

Economic and political development under demi-sovereignty: the West Bank



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Recently I spent some days in the West Bank. I had not been to any of the territory once known as the Levant, between Anatolia and Egypt. But my research on economic and political development – or as Adam Smith would have said, the wealth of nations – has entailed long-term field-work in places from Pitcairn Island to Italy, India, South Korea, Taiwan and more. In these places I studied institutions and their incumbents, for tasks ranging from village-level management of common property resources (like irrigation and grazing) to the state-level implementation of industrial and technology policy. I encountered the West Bank at the invitation of the Kenyon Institute, which arranges visits by British-based academics. I gave several lectures, interviewed governmental and non-governmental officials and owners of small factories, and travelled across much of the territory. I was struck by the effects of the Israeli control system on conditions of Palestinian life at the capillary level, below the level of feuds and negotiations at the top. This is a reflection on my experience.

Israel is one of the great success stories of economic development. If at a stretch it is classed as “non-western”, it joins a very short list of non-western countries which have become “developed” over the past two centuries since the Industrial Revolution. The total is less than ten. Israel’s current population of eight million has one of the highest life expectancies in the world; and its Human Development Index score puts it well into the category of “very highly developed” (though its income and wealth distribution is amongst the most unequal of the developed countries). It joined the OECD in 2010. The achievement is all the more impressive given that the state came into existence as recently as 1948.

This essay is about a dark side to the Israeli experience: its control system over the lives of Palestinians in the West Bank. Before I arrived I had read about the system. One of the most eloquent accounts is by Ari Shavit in his recent book, *My Promised Land*: “The miracle is based on denial.... Bulldozers razed Palestinian villages, warrants confiscated Palestinian land, laws revoked Palestinians’ citizenship and annulled their homeland”.^[1] But reading about it is one thing; encountering it at first hand is quite another.

In November 2013, the Israeli foreign minister, **Avigdor Lieberman** said: “We can talk seriously about a political settlement with the Palestinians when their per capita GDP reaches \$10,000 – not a day before that” (because only then will Palestinians have enough at stake genuinely to want peace). ^[2] Yet as I shall suggest, the Israeli control system ensures that a West Bank average income of anything close to \$10,000 is an impossible target.

Population and income

First, an overview of the big numbers. In the combined territory of Israel plus Palestine, the population of Israeli Jews is just over six million, of whom about half a million live in East Jerusalem or settlements in the West Bank. The population of Palestinian Arabs is about six million, of whom some 2.7 million live in the West Bank, 1.7 million in Gaza and 1.7 million in Israel. So the ratio of Palestinian Arabs to Israeli Jews in the combined territory is 49.8: 50.2. However, two qualifications have to be made. First, the population of Palestinian Arabs living as refugees is estimated at 6.8 million, bringing the number of Palestinian Arabs to nearly 13 million. Second, within the borders of Israel plus Palestine, the Arabs in the four territories where Arabs



live (West Bank, Gaza, East Jerusalem and Israel) have little exchange with one another; they are in no sense a unit.

The West Bank's population of 2.7 million is around a third the size of Israel's (including Arabs), but has a much higher birthrate (though the birthrate among Jewish settlers in the West Bank and East Jerusalem is even higher).

Average income of Jewish Israelis (at market exchange rates) is around \$40,000; that of Arab Israelis, \$13,000; that of West Bankers, \$3700, and less in Gaza.

At the end of the Second World War, Jews accounted for about 34 per cent of the population of historic or British Mandate Palestine, Arabs 66 per cent; the average income of the Jews was about twice that of Arabs. Today, the population ratio is almost 50:50; the average income of Jews is about 11 times that of West Bankers. Few places in the world have a long land border with such a large average income disparity between the two sides.

Encounters with restricted people

Walking through the souk or market in Hebron's old city was a memorable first-hand experience: the place was eerily empty, with almost no people or goods to be seen. Then I noticed netting strung over the street, and looking up towards the bright blue sky was puzzled to see garbage strewn above the netting. My hosts explained that Israeli "settlers" had occupied apartments of departed Palestinians above the souk, or built new apartments on top of the Palestinians'; and from this vantage point had taken to tossing their garbage on to the heads of passing Palestinians below. Hence the netting. I was told that a minister in the Palestinian Authority (as close as the West Bank has to a government) recently had a chamber pot emptied on top of her as she walked below.

The souk was like a ghost town, my hosts explained, because the Israeli government had closed off just about all access points to Palestinians, so as to ensure that the Israeli settlers could enter and leave the city by dedicated routes which avoided all contact with Palestinians. The main way in to the market had a revolving steel gate with an Israeli soldier on hand to allow access, or not. As we passed through, two men on one side had a stack of cartons of canned goods on a trolley; they lifted the cartons one by one high up over the top of the barrier, into the hands of two men on the other side, who lowered them onto their trolley, ready to move elsewhere. Think of the transaction costs of shifting those canned goods a couple of metres through the checkpoint.

Next day, on a dusty dirt road outside of the city of Nablus, with the Israeli security fence on one side and an olive grove on the other, I encountered two farmer brothers walking towards the town some three kilometres away, where they lived. They had been working on their (ancestral) land on the Israeli side of the fence. They explained that the Israelis manned a gate closer to the town, but opened it for only one hour in early morning, one hour at midday, and one hour in late afternoon. Whenever they wanted to go or leave the land outside of these slots they walked or sometimes tracted several kilometres to the next gate, which had more extended opening hours. But the gate did not give them open access, even during open hours, for they also each needed a permit to cross the fence. The permits didn't last long. The period varied but was commonly about two months. Then they had to apply for another permit, which could take weeks. Last year they applied for a permit to cover the vital period of harvesting their greenhouse tomatoes, their main source of income. The permit took 40 days to arrive, by which time the crop had rotted. They had two more brothers who were not allowed to cross the fence under any circumstances, because years before they had been jailed for protesting Israeli rule.

On to a nearby herder community, where fifty households tend several thousand head of sheep and goats on barren land. Herders are the poorest of the poor. Electric power lines run overhead, water and sanitation pipes run below, but they are not allowed access to electricity, water and

sanitation. They buy water from an Israeli-owned water depot some distance away. They can pay for an Israeli-owned tanker to bring water to their cistern; but it is – or was – cheaper for them to tractor their own water container to the depot, fill it, and pull it back home. In 2008 Israeli authorities confiscated their water container, saying it did not meet standards. Now they pay the extra for Israeli-owned tanker delivery.

The Palestine Hydrology Group, an NGO, has been working for the past 20 years to improve water and sanitation facilities throughout the West Bank. The Nablus office has provided toilet facilities to some fifty poorer communities, including to this settlement of herders. In Israeli eyes the toilets are illegal, because erected without a permit. The PHG knows from experience that the chances of getting a permit are practically zero. So, backed by Spanish aid, it built quickly collapsible toilet cabins. With just a few minutes' notice the components can be spirited out of sight and re-erected when the soldiers are gone.[3] In Area C of the West Bank (more than 60 percent of the area) it is even illegal to rehabilitate a failing water cistern without a permit – which again the Israeli authorities rarely give. The same reason explains why neither the herders nor other communities get electricity from abundant solar energy: solar panels would require a permit.

Worse, the same restrictions mean that areas A and B of the West Bank (comprising 40 percent of the area), where Palestinians have larger scope for self-government, cannot be connected to scale-efficient infrastructure networks (for electricity and water, for example). A and B areas are fragmented into small enclaves each surrounded by area C land, where such infrastructure projects require rarely given Israeli permits. This too greatly increases the cost of infrastructure services and restricts their supply to most of the West Bank population.

Restrictions on telecommunications

At the other end of the socio-economic ladder, I spoke to a senior Palestinian telecommunications executive. He related that the Oslo Accords explicitly said that the West Bank administration had the right to establish “separate and independent [from Israel] telecommunication networks”. What happened subsequently shows how Israel occupies not only land and water but also the airwaves. (The Oslo Accords of 1993, between the Israeli government and the Palestine Liberation Organization, set the framework for the governance of the Occupied Territories.)

The fine print said that Israel would allocate (or not) frequencies for the Palestinians – and frequencies are the key to telecommunications. Unsurprisingly given the enveloping structure of rule, the Israeli government has not allocated anything like the needed frequencies to the Palestinian side. This restriction results in the cost of building networks in Palestine being three times higher than they otherwise would be. Moreover, for all that mobile phones are ubiquitous, Palestinians' are “dumb” phones, unable to access email; because Israel has not allocated the frequencies needed for 3G (for “security” reasons). Israel has allocated 3G frequencies to Israeli companies for serving West Bank settlers and for giving seamless telecommunication access to Israeli citizens moving about the West Bank.

The telecommunication restrictions do not end there. Telecommunications equipment can only be imported through Israeli ports. At customs the equipment may be held up not just months but years. Several years ago the Palestinian telecommunication agency imported equipment from Ericsson, identical to Ericsson equipment imported at the same time by Israel. The Israeli equipment passed through customs in two weeks; the Palestinian equipment was held up two years for “security checks”, all the time paying daily storage fees. Moreover, Israel also sets the standards for the equipment allowed to be imported into Palestine – and insists on the same equipment standards as for Israel, despite Palestine's average income being one eleventh that of Israel's.



Restrictions on international trade

Israel systematically blocks Palestinian external trade with other countries (70 per cent of the West Bank's exports are sold in Israel). The only alternatives to Israel's ports are two land bridges to Jordan. Israel often closes one of them, and the other is often choked by insufficient infrastructure. Israel levies murky forms of protection against Palestinian products, such as health and safety standards that Palestinian producers cannot comply with. Israeli law requires a wide range of products, including pharmaceuticals, to be certified before entering Israel; but Israeli security law also typically prohibits Israeli citizens from performing inspections in the Palestinian territories. Palestinian products subject to these rules therefore cannot be sold to the Israeli market, because they cannot be inspected by Israelis before entering Israel.

Israel has blocked Palestine's bids for membership of the World Trade Organisation, despite EU support and US non-objection, so Palestine cannot bring complaints against Israel's restrictions on its exports to the WTO dispute settlement mechanism. So on the one hand, Israel is unconstrained by WTO rules in its dealings with Palestinian trade. On the other hand, the Palestinian economy bears the brunt of the free trade policies – unrestricted imports – instituted by the Palestinian Authority in compliance with the rules of the customs union with Israel and with the prescriptions of the World Bank and IMF. [4]

No surprise, then, that Palestine's exports have steadily declined over the past two decades as a share of GDP. One need not believe in free international trade as a magic solution to see that Israel's restrictions on Palestine's international trade – even with Israel – are a major obstacle to Palestine's economic development. Above all, they block the learning effects and scale economies that often come from being able to access the large demand of international markets.

Restrictions on government revenue, and on universities

Around 70 percent of the revenue of the Palestinian Authority comes from customs and other fees collected by the Israelis on behalf of the Authority. The Israelis take a sizable collection fee and pass on the balance – or not. If some Palestinians behave badly in Israeli eyes, such as strike back against the occupation or press for membership of international organizations, they may hold back the revenue, starving the Authority of funds and making it difficult to provide even minimal public services. They have done so many times over the years, creating periodic financial crises which threaten the continued existence of the Palestinian Authority and erode public confidence in its governance.

Universities on the West Bank can employ visiting academics from outside Palestine usually for only one month before a permit is required — which may take years to arrive. It is widely said among the Palestinian elite that the quality of university education is deteriorating. To get a quality university education young people must leave, but few have the resources to do so.

Industrial non-development

Everywhere I went I met despair about the Palestinian Authority and its effectiveness, even allowing for the tight Israeli constraints. People describe it as an organization where heads of departments appointed by cronyistic criteria busy themselves with their own more or less private affairs while in office and pay little attention to what their subordinates are doing or not doing. Some 70 percent of the revenues of the Palestinian Authority go on salaries to public officials. Members of parliament, ministers and president pay themselves extremely generously compared to average income: the average salary of these officials compared to average GDP is around 24, one of the highest ratios in the world, compared to Lebanon at 15, Bolivia, 10, Saudi Arabia 5, USA, 5, Norway, 2.[5]

I visited a factory making high-end shoes in Hebron and a soap factory in Nablus. They are both supply- rather than demand-constrained; they could sell more, mainly for export, if they produced more (though in the case of the shoe factory this would entail an increase in imports of materials, with all the transaction costs that would incur). But the factories are a mess, evoking the world of Dickens' mid nineteenth century London, in bad need of modernization not just of equipment (which would have to be imported) but even just in basic layout, storage of materials, cleanliness and lighting.

The industrial engineers of Taiwan's Industrial Development Bureau, which I studied in the 1980s for my book *Governing the Market*,^[6] were required by their job description to spend at least several days a month visiting factories within the purview of their sector team, coaching factory owners and managers on improving production layout, investing in new equipment, exploring links with foreign-invested firms in Taiwan, finding export markets. Industrial Development Bureau coaching or nudging at the factory level was going on year after year, decade after decade.

I asked the shoe factory and soap factory owners whether they had received any visits or support from officials of the Palestinian Authority. They said not. I asked a senior official whether the Authority had any such industrial development coaching or extension service. Yes, he said, we have PalTrade (a trade promotion agency). I pointed out that what I had in mind was quite different from trade promotion. Well, he said, we have a Labor Ministry which looks after work conditions in factories.

His response illustrates what happens when a state is barely able to support itself, constantly at the mercy of its neighbor's willingness to hand over its due revenue and to allow imports and exports. No state so constrained can sustain a strategy of development, and it is no wonder that – especially given the huge remuneration payouts they give themselves relative to the average income – many PA officials and ministers become focused above all on survival, survival of themselves in elite positions and survival of the structure of power from which they and their families benefit. Then the Washington-London-Brussels Consensus — that market liberalization is the route to development — can be used to sprinkle justification on passivity. The fact that Chinese textile makers in China can profitably sell the classic Palestinian scarves (keffiyehs) made famous by Yassar Arafat for only 10 shekel, undercutting Palestinian-made cotton versions at 25 shekel, can be interpreted as a simple gain for consumer welfare; with the hope, inspired by the theory of comparative advantage, that redundant textile workers will find employment in higher value-added activities elsewhere. It is not happening. Unemployment is high and rising, especially among youth – the most volatile and fastest growing segment of the population.

Having spent time with a highly motivated official from the Palestine Hydrology Group, I wondered whether an NGO might be able to recruit several dozen engineers with expertise in industrial processes to staff up an agency to provide the kind of coaching supplied by Taiwan's Industrial Development Bureau. But while it might solve the motivation problem, the drawback is that it would have no direct influence over government policy, including to induce a more entrepreneurial Palestinian state.

The structure and logic of restrictions

The restrictions that the Israeli state imposes on Palestinians in the West Bank are most visible in the Wall and security fence, which divides the whole length of the West Bank, including deep intrusions to annex additional land for Israel. But as we have seen, the restrictions penetrate deeply into the micro details of Palestinian everyday lives, including the movement of people within the West Bank, the import and export of goods and services, investments, education, and access to basic infrastructure (electricity, water, sanitation). They are so pervasive and systematic that it almost seems as if the Israeli state has mapped the entire Palestinian economy in terms of input-output relations, right down to the level of the individual, the household, the small firm, the



large firm, the school, the university, so as to find all possible choke points, which Israeli officials can tighten or loosen at will.

Palestinians see signs of the flourishing Israeli life everyday on the other side of the wall or fence, in the well-maintained roads, the expensive cars, the affluent settlements with their bright green lawns in the otherwise arid landscape. Prompted by absolute and relative deprivation, more and more of them will hopefully – in Israeli eyes — give up and leave, vacating land and water for Jewish expansion.


Under the Israeli control system – which I’m happy to say I have never encountered elsewhere – political and economic development is barely possible. Until Palestine has substantial sovereignty, including control over borders and natural resources, the conditions for “a political settlement” will be postponed indefinitely, and the region will remain a generator of conflicts feeding larger regional conflicts indefinitely. It is not as though the repression is occurring in some far-away, inaccessible place. The details have been reported in report after report by international organizations like the World Bank, by national governments and NGOs (including Israeli). [7] The Middle East Quartet led by Tony Blair has repeatedly called for changes in Israeli government restrictions, including on international trade. Yet western military and civilian support for Israel continues unabated, with occasional slaps on the wrist but no sanctions.

Still, even within narrow constraints the Palestinian Authority or its successor can do more than at present to foster economic development. For example, it can give higher priority to industry and agriculture, and less to “services” (including salaries of public officials). It can create a public-private-NGO agency to perform the kind of functions undertaken for decades by Taiwan’s Industrial Development Bureau and its agricultural equivalent.

The Occupied Territories now get more non-military aid per person than just about anywhere else in the world, through multilateral, US, and European channels. These aid donors can do more to steer the allocations in more productive directions, and press the Palestinian Authority not to use aid money as an excuse for constructing a social compact with Palestinian citizens. They can also press international organizations like the WTO and the International Olive Council to admit Palestine as a member. They can stop blocking Palestine from becoming a non-member observer at the UN. But in the end governments, firms, universities, pension funds and NGOs must mount sustained pressure on the US and Israeli governments to change their joint operating premise, “A sovereign Palestinian state eventually, but not now”.

Western media coverage of Israel’s relations with Palestine tends to airbrush away the larger context of Israel’s “structural power”: the power to determine the rules within which Palestinians have to operate. So the coverage starts the clock with Palestinians attacking Israel, from which Israel’s actions always look like justified self-defence.

We see the same bias in other conflicts where our states or our allies face an enemy: the basic storyline is, we are acting *in response to* provocation from the other. The coverage of the 2014 crisis in Ukraine presents the tipping point as occurring on 27 February 2014 when armed men (assumed to be Russian or Russian-inspired) seized control of Crimea’s parliament and government buildings. Ignored is the real tipping point, on 23 February, when Ukraine’s new government voted, as its first act, to repeal the status of Russian as the second official language in eastern regions of the country. Ignored also is the larger context of the EU and NATO project for hostile influence on Russia’s doorstep (the US has an explicit doctrine, the Monroe Doctrine, which prohibits the equivalent situation on the whole American continent, North and South). Similarly, coverage of the East and South China Seas presents **China as the bully** and the US “pivot to East Asia” as a response to the pleas of innocent Japan, Vietnam, Philippines and others.

Ignored are such facts as the US “AirSea Battle” strategy, which goes beyond “containing” China to – implicitly – military defeat. In the words of Amitai Etzioni, author of several books on US foreign policy, the strategy, adopted in 2010, is intended to allow US military forces “to enter contested zones and conclude the conflict by bringing to bear the full force of their material military advantage”. Etzioni quotes a senior Navy official, “AirSea Battle is all about convincing  the

Chinese that we will win this competition”. The Chinese government is well aware of AirSea Battle, which goes a long way to explain its assertions in the two seas. From China’s perspective, the US pivot to East Asia emboldens China’s neighbours, and China anticipates a worsening of regional rivalries due to the US pivot.[8]

The larger point is that the dominant narratives of conflicts which involve western allies and enemies systematically mislead by justifying our and allies’ actions as responses to unprovoked aggression; thereby providing fake *casus belli* or excuses for gross abuses.

[1] Ari Shavit, 2013, *My Promised Land*, reviewed by Leon Wiesel in New York Times Sunday Book Review, 24 November, at <http://www.nytimes.com/2013/11/24/books/review/my-promised-land-by-ari-shavit.html?ref=bookreviews>. Shavit is a columnist who serves on the editorial board of the Israeli newspaper Haaretz.

[2] Quoted in Danielle Spiegel Feld, 2013, “To get the Palestinians to \$10,000, let them trade”, The Jerusalem Post, Nov 29, p.24.

[3] The Spanish aid agency asked that the toilet panels bear no sign of its role, while the PHG displays its name prominently.

[4] The rules are spelled out in the Paris Economic Protocol, an annex of the Oslo Peace Accords.

[5] ALRAY Palestinian Media agency, 5 October 2013, citing Global Gini Index statistics.

[6] Robert H. Wade, 2004 (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press.

[7] Disillusioned Israeli soldiers have created an organization and website, www.breakingthesilence.org.il whose stated mission is to “break the silence” of Israeli Defence Force soldiers who return to civilian life in Israel and “discover the gap between the reality which they encountered in the [occupied] territories and the silence which they encounter at home....[Its aim is] “to force Israeli society” [to face the truth about “abuse towards Palestinians, looting, and destruction of property that is familiar to soldiers”. See Wikipedia, “Breaking the Silence (non-governmental organization)”, accessed 14 December 2013. Nurit Deled-Elhanan, of Hebrew University, in *Palestine in Israeli School Books* (Library of Middle East Studies, 2012), describes how the Israel school system prepares young people for compulsory military service and active engagement in Israel-Palestine relations. It reveals “how the books might be seen to marginalize Palestinians, legitimize Israel’s military action and reinforce Jewish-Israeli territorial identity” (from the back cover). The book is based on research prompted by her 13 year old daughter’s killing by a Palestinian suicide bomber.

[8] See Robert H. Wade and Dic Lo, 2014, “China is trying to catch up in disputed waters”, *Financial Times*, 24 June,

