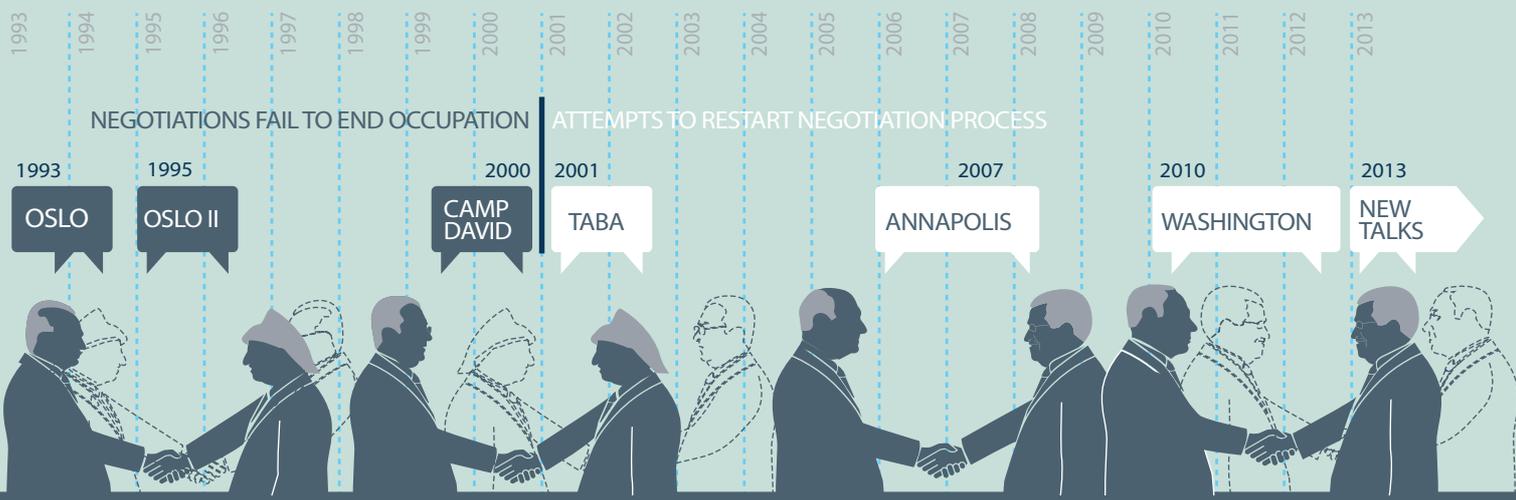


PERSPECTIVES

Political Analyses and Commentary from the Middle East & North Africa



20 Years Since Oslo: Palestinian Perspectives

Palestine's Private Sector: Two Decades of Disappointment



In an attempt to restart stalled Palestinian-Israeli peace talks and after a flurry of shuttle diplomacy between Israel, Palestine, Jordan and the United States, US Secretary of State John Kerry dropped the first bombshell, or I would rather say, set up the first layer of smoke and mirrors: He announced at the World Economic Forum that was held in Jordan in May 2013 that he was aiming for global business leaders to mobilize \$4 billion USD of investment in Palestine over the next three years. This investment is to spark life in the strangulated Palestinian economy while encouraging international efforts to revive Israeli-Palestinian peace talks. “It is time to put in place a new model of development ... that is bigger and

bolder than anything proposed since the Oslo Accord,” he said.

Raging applause was heard from all corners of the globe for this Marshall Plan-like announcement, even though the plan itself was no plan at all; it was merely a few sentences in an impassioned speech. The one place that applause was barely heard and a collective yawn filled the air was the Palestinian private sector. We have heard it all before – grand economic plans, global investments, double-digit growth, economic peace, and so much more. The only problem with all this positive talk is that the reality on the ground, dictated by a four-decade old, entrenched Israeli military occupation, is not being addressed; instead, the dumping of more

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funds in Palestine is highlighted and placed in the context of a final peace deal.

The Palestinian private sector knows only too well, today, that for Palestinian economic development to gain traction does not require billions, or even millions. For Palestine's economy to stand on its own two feet and serve the emerging Palestinian state, what is required is that third states, the US at the forefront, have the political will to act in holding Israel accountable for its daily violations of international law. Here, in addition to human rights, we speak of economic rights too: Our rights to our economic assets and to be able to employ them within a Palestinian-defined economic development plan, free from Israeli or donor agendas.

The Quartet

Still fresh in everyone's minds is the failure of the last two people who attempted to kick-start the Palestinian economy outside of the context of ending Israeli military occupation: Former World Bank President James Wolfensohn and Britain's former prime minister, Tony Blair. Both took the position of Special Envoy to the US-manipulated Quartet.

Wolfensohn was a person of international stature, untainted by the Iraq war fiasco (unlike his successor, Blair). Practical and hands-on, he entered the conflict in May 2005 on an evangelical-like mission to break the historic stalemate, using Israel's Unilateral Disengagement from Gaza as the backdrop, and get things moving towards reviving the Palestinian economy. It took Israel only a year to frustrate and marginalize Wolfensohn, which led to his resignation in humiliation. He later stated in an interview with *Haaretz* ("All the Dreams We Had Are Now Gone" by Shahar Smooha, July 19, 2007) that none other than the US administration thwarted his efforts.

Tony Blair filled the Quartet's Special Envoy position next, ignoring the public advice of his predecessor, Wolfensohn. Blair could not have

picked a bigger challenge or a more volatile conflict at a more sensitive time. His path forward has been marked by big statements, dozens of public appearances, and little economic progress. Unlike Wolfensohn, who knew it was time to step down if the party monopolizing the process was not serious in holding Israel accountable, Mr. Blair not only remains in his position, but was picked as a key agent to undertake Secretary Kerry's \$4 billion challenge. During Secretary Kerry's initial announcement in Jordan, he noted:

"The preliminary results already reported to me by Prime Minister Blair and by the folks working with him are stunning: These experts believe that we can increase the Palestinian GDP by as much as 50 percent over three years. Their most optimistic estimates foresee enough new jobs to cut unemployment by nearly two-thirds – to eight percent, down from 21 percent today – and to increase the median annual wage along with it, by as much as 40 percent."

Structural Dependency

From the start of the Israeli military occupation of the West Bank and Gaza Strip over 46 years ago, Israel systematically linked the occupied territory's economy to its own. Before the Oslo Peace Accords, this forced linkage was most apparent in Israel's restriction of Palestinian business and its control of the freedom of movement of Palestinian labor. For nearly a decade prior to Oslo, Israel issued work permits to tens of thousands of Palestinian workers to allow them to enter Israel to find work. Palestinian labor was found in Israeli construction, agriculture, hotels and the like. Dealt with as a second class labor force, Palestinian laborers were exposed to working conditions that allowed Israeli businesses to benefit from offering lower wages without having to stringently apply Israeli Labor Law. Many Palestinian workers even found themselves building the illegal Israeli settlements that were threatening the sheer existence of Palestinian

communities. For Palestinians, being able to work, anywhere, while under Israeli occupation, was a matter of survival. For many, it still is.

The Israeli occupation authorities also levied taxes on the occupied people and used a portion of these taxes to flood the Palestinian areas with Israeli made infrastructure and goods. This created further Palestinian dependence on the occupier's economy.

Contrary to the obligations embedded in the Fourth Geneva Convention of 1949, the signatories of this key Convention – the US, UK and Russia (previously the USSR) included – allowed Israel, the occupying force, to create a structural economic Palestinian dependency, while at the same time applying a maze of restrictions on the Palestinian ability to become economically viable. Instead of demanding that Israel apply international law, these countries and others continued only reporting, year after year, these Israeli violations of international law, while simultaneously footing most of the costs of occupation.

Underwriting Occupation

When the Oslo Peace Accords were signed in 1993, an economic arrangement followed called the Paris Economic Protocol (signed in Paris on May 4th, 1994 and later incorporated into the Oslo II Accord, formally known as the Interim Agreement on the West Bank and the Gaza Strip of September 28th, 1995). Just as the Oslo agreement itself kept intact the ultimate Israeli control over all key aspects of Palestinian life, the Paris Economic Protocol institutionalized the occupier's economic interest in this bilateral agreement with the Palestinians.

After the Oslo agreements, state donors' role in funding Palestinians' "development" turned into an international underwriting of the Israeli occupation, reducing, and many times removing, the financial costs of military occupation from Israel. In short, knowingly or not, donor funding

had an accomplice-type role in allowing the situation to reach the place it is in today.

For the most part, the Palestinian private sector is a recent phenomenon. From 1967 until the Oslo agreements, the business community was nascent and deeply connected with Israeli suppliers – the only ones Israel would allow to have direct contact with the Palestinians. The number of private Palestinian companies was low and there was little business expertise. Export-focused thinking was non-existent, given Israeli restrictions and constraints. Nevertheless, the seeds of the locally grown private sector, which was able to maintain itself while the entire world was turning a blind eye, became the foundation on which the contemporary Palestinian business community was built.

Making the Best Out of It

With the advent of the Oslo Peace Accords, the Palestinian private sector took on a new dynamic, and one that was much more complex. A handful of investment firms was established that facilitated a flow of capital into the economy. With the newly created hope that the Oslo process was going to result in the end of Israeli military occupation, many Palestinians from all corners of the world came to Palestine to work, injecting new skills and expertise in the market. This new professional class was global in scope and diverse in know-how, since its skills came from all four corners of the globe, where the Palestinian Diaspora is scattered. However, throughout the entire Oslo period and to this very moment, Israel remains in total control of the borders and, as such, is able to micromanage Palestinian firms' access to external and internal (like those between Gaza, the West Bank, East Jerusalem and inside Israel) human resources. Palestinian refugees in neighboring Arab countries remain prohibited from entering the occupied territory, as are the majority of Palestinians from the Arab world.

As new, private sector firms began to be established after the Oslo agreement came into

effect – the first Palestinian telecommunications company, new hotels and an information technology sector – Palestinian students began focusing on the new skill sets that they needed to be absorbed in the changing domestic labor market. The Palestinian economy, though tiny, was a rapidly shifting economy, moving from traditional practices to modern ones and, more damagingly, from an agricultural base to a service sector and export-oriented one.

As firms started to realize that they had common interests and concerns, especially with regards to dealing with the newly formed Palestinian Authority as well as the continued Israeli structural constraints that were still being applied, trade associations started to be formed. The majority of these associations were created in a dynamic that merged existing, local sector players and know-how with the Diaspora newcomers that came from a different vantage point to economic development. Yet other associations brought firms and people together for the first time to establish brand new sectors in Palestine, such as the Palestinian Information Technology Association (PITA). All of this redefined the Palestinian focus on economic development and enriched the engagement of these sectors with the local environment, as well as the dynamic of donor interventions which were driving the bulk of business activity.

Separation

Although donor money fuelled the Palestinian economy, at no time did donors view the development of the private sector as the highest priority in building a viable Palestinian society. Donors assisted in the creation of sector associations and provided a certain level of assistance, but a strategic approach to the private sector never materialized. Many in the international community were quick to criticize the growing number of Palestinian public sector workers, but few, if any, had the foresight to see that a strong Palestinian private sector was the only way to provide an alternative to public employment. Those who did realize

this ignored it for the most part, since it would mean challenging the Israeli occupation and the restrictions placed on the Palestinian economy that come with it.

The international community collectively and closely followed the Israeli adoption of a policy of separation, which was publicly declared in a speech by former Israeli Prime Minister Ariel Sharon, made at the Herzliya Conference on the 18th of December 2003: “If there is no progress

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toward peace in a matter of months, then Israel will initiate the unilateral security step to disengage from the Palestinians.” This unilateral separation policy immediately materialized in a drastic reduction of Palestinian labor allowed into Israel, from more than 160,000 in the early 1990s to nearly 20,000 in 2003. Israeli officials also publicly announced that they intended to reduce the number of Palestinian workers allowed into Israel to zero by 2008. This never materialized, since Palestinian labor is a desired commodity in the Israeli business world, especially in sectors like construction, agriculture, and services.

While the most visible indication that Israel was strategically changing gears was the acceleration in the building of the Separation Barrier on West Bank land, there were realistic fears that the separation concept would soon materialize in many other areas such as health, trade, banking services, telecommunications, transportation and many others. With a policy of segregation at play, it was, and is, Israel, first and foremost, who decides at what pace the Palestinian private sector will grow or collapse. With the absence of any strategic alternatives, the unilateral Israeli implementation of separation

further pushed the nascent, but already exhausted, Palestinian private sector closer to collapse, first in the Gaza Strip and later, to a lesser extent, in the West Bank. The Palestinian economy in Jerusalem has been under severe attack even before the Oslo Accords were announced, and the separation policy only accelerated an already failing economy there.

All the while Israel was going forward with its unilateral separation plans and illegal settlement enterprise, which damaged the Palestinian private sector severely. Being, for the most part, dealt out of the developmental paradigm, the Palestinian private sector was left on its own to deal with the Israeli restrictions on Palestinian society. After being structurally linked to the Israeli market for decades, Israel's decision to unilaterally separate, or "disengage" as it was called, from the Palestinians came at a time of instability. The elimination of Palestinian labor that was employed in Israel increased the unemployment rate in the West Bank and Gaza overnight. The Separation Wall's land grab separated farmers from their lands, causing great strain on Palestinian agriculture. The Israeli military and political actions to weaken the nascent Palestinian central "government" left the economy in freefall.

With security and economic conditions becoming intolerable, Palestinian emigration, or desire thereof, peaked. Palestinians held parliamentary elections in hopes of getting things back on track. In response to the election results, Israel installed a policy of denying entry to foreign nationals, Palestinians and otherwise, that forced many skilled workers out of the country and struck a severe blow to the education sector in particular, which employed many foreign nationals. The list of Israeli policies to weaken Palestinian society goes on and on, but all with a clear purpose: To stunt Palestinian development and prohibit Palestinian steadfastness, economic and otherwise.

Donor Funds

The international community needs to understand a key lesson from the multiple failures of Oslo: That the Palestinian private sector's role in sustainable development is not a side show, but rather the only concrete platform that can create a viable Palestinian society. Likewise, any serious economic development cannot happen under military occupation. Thus, linking Palestinian economic development to some far-off goal of an end of conflict deal is not only a failing strategy, but allows the status quo of Israel causing more structural damage to the Palestinian economy to continue unabated.

On average, donors annually injected \$350-450 million into the Palestinian Authority from 1994-2000. From 2001-2007, the amount averaged about \$650 million annually. This amounts to over \$7 billion, more per capita than any place in the world except for Israel, which is heavily subsidized by the US. Of those funds, it is estimated that less than five percent were invested in private sector development. Even with this meager donor support, the private sector has repeatedly proved its stamina and resilience in the face of crisis.

In addition to donor funds, the private Palestinian banking sector is sitting on over \$7 billion of deposits, unable to fully engage them in the marketplace due to the high market risk associated with Israeli military occupation, characterized by restrictions on movement, access and economic resources, and brute military destruction.

That noted, Palestinian private sector achievements, albeit modest, can be found in different sectors, and many seeds of a stable economy have been planted, but now need nurturing. Productive economic sectors have been organized (but stifled by the occupation from acting in any meaningful way), firms are now experts in crisis management, and a greater understanding of the limitations of economic growth while still under Israeli occupation has

been internalized. The Palestinian private sector knows exactly what needs to be done, and on the top of every list is the end of Israel's military occupation – not the reshaping or rebranding of occupation, but its removal.

Viability

The word “viable” has been used and abused in trying to define what a Palestinian state should be. Even in the U.S. administration's newfound interest in realizing a Palestinian state, one continues to hear the requirement for it to be “viable,” but what does “viable” mean to Palestine? The viability of any future Palestinian economy must come within the context of a sustainable private sector, one that can create sustainable job opportunities, develop competitive products and services for the local market first and then for the export market. The Palestinian private sector must be able to absorb Palestinian university graduates in a knowledge-based thrust in our economy, while also absorbing the tens of thousands of construction workers that Israel dumped into unemployment after forcing them to be linked to the Israeli economy for decades. Similarly, a viable Palestinian economy must be able to feed itself, which requires land and water resources to be free from Israel's control.

Viable development must be seen through different lenses than those of relief. Even the World Bank, in its report, “Fiscal Challenges and Long Term Economic Costs” stated:

“...much greater attention must be given to the removal of obstacles to allow real Palestinian private sector-led growth. The Oslo Accords of 1993 anticipated an arrangement that would last for a five-year interim period during which a permanent agreement would be negotiated. They did not anticipate the lack of forward movement on the political process that has been experienced with its concomitant economic effects. This so called status quo belies a process whereby the continuation of restrictions

and the absence of real opportunities to open up the Palestinian economy are actually having a lasting negative impact on its overall competitiveness. While some of the costs imposed by the current situation are transitory and could be expected to disappear with a peace agreement, others are posed to remain and are likely to require significant time and financial resources to be remedied.”

Likewise, in a report by the United Nations Country Team in occupied Palestinian territory in August 2012 entitled, “Gaza in 2020: A Liveable

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Place?” the UN describes the horrible situation of Gaza's economy and environment under the siege and questions if Gaza will even be livable by 2020. In other words, deep structural damage is being wrought on the Palestinian economy by maintaining the status quo.

Unfortunately however, internal Palestinian politics are often being put in the limelight as if the continued Israeli military occupation is an innocent bystander in creating the conditions for Palestinian social collapse.

The international community has an historic responsibility to Palestinians, especially after so many years of observing the Israeli occupation from afar and a decade of footing the bill as Israeli violations continue unabated. The challenge today is to remove Israeli military occupation and allow the Palestinian private sector to assume its natural role of becoming the foundation of a future state.