinians are forced to buy costly manufactured goods from Israel and to sell cheap fruits and vegetables in Jordan and other Arab countries. The Military Government offered technical assistance Palestinian farmers, but prevented industrial development, and crucially, the emergence of a class of industrial capitalists able to compete with Israeli industry.

Nevertheless, the stifled Palestinian economy was in danger of total collapse, and the occupiers feared a popular uprising. To prevent this, the IDF was required to create jobs for unemployed Palestinians, and the best way to do so was to have them employed by Israelis. Between 1968 and 1993, labor export to "Israel" became a leading industry in the Palestinian economy. Entry by Palestinian workers was legalized under pressure by the security establishment and Israeli employers, albeit not without prior bargaining with Israeli stakeholders threatened by this sudden influx of cheap labor. The move was completed with relative ease, however, as both private and unionized Israeli employers were very keen to employ Palestinians, and the Ministry of Finance sought to reduce wages in “Israel”, which had risen sharply in 1960-1965. The only stumbling block was the *Histadrut* labor union federation, which at the time was the second most powerful entity in Israel, after the IDF. Its leaders supported the government’s wish to employ Palestinians inside “Israel” since they had a business interest in employing cheap, non-unionized workers, mainly in the construction and farming sectors, where it was a central player. They were faced by relatively weaker member unions, mainly of farming and construction workers, opposed to employing non-

Israelis since this was liable to affect their pension funds. The solution was to create a joint mechanism involving the *Histadrut*, the Ministry of Security and the Ministry of Labor to jointly supervise the entry of Palestinian workers and share the tax deductions from their wages.<sup>8</sup>

Between 1967 and 1985, the Palestinian economy grew considerably although it did not develop, that is, there was no industrialization, no new technologies were introduced and the employment of skilled workers remained at low levels.<sup>9</sup> A “black” economy flourished alongside the formal economy. About half of the Palestinian workers managed to enter “Israel” unsupervised to be employed by tax-evading employers. Moreover, despite military controls, commodities managed to penetrate the Israeli market thanks to cooperation between Palestinian producers and Israeli merchants. Conversely, cooperation between Israeli producers and Palestinian merchants enabled the former to export goods disguised as Palestinian to Arab countries.

To conclude, the formal envelopment economy was forced on the Palestinians by the IDF, while the black economy was the fruit of Israeli-Palestinian cooperation. Until 1987, movement between “Israel” and the “territories” was relatively unrestricted. Military-economic domination was counterbalanced by labor exports to “Israel” and Persian Gulf countries, and the black economy. By the mid-1980’s, however, Israel and the Persian Gulf countries suffered an economic downturn, which, together with the First Intifada (largely precipitated by this crisis), led to partial reorganization of this domination pattern by the Paris Protocol.

### **1994: The Paris Protocol Legitimizes the Envelopment Policy**

Although the First Intifada (1987-1993) did not break out for purely economic reasons, its dynamism was fuelled by the economic crisis in the “territories”, and it exacerbated the economic crisis in “Israel”, until there was no alternative but to come up with an upgraded version of the envelopment model. The political background for the Intifada was the deportation of the PLO to Tunis following the Lebanon War in 1982, and the Palestinians’ sense of helplessness in view of the continued expansion of Jewish settlements in the “territories” (Kimmerling and Migdal 1999).

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<sup>8</sup> As it happened, these deductions were never transferred to the pension funds as promised, and these suffered enormous deficits due to the influx of Palestinian labor. The details of this affair remain unclear.

<sup>9</sup> The distinction between growth and development is one of the key concepts of the dependency theory. See Cardoso and Faletto 1979.

These circumstances created a political vacuum which was filled by Palestinian civil society organizations prepared to take action against Israel's military-economic domination. The struggle was led by youth organization in the refugee camps, women's groups and labor unions headed by political parties, which initiated a popular, unarmed uprising with mass demonstrations and general strikes (Nassar and Heacock 1990). Among other things, their aims were to break free of the economic dependency on Israel, and disrupt the regular movement of workers into "Israel" and the workings of the captive market. They also acted to prevent Israel from receiving Palestinian tax money. Thus, The Intifada was mainly designed to undermine the stability of Israeli military-economic domination. Its leaders emphasized the need to develop local industries, even if this should mean temporary reduction in the population's standard of living. This is why Palestinian villages and towns were closed to Israelis and, conversely, why Palestinian workers were prevented from working in "Israel". The initial military response failed to suppress the mass demonstrations. The most effective means of curbing the uprising was to tighten the controls over those seeking to work in "Israel": almost all of them became dependent on work permits; they were classified mainly by age, with more severe restrictions applied to younger workers; and anyone suspected of troublemaking was punished economically.

Within half a year, the mass demonstrations gradually subsided, while the more violent aspect of the uprising gained momentum. The strikes did not stop. The Intifada dealt a severe blow to Israeli economy, as it reduced local sales of Israeli goods as well as black exports to Arab countries, disrupted the entry of Palestinian workers into "Israel" and even affected tourism. All these exacerbated the recession which began in 1985 (Grinberg 1991). In this sense, it may be argued that one of the Intifada's key objectives was achieved. The economic crisis made many Israelis, particularly businessmen and economists rethink Israel's economic relations with the Palestinians. Israeli, Palestinian and North-American economists who realized that the envelopment policy had become obsolete, began searching for models for independent development of the Palestinian economy. Several studies examined the relative advantages of the Palestinian economy as the smaller of the two and suggested new ways of managing it in peacetime. The most comprehensive was conducted by the World Bank (1993), demonstrating how Israeli policy had deliberately prevented the Palestinian economy from developing and suggesting ways to promote development, such as foreign investments, industrial and agricultural development, and above all, reformed relations with Israel.

The two alternatives suggested for the economic envelopment were a customs union and a free trade zone. The first meant a uniform import and export policy, as well as unrestricted movement of commodities and people between "Israel" and the "territories". This policy would have enabled the Palestinians to enjoy their advantages as a smaller economy – cheaper

labor and lower commodity prices – both by free access to employment in “Israel” and by selling farming and industrial goods therein. The second alternative – free trade zone – would have enabled the Palestinians to import and export freely. Under this alternative, control of border crossings would have ensured that only goods actually produced in the “territories” would have entered “Israel”, rather than cheaper imports from across the PA’s borders with Jordan and Egypt. Compared to the first alternative, the second would have been preferable, in that it would have liberated the Palestinians of the need to buy Israeli produce and allowed them to import cheaper commodities. However, its implementation would have required the demarcation of a clear borderline, mutual control of which would have restricted the movement of commodities not produced in Israel or Palestine.

In preparation to negotiating future economic relations with the Palestinians, the Israeli government appointed a committee headed by Tel Aviv University economist Professor Haim Ben-Shahar. The committee weighed the pros and cons of the two alternatives, but only superficially, since already in the introduction to its concluding report, its members made it clear that political constraints prevented them from demarcating the border between “Israel” and the “territories”, and it was obvious that the free trade model could not be implemented without joint border controls (Ben-Shahar Committee 1993). In practice, the committee’s detailed work was designed to prove that the Palestinians would still be able to reap the advantages of being the smaller economy. However, the report glossed over the fact that without free movement of people and goods, all such advantages are lost and the economy becomes suffocated. There was also no mention of the obvious fact that any advantage offered to the Palestinians would come at the expense of Israeli producers selling to the captive market, who would now have to compete against cheaper Palestinian products. The main innovation in the agreement eventually signed in 1994 was financing the PA’s services using custom levies charged by Israel for goods imported into the area governed by the PA. However, the Paris Protocol’s main shortcoming lay in the fact that it ignored the reality of life in the “territories”, the closure policy,<sup>10</sup> and Israel’s continued control of all resources.

Beginning in 1990, the Israeli government introduced a new policy. Following terrorist attacks within “Israel”, it completely sealed its border crossings with the “territories”. In practice, this meant unilateral closure: while it prevented Palestinians from crossing the “Green Line”, Israeli citizens continued to cross unhindered. This closure policy became more permanent during the First Gulf War of 1991, when the crossings were closed throughout the War. Ever since then, Israeli governments closed the borders intermittently following terrorist attacks, during holiday periods or as a means to pressure the Palestinian population to act

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<sup>10</sup> See Roy 2001 for a discussion of the implications of the Oslo Accords and the closure policy on the Palestinian economy.

against terrorists. This state of affairs did not change and even worsened after Rabin was elected Prime Minister in 1992. When the Paris Protocol was signed in May 1994, the Palestinians were subjected to a prolonged closure, ordered immediately after the February massacre in the Cave of the Patriarchs, committed by a right-wing Jewish extremist against Muslim worshippers. There was therefore no ground for the assumption that goods and people could flow freely from the “territories” to “Israel”.

At that time, Israeli economist Zvi Zussman (1994) published a remarkable article, in which he wrote that the customs envelope is bound to fail given the existing closure conditions, and that the free trade zone alternative had better be implemented. This meant allowing a Palestinian border police to control the entry of Israeli citizens into the “territories”, an implication the Israeli government was naturally opposed to, since this would mean recognizing the “Green Line” as an international border and the PA as the sovereign beyond it. Ever since Yasser Arafat entered Gaza as PA Chairman, Israel’s actual military-economic control policy worked in direct contravention of the Paris Protocol: the IDF tightened the closures hoping that the civilians’ suffering would cause the PA to confront Hamas.

The customs union model was never implemented due to the closure policy and because Palestinian workers were replaced by immigrant workers from other countries. Nevertheless, the rhetoric arguing for the importance of free-market economy to the success of the peace process was hardly ever challenged. As could be expected, the Palestinian delegates to the economic talks in Paris demanded that a free trade zone be established, but their Israeli counterparts rejected that demand pending an agreement on the borders issue. Thus, in practice, the Paris Protocol legitimized the relations of dependency established by Israel since 1967, as well as the economic envelopment, only this time the situation on the ground was much more severe than before 1987: since 1994, free entry by Palestinian workers into “Israel” was never resumed. Moreover, the entry of Palestinian goods was restricted even further due to the closure policy, since it put an end to smuggling.

A free trade zone would require bilateral border control. In reality, the borders continued to be unilaterally controlled by Israel, allowing Israeli goods and people to cross unrestricted, and preventing the same from Palestinians. The cessation of employment in “Israel” was temporarily compensated for by investments in the PA-controlled areas, mainly in Palestinian-financed construction projects and donations by European countries, mostly spent on financing an oversized bureaucracy. Within its unilaterally controlled borders, the Palestinian economy survived with great difficulty thanks to external subsidies.

The economic situation in the “territories” took a turn for the worse since the Second Intifada broke out in 2000: economic activity shrunk, unemployment was way up, foreign investments ceased, as did employment in and trade with “Israel”, as well as tourism. In order to further

tighten its stranglehold over the Palestinian population, the IDF developed a more refined form of the closure policy: the so-called “encirclement” policy<sup>11</sup>, which meant roadblocks disconnecting Palestinians towns and villages, and cutting the West Bank off from the Gaza Strip. This drive to progressively tighten military control culminated in the decision to build the West Bank "Security Barrier" or "Separation Wall".

## **2005: Post-Withdrawal Gaza as the Epitome of Strangulation**

According to some sources, Prime Minister Ariel Sharon’s “disengagement” plan was originally designed to allow the Palestinians in the Gaza Strip (hereafter, “Gaza”) economic sovereignty. However, as in all such cases, things were not planned too thoroughly, and no team of economists was appointed to fully explore the plan’s implications. The economic issue was raised indirectly only a few months before the withdrawal, following a government discussion of the question whether to also evacuate the (IDF-codenamed) Philadelphi Route on the border between Gaza and Egypt. In this discussion Sharon argued that he intended to allow the Palestinians to build a deep-water port as well as an airport, and avoid Israeli control of goods crossing the border with Egypt in both directions, that is, to evacuate the Philadelphi Route (Benziman 2004). Indeed, had Israel recognized the Gaza borders, it could also recognize its sovereignty and let it develop the free trade zone model. Even had it not committed to a free trade zone it could at least authorize the Palestinians to determine the exchange and customs rates themselves, so as to be able to import cheaper commodities.

At this point, however, conservative interests acted in a way that maintained the existing situation and even aggravated it, due to the inherent contradiction between the withdrawal and the IDF’s continued control of the West Bank. Not unexpectedly, the conservative view was represented by the Israeli Manufacturers’ Association and Chambers of Commerce Federation, backed by several ministries, mainly the Ministries of Finance and Industry, Trade and Labor. Together, they argued that the Paris Protocol must be upheld and that the State of Israel must continue controlling imports into Gaza, or else commodities would find their way there in contravention of Israeli law, only to be smuggled into “Israel” (Shelah 2005). The conservative actors were also keenly aware of the danger of “decaptivating” the market for Israeli goods.

The dispute was partially resolved in November 2005 by an agreement brokered by North-American and World Bank representatives. This agreement allowed people to cross the border between Gaza and Egypt subject to international control, and required Israel to open the so-

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<sup>11</sup> A Hebrew neologism coined for that purpose.

called “open crossing” between Gaza and the West Bank, as well as to allow free movement of goods in two other crossings. Nevertheless, the agreement also stipulated that goods imported from Egypt would have to cross into “Israel” through a different crossing intended for that purpose. In practice, this crossing was never opened because the Palestinians rejected the arrangement. Moreover, following increased rocket attacks by Hamas and the abduction of Israeli soldier Gilad Shalit in June 2006, the other crossings were intermittently closed. Finally, after Hamas took over Gaza, Israel stopped transferring custom levies to the PA, and the countries contributing money to the PA also dramatically reduced their money transfers. The continued envelopment of the “territories” is due not only to Israeli interests, however, but also to Palestinian weakness. This was demonstrated by the PA’s position towards the disengagement plan and its conservative tendencies, a byproduct of its absolute dependence on Israel. Like Israel, the PA sought to uphold the Paris Protocol, despite the World Bank’s recommendation to establish a free trade zone in view of its undeniable advantages.<sup>12</sup> The PA’s refusal to create a free trade zone was due to its fear that this would lead to the establishment of a “mini-state” in Gaza, facilitating the ultimate annexation of the West Bank by Israel. It was also due to the infeasibility of two contradictory economic regimes in the West Bank and Gaza, assuming free economic contacts between the two regions. The PA’s position was due not only to its weakness, but also to its basic assumption that Israel would be forced to open the “open crossing” and allow Palestinians to work inside “Israel”, as well as sell goods produced in Gaza within “Israel”.

Recent developments following the withdrawal attest to the Palestinian conundrum. Israel was able to evacuate Gaza thanks to the presence of a clearly marked and recognized border between the two, and Israel’s lack of territorial claims on Gaza, as well as its unwillingness to continue running the daily lives of the local Palestinians, risking its soldiers’ lives in the process. All that would never suffice to secure Palestinian sovereignty, if only economic, as long as Israel continues to rule the West Bank, crave (part of) its territory and exploit its captive market. The Palestinians depend on Israel for labor, but Israeli employers are no longer interested in Palestinian workers as they are now permitted to import cheaper and even more docile workers from faraway developing countries. Under these circumstances, the situation in Gaza – with its easily controlled border – is much more severe than in the West Bank, where workers and commodities still manage to cross into “Israel”. If Israel manages to complete the "Separation Wall" now under construction and seal the West Bank as well, total envelopment will extend also to this, completing Israel’s stranglehold over the “territories”.

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<sup>12</sup> In an interview with economic analyst Sever Plotzker, former World Bank President James D. Wolfensohn warned against the aftermath of the disengagement: “Gaza is nonviable as an independent isolated economy... [Under such conditions,] there would be no commerce and no export, and Gaza would suffocate”. (Plotzker 2005)

## Conclusion

The fundamental problems in the relations between Israelis and Palestinians have not changed since the early days of Zionist colonization: the economic gap between the Jewish immigrants and the local Arab population, and the differential prices of their labor and products. These have always threatened the Jewish community due the potential advantage of the Palestinian economy as the smaller of the two. Awareness of this threat has shaped the Zionist political economy, which accordingly took steps – long before the establishment of the State of Israel – to protect various Jewish stakeholders against the development of a joint political economy. From its earliest days, Israeli economy has thus been dependent on institutional control and separation of Palestinians, preventing free competition. Prior to Israel's independence, it was the labor movement which protected Jewish employment through institutional control of the economy. Since 1948, the IDF has been the main protector of Jewish employment by controlling the borders between Israel and its neighbors, preventing the return of Palestinian refugees and keeping the Palestinian population within Israel separate through the Military Government.<sup>13</sup> Beginning in 1967, Israel developed a system for eating the cake and having it too: Israeli employers reap the benefit of cheap labor while farmers and manufacturers enjoy a captive market, totally unexposed to competition with Palestinian producers. This requires tight control of the “territories”. This is the army's job, and what legitimizes this military-economic control is called “national security”.

The First Intifada was precipitated by an economic crisis in Israel and the Persian Gulf countries, as well as a political crisis in the PLO and Israel. Its main objective, in any case, was to put an end to the dependence of Palestinian economy on Israel. The Oslo Accords and Paris Protocol, ostensibly designed for that purpose, actually made matters worse. Pending Israeli recognition of the 1967 borders, the existing “customs envelope” persisted, but combined with the IDF's closure policy, the envelopment became more effective than ever in controlling the movement of Palestinian people and goods. On top of it all, Israel reduced the number of work permits for Palestinians and replaced them with even cheaper immigrant workers.

The World Bank and other economic organizations intent on promoting peace in the region have been suggesting models and solutions that could have succeeded had it not been for the vested interests of so many powerful Israeli groups to continue profiting from the envelopment strangling the Palestinians. All neo-liberal models which explain how the

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<sup>13</sup> Beginning in 1948, all Palestinians living in Israel were subjected to severe limitations, including on movement to and from their villages. These were gradually eased until the system was finally abandoned in 1966.

Palestinian economy ought to be run are completely out of touch with reality so long as they do not criticize Israel's motives for letting this situation persist. It is Israel's military, economic and political power which denies the Palestinians their sovereignty, without which the Palestinian economy is doomed. The present free-market discourse in Israel is therefore as relevant as the democratic discourse in the United States prior to the Emancipation Proclamation, as it presupposes total disregard of facts that do not fit. This is a consistent tendency of neo-liberal economics.

English version by: Ami Asher

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