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THE AMERICAN UNIVERSITY IN CAIRO
SCHOOL OF HUMANITIES AND SOCIAL SCIENCES

CONFIGURING PALESTINE: A NEO-GRAMSCIAN PERSPECTIVE OF
INTERNATIONAL INSTITUTIONS IN PALESTINIAN
STATE FORMATION

A THESIS SUBMITTED TO
THE DEPARTMENT OF POLITICAL SCIENCE
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF ARTS

SUZANNE MAUREEN MORRISON

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ABBREVIATIONS

AHLC – Ad Hoc Liaison Committee
CG – Consultative Group
CU – Customs Union
EIE – Erez Industrial Estate
EU – European Union
FDI – Foreign Direct Investment
GEDCO – Gaza Electricity Distribution Company Ltd.
GIE – Gaza Industrial Estate
IDF – Israeli Defense Forces
IE – Industrial Estate
IMF – International Monetary Fund
JIE – Jenin Industrial Estate
JLC – Joint Liaison Committee
LACC – Local Aid Coordination Committee
LACS – Local Aid Coordination Secretariat
LDF – Local Development Forum
PA or PNA – Palestinian Authority or Palestinian National Authority
PADICO – Palestine Development and Investment Ltd.
PCBS – Palestinian Central Bureau of Statistics
PECDAR – Palestinian Economic Council for Development and Reconstruction
PERC – Palestinian Electricity Regulatory Council
PIEFZA – Palestinian Industrial Estates and Free Zones Authority
PLC – Palestinian Legislative Council
PLO – Palestinian Liberation Organization
PMA – Palestine Monetary Authority
PRDP – Palestinian Reform and Development Plan 2008 – 2010
PSI – Palestine Standards Institution
TIE – Tarqumiya Industrial Estate
TFPI – Task Force on Project Implementation
TPP – Tulkarem Peace Park
UNCTAD – United Nations Conference on Trade and Development
UNDP – United Nations Development Programme
UNSC – United Nations Security Council
UNSCO – United Nations Special Coordinator for the Middle East Peace Process
WTO – World Trade Organization

Chapter 1 – Introduction and Overview

1.1 Introduction

International institutions greatly influence the political economy of states. Through international institutions the international community has played a major role in the Palestinian territories, particularly since the Oslo Accords in 1993, in formulating a neoliberal framework for political and economic development for a potential Palestinian state and economy. For purposes of this paper, institutions are defined as “persistent and connected sets of rules and practice that prescribe roles, certain activity, and shape the expectations of actors.”¹ Institutions may include organizations, bureaucratic regimes, treaties and agreements, and informal practices that states accept as binding. The balance of power in the international system is an example of an institution.² This thesis analyzes the role of international institutions in the concept and planning for a potential Palestinian state.

The institutional norms and logic of every major development and financial organization working in the Palestinian territories agrees that state formation in Palestine should be based on neoliberal political and economic theory. The actors in this scheme include the major international development and financial organizations (United Nations Development Programme (UNDP), World Bank, International Monetary Fund (IMF), the Quartet (United Nations (UN), US, European Union (EU), Russia), various UN agencies, the European Commission (EC), etc.) along with individual state-based international

¹ Peter Hass, Robert Keohane, and Marc Levy, *Institutions for the Earth: Sources of Effective International Environmental Protection* (Cambridge, MA: MIT Press, 1993), 4 – 5.

² *Ibid*, 4 – 5.

development agencies (United States Agency for International Development (USAID), Japan International Cooperation Agency (JICA), etc.). While the activities of each organization take on different priorities and emphasis, all political and economic development projects support the configuration of social forces toward the consolidation of neoliberal hegemony in conceptualizing Palestine.

The conceptualization of a Palestinian state and a state formation process should not be misconstrued in conventional terms, meaning monopolization over the use of violence, coercion, institutions, and territory.³ Rather the notions that surround Palestinian statehood and a formative process therein, as represented by dominant social forces (Israel, the US, international institutions, and Palestinian elites) do not require the establishment of a Palestinian state *per se*. Importantly, this paper uses the phrases “Palestinian state formation” and “Palestinian state” in a manner consistent with international social forces as defined by various international institutions, meaning that the neoliberal conceptualization of Palestinian state formation is far more important for dominant social forces than actually creating a state. In fact, Palestine’s internationalization may make a state – conceptualized in the traditional sense – unnecessary to the realization of the goals of Palestinian, Israeli, and global capital. A neoliberal conceptualization of Palestine means that no state is actually required to induce into existence the neoliberal condition in Palestine.

Below, I will analyze international institutions through a neo-Gramscian theoretical framework in two phases – the Oslo period (1993 – 2000), and the post-Oslo

³ Max Weber, “Politics as Vocation,” originally published October 1918; available, www.sscnet.ucla.edu; “State” *The Concise Oxford Dictionary of Politics*, (eds.) Iain McLean and Alistair McMillan (Oxford: Oxford University Press, 2009); available, www.oxfordreference.com.

period (2000 – present) – to investigate the *raison d'être* and dynamics of international institutions in configuring Palestinian social forces toward neoliberal state formation. Furthermore, this study investigates how international institutions shape the notion of a future Palestinian state through their policy recommendations and development projects, which ensures neoliberal policies and values in the conceptualizing a Palestinian state building project.

1.2 Research Hypothesis

International institutions configure Palestine in two major ways toward the neoliberal condition. First, international institutions play a major role in shaping the notion of Palestinian state formation through their relationship with Israel. Support for agreements that clearly favor the industrialized, sovereign state of Israel perpetuate the colonial relationship that Israel and its supporters bring to the conceptualization of Palestinian state formation. Second, international institutions ensure a neoliberal project in the schema of Palestinian state formation through policy prescriptions and development projects that guide the concept and planning for a potential Palestinian state toward the dominant neoliberal ideology in an emerging world order. This logic is consequently embedded within Palestinian political economy and represented through official political and economic discourse. Elite Palestinian social forces agree to terms that are mutually agreeable because of their individual capital accumulation in this process. Elite Palestinian social forces comprise those built into the construction of the Palestinian Authority (PA) and other positions of political prominence along with the forces of

Palestinian private capital, in the Palestinian territories and the Diaspora.⁴ Terms that are mutually agreeable include the vision, recommendations, and implementation of the framework through the conduit of international institutions and embedded within Palestinian political economy.

Through these means, international institutions ideologically ensure neoliberal political and economic values in conceptualizing Palestinian state formation. This study analyzes the relationship between international institutions and state formation in Palestine through a neo-Gramscian perspective, utilizing concepts such as hegemony, world order, and internationalization of the state to show what is being created in Palestine and how this is being done. Although political and economic liberalism existed in the Palestinian territories prior to the 1990s, the framework was directly implemented during the Oslo process (1993 – 2000), when international institutions came *en masse* to the Palestinian territories to aid the Oslo process and assist in conceptualizing Palestine through neoliberal policy prescriptions and development projects.

1.3 Theoretical Framework: A Neo-Gramscian Perspective

A number of concepts from a neo-Gramscian perspective are useful for analyzing the relationship between international institutions and Palestinian state formation. Robert Cox initially brought the critical approach to international relations in the early 1980s through his seminal articles appearing in *Millennium* – “Social Forces, States and World Order” and “Gramsci, Hegemony, and International Relations.”⁵ In these writings, Cox

⁴ See Figure 1: Palestinian Political Structure.

⁵ Robert Cox, “Social Forces, States and World Order: Beyond International Relations Theory” in *Critical Concepts in Political Science Vol. 4* by Andrew Linklater (Florence, KY, USA: Routledge, 2000): 1537 –

expounded on a number of Gramscian concepts to illuminate a new approach for exploring the dynamics of international relations and international political economy. For purposes of this paper, I engage several neo-Gramscian concepts such as hegemony, world order, and internationalization of the state to investigate and illuminate the relationship between international institutions and Palestinian state formation.

Cox's revival of Gramsci's innovative conceptualization of hegemony is more flexible than realist approaches because it does not depend solely on a dominant state, but rather a confluence of social forces that are consolidated through coercion and consent in power dynamics. Social forces can exist within states, but are not delimited by national boundaries.⁶ In this schema, the world is a configuration of interacting social forces, where the state acts as a semi-autonomous intermediary in social relations between global and local social forces.⁷ In the process of hegemonic consolidation, consent is partly garnered through the production and changing of institutions, because institutionalization of certain ideas creates norms. Institutions also largely eliminate the need for force, as they represent non-violent forms of consent. In this way, a neo-Gramscian conception of hegemony entails a cultural element such as morals, social values, and beliefs, which are integrated in the (contested) process for hegemonic consolidation. In short, neo-Gramscian hegemony is a matrix of power, ideas, and institutions.⁸

The process for national hegemonic consolidation is constantly contested and does not follow a linear path, as hegemony is a glimpse of a moment, not an eternal end

1571, originally published in *Millennium: Journal of International Studies* 10 no. 2 (1981): 126 – 155, and “Gramsci, Hegemony, and International Relations: An Essay in Method” in *Critical Concepts in Political Science Vol. 3* by Andrew Linklater (Florence, KY, USA: Routledge, 2000): 1207 – 1222, originally published in *Millennium: Journal of International Studies* 12 no. 2 (1983): 162 – 175.

⁶ Cox, “Social Forces, States and World Order,” 1554.

⁷ Ibid, 1554.

⁸ Ibid, 1553.

game. According to Cox, “hegemony is enough to ensure conformity of behavior in most people most of the time.”⁹ Hegemony is a constant negotiation and struggle for a social class to exert itself, while co-opting enough oppositional elements to have the appearance and appeal of universality. In this way, hegemony or consolidation thereof on national or international levels is never absolute. A neo-Gramscian notion of hegemony therefore avoids some of the criticisms of earlier Marxist theories that were layered in deterministic assumptions.¹⁰

The international expansion of a particular hegemony signals the process whereby world hegemony could be created. This can happen from particular social forces consolidating within a state and pushing that hegemonic project toward a world scale or it could be a configuration of social forces between states that are seeking consolidation through further integration with each other in world order.¹¹ According to Cox, world order is conceptualized in that “ ‘World’ designates the relevant totality, geographically limited by the range of probable interaction... ‘Order’ is used in the sense of the way things usually happen...”¹² The nation-state system is one historical form of world order. A world order is composed of interacting social forces, although not limited to state entities. Our current moment, one of an emerging world order, is highly influenced by neoliberal political economy. According to David Harvey:

“Neoliberalism in the first instance is a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework

⁹ Cox, “Gramsci, Hegemony, and International Relations,” 1210.

¹⁰ While this has been a critique of orthodox Marxism, this has also been problematic is dependency and world systems approaches.

¹¹ Andreas Bieler and Adam Morton, “A Critical Theory Route to Hegemony, World Order, and Historical Change: Neo-Gramscian Perspectives in International Relations,” *Class and Capital* 82 (2004): 93.

¹² Cox, “Social Forces, States and World Order,” 1565.

characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices.”¹³

Neoliberalism embraces free market relationships – free enterprise, labor that is flexible to market demands, and states that provide regulatory and legal frameworks through policies and institutions that support capital accumulation. At our current juncture, the role of the state plays an important role in a neoliberal-influenced emerging world order, which is to secure the accumulation of capital among a small, but powerful elite through institutional and policy-oriented mechanisms. These mechanisms create the legal and regulatory environment that is necessary for neoliberal capital accumulation to occur among elite social forces. States develop institutions and policies to establish the conditions under which this can occur such as guaranteeing the integrity of money or creating markets where none previously existed, such as water.¹⁴

The neoliberal framework, values, and ideology are subsumed structurally within governance institutions and spaces of capital. While neoliberalism as a term is generally applied by critics, the ideology is embodied across the political spectrum and within a wide range of policies throughout the world. More tangibly, neoliberalism is located within social forces and key institutions that work together, such as multinational capital, Ministries of Finance and/or Treasury, think tanks, and international organizations such as the IMF, World Bank, and World Trade Organization (WTO).¹⁵ Neoliberal terminology such as “good governance,” “private-sector driven growth,” “fiscal discipline,” “export promotion,” “poverty reduction,” and “economic reform,” are

¹³ David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005), 2.

¹⁴ *Ibid.*, 2.

¹⁵ Wendy Larner, “Neoliberalism: Policy, Ideology, Governmentability,” *Studies in Political Economy* 63 (Autumn 2000): 8.

utilized to put a positive spin on processes that downsize the public sector and government provisioning of social welfare. In this logic, individuals are to become healthy and responsible producers and consumers, while infrastructure should be developed to make capital investment and trade easier – all of which are necessary for a business friendly environment and the accumulation of capital.

Neoliberalism has been enshrined in a number of elite-based “consensuses,” which represent how the process for hegemonic consolidation of an ideology is negotiated within an emerging world order. In 1989, the neoliberal framework was articulated into a list of policy prescriptions known as the “Washington Consensus” by John Williamson, then Chief Economist of the World Bank in South Asia. The so-called Washington Consensus was particularly timely given the fall of state capitalism in Eastern Europe and Central Asia. Following this time-period, many non-dominant states underwent national restructuring at the behest of international institutions through macroeconomic structural adjustment programs, whose main aim was to free capital through deregulation, privatization, and liberalization of capital, investment, and trade. This is why structural adjustment programs that were implemented with the assistance of international institutions such as the World Bank and IMF were almost exact replicas of the recommendations enshrined in the Washington Consensus and became equivalent with national restructuring and development. Since that time, neoliberal capitalism has entered what Joseph Stiglitz, former head of the World Bank, has termed the “Post-Washington Consensus,” followed by another round of elite-based consensuses at Monterrey and Doha. While the thrust of neoliberalism has been carried through a

number of conceptualizations and the rhetoric varies slightly in each, there are no major structural differences in each neoliberal consensus.

International social forces have created a hegemonic project around neoliberal political economy and there appears to be an ideological consensus among elite social forces regarding the framework, but world hegemony of neoliberalism in total that informs the construction of world order has not yet been consolidated. In this sense, there is an emerging world order where international institutions facilitate the particularities of neoliberalism and the configuration of social forces toward neoliberal hegemonic consolidation in world order. As an expression of universal norms, international institutions facilitate world order. They play a very important role in representing and expanding hegemony ideologically and tangibly. They assist ideologically in the standardization of domestic policies, such as trade and finance, with those of a neoliberal world economy. On the ground, this means helping create appropriate policy frameworks with pertinent governance institutions and advancing established international practices through development projects in developing states.

International organizations bring international norms and practices of neoliberal development to transitional and developing states through policy advice and donor funded development projects. International institutions play a major role in these processes although for purposes of this paper, it is their role in assisting in national (re)structuring that is of primary importance. Since the state of Palestine has never existed, international institutions simply seek to structure Palestine along neoliberal lines. This was the primary objective for international institutions in entering the Palestinian territories during the Oslo process. Through neoliberal policy recommendations and

development projects, international institutions ideologically ensure neoliberal values in the conceptualization and planning of Palestinian state formation.

Through various means, such as the opening of national economies for diversified and internationalized production, services, communications, and finance, the notion of international obligation, integrated military cooperation such as NATO, and international assistance for reconstruction and development especially in the post-WWII period indicate that states have become internationalized.¹⁶ Importantly, a neo-Gramscian approach does not argue that states are disappearing in the face of global integration. On the contrary, it argues that states are being restructured in this dynamic process. Internationalization of the state means that states have become more salient to international practices, rules, and norms. Particularly in the post-WWII reconstruction process and in the debt crisis of the 1970s-80s, international institutions have penetrated non-dominant states through macroeconomic stabilization and development programs, albeit in slightly different ways. Cox notes that,

“Economically weak countries were to be given assistance by the system itself, either directly through the system’s institutions or by other states nominally certified by the system’s institutions. These institutions incorporated mechanisms to supervise the application of the system’s norms and to make financial assistance effectively conditional upon reasonable evidence of intent to live up to the norms.”¹⁷

An internationalized state becomes a “transmission belt” from the national to global economy.¹⁸ In this way, a neoliberal state is one that has been internationalized, at least to some degree. In the emerging world order, states act as “intermediate though

¹⁶ Cox, “Social Forces, States and World Order,” 1558.

¹⁷ Ibid, 1558.

¹⁸ Robert Cox and Timothy Sinclair, *Approaches to World Order* (Cambridge, UK: Cambridge University Press, 1996), 302.

autonomous” mechanisms between domestic and global social forces.¹⁹ In these processes, international and sometimes transnational social forces have emerged in the form of capitalists, state managers, intellectuals, and personnel of international organizations.²⁰ Domestically, this is prioritized in governance institutions where local social forces tend to interact with international social forces such as the Prime Minister’s office, Ministry of Finance, and Ministry of Planning.²¹ The coherence and unity of these social forces should not be overstated, as suggested by critics, because the process for hegemonic consolidation of social forces (whether on the national or international level) is always contested.²² Neoliberal configurations are complex and hybrid, representing general thrusts rather than fixed formations. In addition, it is important to take seriously the critique that internationalization of the state has a deterministic and hierarchical tendency, which can ignore counter-hegemonic agents in the process.²³ In this light, the concept needs re-rooting in what makes a neo-Gramscian analysis so appealing in the first place – that the process for hegemonic consolidation among various social forces should wholly be seen as dynamic and contested.

Capitalism, but particularly its neoliberal variant, has always required a transnational network of capitalists to sustain it. The norms, rules, and practices (the institutionalization of neoliberalism) are brought to the Palestinian territories through international organizations and domestic elites that are integrated into global capital.

¹⁹ Cox, “Social Forces, States and World Order,” 1554.

²⁰ Ibid, 1561.

²¹ Ibid, 1559.

²² Daniel Egan, “Global Capitalism and the Internationalization of the State: Some Lessons from the Defeat of the Multilateral Agreement on Investment,” (paper submitted for the International Conference on the Work of Karl Marx and Challenges for the 21st Century, Havana, Cuba, May 5 – 8, 2003), 4; available, www.bibliotecavirtual.clacso.org.

²³ Ibid, 4; Andre Drainville, “International Political Economy in the Age of Open Marxism,” *Review of International Political Economy* 1 no. 1 (Spring 1994): 105 – 132.

Together, these social forces seek to educate, negotiate, and consolidate a neoliberal form of hegemony within the conceptualization of Palestinian state formation. While capitalism has historically been directed by elite social forces, it is important to remember that capitalism is an on-going, contested process, that co-opts some and marginalizes others along its historical trajectory.

I will apply a neo-Gramscian theoretical framework to the work of international institutions in Palestinian state formation because this allows for an analysis of various social forces between the national and international levels and the contested terrain over which hegemony is negotiated. The neo-Gramscian conception of hegemony and the role of international institutions in a hegemonic project apply to activities of international institutions in the Palestinian territories, specifically through neoliberal policy prescriptions and international development projects. A final point in conceptualizing neoliberalism as an integrated element in the construction of hegemony and world order is to take seriously the claim by Wendy Larner that “without analyses of the ‘messy actualities’ of particular neo-liberal projects, those working within this analytic run the risk of precisely the problem they wish to avoid – that of producing generalized accounts of historical epochs.”²⁴ It is the “messy actualities” of a particular neoliberal project within an approaching world order – Palestinian state formation – that this study analyzes through a neo-Gramscian approach.

²⁴ Larner, 14.

1.4 Significance of Topic

Assessing the role of international institutions in shaping the concept of a Palestinian state is important for a number of reasons. First, international institutions play a large role in developing states, particularly those that arise from conflict or are transitioning toward capitalist development from a former state-based mode of production. In the view of international institutions, developing, emerging, and/or transitional states and economies are in need of assistance to bring them in line with established international neoliberal norms and practices. Although denied sovereignty to date, the Palestinian territories are not immune to the prescriptions and logic of international institutions. Quite uniquely, Palestinians have been subject to neoliberal recommendations and logic of international institutions *prior* to state formation. The case of Palestine is unique in the regard that Palestinians seek national liberation from a settler-colonial state and occupation during a historical moment that is different from most other national liberation movements.²⁵ It is a time when the politics of state formation and a potentially emerging state are wrapped up in the neoliberal political economy of an emerging world order. International institutions are actively involved in this process and have had a direct role in the Palestinian state building project by supporting institutional development of the PA pseudo-state apparatus and other development projects and recommending policies that ensure neoliberal values in the configuring and conceptualization of state formation.

Second, international institutions have power in a dialectical relationship with nation-states. The current dynamic is one of interconnection and integration, particularly

²⁵ Jamil Hilal, "Problematizing Democracy in Palestine," *Comparative Studies of South Asia, Africa and the Middle East* 23 no. 1 & 2 (2003): 170.

through finance, investment, trade, and communications. Economic relations are increasingly integrated, although regulated by the institutions that were established during uneven core-periphery capitalist development “that reflect the broader US-led system of strategic alliances.”²⁶ Furthermore, increasing integration through international and global institutional arrangements, such as the G-8 and WTO are making independent policy formulation very difficult on the national level. Because international institutions have power, they represent and serve the interests of dominant social and economic forces. In this arrangement, international institutions play a key role in representing and recreating dominant social forces, in terms of hegemonic nation-states (the US) and internally on their own terms.²⁷ In this way, international institutions play an active role in the creation and maintenance of international rules, norms, practices, etc. In their own right, as important actors in world order, international institutions require in-depth analysis from a range of perspectives.

Lastly, as will be shown in the literature review that follows, there has been a recurring dynamic in analyzing the potential for Palestinian state formation. This dynamic tends either to analyze *how* or *why* a Palestinian state has not formed to date, or analyses of what is needed to create a viable Palestinian state in the future. Too often, an analysis of what is presently being formed in Palestine (along with the how and why of this particular formation), is sidelined for the benefit of hindsight or hopeful notions about the future. A neo-Gramscian approach is helpful in this endeavor because the perspective allows for investigation of various social forces irrespective of the formation

²⁶ Paola Subacchi, “New Power Centers and New Power Brokers: Are They Shaping a New Economic Order?” *International Affairs* 84 no. 3 (2008): 497.

²⁷ Robert Cox, *Production, Power, and World Order: Social Forces in the Making of History* (New York: Columbia University Press, 1987), 252.

of a formal state or not. Since the state is not a necessary variable in utilizing a neo-Gramscian approach, the perspective lends itself to more accurate analysis of the current dynamics in the Palestinian territories through international and domestic social forces, that is the establishment of the neoliberal condition in Palestine without the formation of a formal state.

1.5 Chapter Outline

My argument is outlined as follows. In chapter 2, I review the literature on my thesis topic by pointing to the positive contributions of scholars and reiterating a gap in the literature in applying a neo-Gramscian approach to the case of Palestinian state formation. Chapters 3 and 4 comprise the body of my argument by showcasing how international institutions configure social forces in the Palestinian territories to ensure neoliberal values and development in conceptualizing a Palestinian state. Chapter 3 focuses on the Oslo process (1993 – 2000) and Chapter 4 deals with the post-Oslo phase that spans to the present. Each chapter discusses the main ways that international institutions permeate domestic Palestinian political economy, i.e. policy recommendations and development projects, to shape the concept of a Palestinian state and economy toward the neoliberal ideological thrust of an emanating world order. I conclude my thesis with a review of my findings, as illustrated throughout the paper, and emphasize that Palestine's conceptualization will continue to be rooted in the development of the neoliberal condition as long as a political process that would lead to Palestinian self-determination and an end the conflict is not pursued.

Chapter 2 – Review of the Literature

Edward Said has been one of the most prominent scholars in promoting Palestinian self-determination and critically approaching the role of Israel, Palestinians, and the international community in their efforts toward that end. From *The Question of Palestine* (1979) to *The End of the Peace Process* (2000), Said consistently and forcefully argued that Palestinians were dispossessed from their homeland when the state of Israel was established in 1948 and were persistently denied their inalienable right to self-determination.²⁸ He did this by often invoking historical narrative to support his claims and sharing his own experiences as a Palestinian refugee and the plight of the Palestinian Diaspora through their quest for national identity and liberation. Said emphasized that Israel's relationship with the Palestinians, ambivalent Arab regimes in the region, and elite Palestinians willing to sell-out the Palestinian national cause contributed to the continued failure of peace agreements between Israel and the Palestinians and made justice for Palestinians more elusive. The persistent and thorough critique of dominant social forces along with Said's compelling use of historical narrative toward his claims has arguably placed him among the most prolific and influential writer for any scholar of Palestine.

Following in the vein of Said, scholars of Palestine have often focused on the challenges facing Palestinians and their plight toward statehood. There has been an overarching emphasis on structures and processes that have failed to solve the question of Palestine. A dominant thrust in reading the failure of conceptualizing Palestine is blamed

²⁸ Edward Said, *The Question of Palestine* (London: Routledge & Kegan Paul Ltd., 1979) and *The End of the Peace Process: Oslo and After* (New York: Vintage, 2000).

on the problematic nature of the Oslo Accords, and the process more generally. Said was one of the first and most vocal critics of the Oslo Accords. Three of Said's books during the Oslo process: *The Politics of Dispossession*, *Peace and its Discontents*, and *The End of the Peace Process* were highly critical of the Oslo Accords, particularly of the social forces that served to benefit from the unjust nature of the Accords – Israel, the international community, and prominent Palestinians.²⁹ He posited that the Accords would have few positive effects for Palestinians in the Palestinian territories and further dismembered the Palestinian national cause by ignoring Palestinians in Israel and those in the Diaspora, mostly refugees. In their perpetual quest for justice and self-determination, Said argued that Palestinians were moving further away from that prospect.

Critics of the Oslo process argue that Oslo was problematic for a number of reasons, of which all agree that the outcome has not been positive for a majority of Palestinians, despite various interpretations of *what* went wrong in the process. For instance, Leila Farsakh emphasizes that economic viability of a Palestinian state minimally requires Palestinian sovereignty over lands occupied in 1967, free movement and access between Palestinian territories, and clear, defined borders of a Palestinian state.³⁰ According to Farsakh, the failure to address these issues in the Accords led to legal, territorial, and economic effects of a system similar to Bantustans created under

²⁹ Edward Said, *The Politics of Dispossession: The Struggle for Palestinian Self-Determination, 1969 – 1994* (New York: Vintage, 1994), *Palestine and its Discontents: Essays on Palestine in the Middle East Peace Process* (London: Vintage, 1995), and *The End of the Peace Process: Oslo and After* (New York: Vintage, 2000).

³⁰ Leila Farsakh, "Economic Viability of a Palestinian State in the West Bank and Gaza Strip: Is it Possible Without Territorial Integrity and Sovereignty," *MIT Electronic Journal of Middle East Studies* (May 2001); available, www.web.mit.edu.

South African apartheid.³¹ Furthermore, she argues that the Al-Aqsa intifada was a rejection of the Oslo process and its economic premise.³² Joel Beinin's "Pax Americana" thesis argues that the Oslo Accords represent the regional and international balance of power, primarily through Israel's regional military superiority and alliance with the United States.³³ According to this point of view, the so-called special relationship, or more accurately termed strategic alliance, between the US and Israel is the main impediment to ending the Israeli-Palestinian conflict and the establishment of a political settlement. He asserts that the Oslo process was part of a larger US plan to maintain hegemony in the region after the victory in the 1991 Gulf War. According to Beinin, alliances in the new Middle East were based on "enhanced capital investment, access to regional markets, and expanded opportunities for profit."³⁴ Beinin made a strong case that the underlying nature of the Accords – that of US strategy to maintain dominance through neoliberal peace dividends – prevented the potential to actually establish a Palestinian state.

Yoav Peled claims that Oslo was not a failed peace process, but rather a failed attempt at partial decolonization.³⁵ Peled suggests that the Oslo process was part of a larger liberalization thrust within Israeli society, and that neoliberal peace and privatization are causally connected. Similar to Beinin, Peled believes the Oslo process

³¹ Farsakh, "Independence, Cantons, or Bantustans: Whither the Palestinian State?" *Middle East Journal* 59 no. 2 (Spring 2005): 230 – 245.

³² Farsakh, "Under Siege: Closure, Separation, and the Palestinian Economy," *MERIP Middle East Report* 217 (Winter 2000); available, www.merip.org.

³³ Joel Beinin, "Palestine and Israel: Perils of a Neoliberal, Repressive, Pax Americana," *Social Justice* 25 no. 4 (1998): 20 – 39; Joel Beinin and Rebecca Stein, *The struggle for Sovereignty: Palestine and Israel, 1993-2005* (Palo Alto, CA: Stanford University Press, 2006).

³⁴ Beinin, "Palestine and Israel," 34.

³⁵ Yoav Peled and Greshon Shafir, eds., *The New Israel: Peacemaking and Liberalization* (Boulder, CO: Westview Press, 2001); *Being Israeli: The Dynamics of Multiple Citizenship* (Cambridge, UK: Cambridge University Press, 2002).

was part of a larger neoliberal thrust throughout the region and world. However, his outlook focuses more particularly on how Israeli elite social forces embraced neoliberalism and the potential for peace dividends through the Accords with the Palestinians to accumulate capital more efficiently in an increasingly integrated global economy. Not entirely different, Peter Lagerquist argues in “Privatizing the Occupation,” that the Oslo process and the neoliberal development opportunities it purported were simply the result of colonial prerogatives in the current context of globalization.³⁶ In addition, Adel Samara in “Globalization, the Palestinian Economy, and the ‘Peace Process’ ” argues that adoption of neoliberal economic policies in the Palestinian territories has led to a form of “development” that does not serve the majority of the Palestinian population.³⁷ Rather, the focus on neoliberal development during the Oslo process has been the result of international (including Israeli) and Palestinian social forces collaborating for the purposes of capital accumulation, rather than a political settlement or the creation of a viable Palestinian state.

Even before the Oslo process, materialist considerations played an important role in explaining why Palestinian state formation has not yet taken place. Sara Roy, a leading scholar on the political economy of the Gaza Strip, argues that an uneven economic relationship between Israel and the Palestinians has systematically distorted and prevented a productive economic base for a viable Palestinian economy. Instead, the result of Israel’s political and ideological objectives has been a persistent de-development

³⁶ Peter Lagerquist, “Privatizing the Occupation: The Political Economy of an Oslo Development Project,” *Journal of Palestine Studies* 32 no. 2 (Winter 2003): 5 – 20.

³⁷ Adel Samara, “Globalization, the Palestinian Economy, and the ‘Peace Process.’” *Journal of Palestine Studies* 29 no. 2 (Winter 2000): 20 – 34.

of the Palestinian economy.³⁸ She argues that while the conflict and occupation of Palestine are political in nature, they have negative economic effects that undoubtedly play a role in Palestinian development and state building.³⁹

More recent work has focused upon the role of aid in the Palestinian territories, and how that role affects Palestinian state formation. Immediately following the Oslo process, Rex Brynen's study of the mechanics and difficulties of international assistance to Palestinians emphasized the negative and positive role of aid in developing the PA and in the peace process more generally.⁴⁰ However, as the decade progressed and Brynen analyzed the politics of aid through the course of the second intifada, he became increasingly critical of international donors and their usage of aid in the Palestinian territories. In his more recent work, "Aid as Carrot, Aid as Stick," Brynen argues that aid cannot change the failures of the peace process or substitute for the political process that is necessary to build a Palestinian state.⁴¹ A number of authors have pointed to the problematic role international assistance has played on the ground in the Palestinian territories, namely by ignoring the political context that makes aid necessary.⁴² The theme

³⁸Sara Roy, *The Gaza Strip: the Political Economy of De-Development* (Washington D.C: Institute of Palestine Studies, 1995).

³⁹ Roy, "The Palestinian State: Division and Despair," *Current History* 103 no. 669 (January 2004): 31-36; "The Palestinian-Israeli Conflict and the Palestinian Socioeconomic Decline: A Place Denied," *International Journal of Politics, Culture, and Society* 17 no. 3 (Spring 2004): 365-403; *Failing Peace: Gaza and the Palestinian – Israeli Conflict* (London: Pluto Press, 2007).

⁴⁰ Rex Brynen, *A Very Political Economy: Peacebuilding and Foreign Aid in the West Bank and Gaza* (Washington D.C.: United States Institute of Peace Press, 2000).

⁴¹ Brynen, "Aid as Carrot, Aid as Stick: The Politics of Aid Conditionality in the Palestinian Territories," *Accord* (2008); available, www.c-r.org.

⁴² Hillel Frisch and Menachem Hofnung, "State Formation and International Aid: The Emergence of the Palestinian Authority," *World Development* 25 no. 8 (August 1997): 1243-1255; Judy Barsalou, "Missing the Mark: Foreign Aid to the Palestinians," *Middle East Policy* X no. 4 (Winter 2003): 48 – 56; Sari Hanafi and Linda Tabar, "The Intifada and the Aid Industry: The Impact of the New Liberal Agenda on Palestinian NGOs," *Comparative Studies of South Asia, Africa and the Middle East* 23 no. 1&2 (2003): 205 – 214; Michael Keating, Anne LeMore, and Robert Lowe, eds., *Aid, Diplomacy and Facts on the Ground: The Case of Palestine* (London: Royal Institute for International Affairs, 2005).

throughout this body of work contends that international aid has prevented the development of a Palestinian state by legitimizing and subsidizing the Israeli occupation of Palestinian territories. Ann LeMore argues that realities on the ground are incompatible with a state building project and that the international community is funding the demise of a Palestinian state as long as aid accommodates Israeli occupation rather than challenging those policies.⁴³

It has also been suggested that the realization of Palestine has failed due to Palestinian governance related issues, of which Palestinians may have very little control according to some scholars. Instead of unequal peace agreements, uneven economic relations, or the problematic role of international assistance, this point of view holds that Palestinian political factors must be considered in understanding the reasons Palestine has failed to form. An anthology titled, *State Formation in Palestine* edited by Mushtaq Khan considers how corruption, rent-seeking and democratic weaknesses within the PA have potentially continued the conflict with Israel and prevented the formation of a Palestinian state.⁴⁴ The authors conclude that not all corruption is necessarily harmful for state formation. They assert that political rents are pervasive in all developing countries and if managed appropriately can play a positive role in economic transitioning and political stability.

Another thrust in this body of work argues that the PA, through the leadership of Yasir Arafat and Fatah, brought an authoritarian style of leadership to governance in the

⁴³ Anne. LeMore, "The International Politics of Aid in the Occupied Palestinian Territory," *Humanitarian Exchange Magazine* 28 (November 2004); available, www.odihpn.org; "Are 'Realities on the Ground' Compatible with the International State-Building and Development Agenda?" in Michael Keating, Anne LeMore, and Robert Lowe, eds., *Aid, Diplomacy and Facts on the Ground: The Case of Palestine* (London: Royal Institute for International Affairs, 2005).

⁴⁴ Mushtaq Husain Khan, ed., *State Formation in Palestine: Viability and Governance during a Social Transformation* (New York: RoutledgeCurzon, 2004).

Palestinian territories, which has prevented the development of a Palestinian state. Focusing on the PLO and its transformation into the PA, Glen Robinson argues in *Building a Palestinian State* that a disconnect between the popular movement created during the first intifada and the authoritarian tendencies of the PLO as it morphed into the PA diminished the prospects for viable Palestinian state formation.⁴⁵ Similarly, *Countdown to Statehood* by Hillel Frisch, is a comparative analysis of the Palestinian state building project with that of Zionism and the establishment of Israel.⁴⁶ His study leads him to conclude that Palestinians face far more challenges in building a state than those experienced by Zionists. He considers the decisions facing the PLO given their placement in the Diaspora prior to the Oslo process and suggests the PLO leadership chose tight control from the outside. When the PLO was brought under the new rubric of the PA during the Oslo process, the previous decisions of the PLO were transposed onto the Palestinian territories, which created a “neopatrimonial” system of governance in the Palestinian territories.

Yezid Sayigh agrees that PLO decision making prior to the Oslo Accords led to an authoritarian style of leadership during the Oslo process, but his research places more emphasis on the relationship between armed struggle and state formation in Palestine.⁴⁷ Despite the eventual governance style, he argues that armed struggle was important for the Palestinian national cause because it allowed for the creation of institutions and a political elite, which according to Sayigh are the basis of government. Despite the fact

⁴⁵ Glenn Robinson, *Building a Palestinian State: The Incomplete Revolution* (Bloomington, IN: Indiana University Press, 1998).

⁴⁶ Hillel Frisch, *Countdown to Statehood: Palestinian State Formation in the West Bank and Gaza* (Albany, NY: SUNY Press, 1998).

⁴⁷ Yezid Sayigh, *Armed Struggle and the Search for State: The Palestinian National Movement, 1949 – 1993* (New York: Oxford University Press, 1997).

that armed struggle has not liberated Palestine, Sayigh concludes that this form of resistance did play an important role in developing the foundations for a potential Palestinian state in the future. Sayigh's later work, however, reveals a shift from the potential for Palestinian statehood to severe skepticism of this prospect. In "Inducing a Failed State in Palestine" Sayigh argues that the Palestinian territories represent all the conditions of state collapse due to the continued impact of international intervention, which inhibits the ability for adequate domestic governance through the PA.⁴⁸

Moving from explicating why a Palestinian state has failed to materialize, neoliberal institutional analyses from the World Bank, IMF, and other international institutions focus on prescriptions of what is needed, in the current moment, for Palestine to form as a (neoliberal) state. According to international financial and development organizations, any potential Palestinian state should have an open economy that is driven by private sector growth and integrated into regional and global markets through competitive goods and services.⁴⁹ This would enable an environment that is conducive to the accumulation of capital for various social forces (domestic and international), which

⁴⁸ Sayigh, "Inducing a Failed State in Palestine," *Survival* 49 no. 3 (September 2007): 7 – 39.

⁴⁹ IMF, *Medium-Term Macroeconomic and Fiscal Framework for the West Bank and Gaza* (Washington D.C.: IMF, 2007); UNCTAD, *The Palestinian War-Torn Economy: Aid, Development and State Formation*, UNCTAD/GDS/APP/2006/1 (Geneva: UNCTAD, 2006); UNDP/PAPP, *Mid-Term Strategic Framework 2008 – 2011* (July 2008); available, www.undp.ps; World Bank, *Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects* (Washington D.C.: World Bank, December 2004); *West Bank and Gaza Investment Climate Assessment: Unlocking the Potential of the Private Sector* Report No. 29109 – GZ (Washington D.C.: World Bank, March 2007); *Two Years after London: Restarting Palestinian Economic Recovery*, Economic Monitoring Report to the Ad Hoc Liaison Committee (Washington D.C.: World Bank, 24 September 2007); *The Preconditions for Palestinian Economic Recovery*, West Bank and Gaza Update (Washington D.C.: World Bank, November 2007); *World Bank Strategy for a Prosperous and Viable Palestinian State*, West Bank and Gaza Update (Washington D.C.: World Bank, March 2008); *Implementing the Palestinian Reform and Development Agenda*, Economic Monitoring Report to the Ad Hoc Liaison Committee (Washington D.C.: World Bank, 2 May 2008); *Supporting the Palestinian Private Sector*, West Bank and Gaza Update (Washington D.C.: World Bank, June 2008); *Palestinian Economic Prospects: Aid, Access and Reform*, Economic Monitoring Report to the Ad Hoc Liaison Committee (Washington D.C.: World Bank, 22 September 2008); *Moving Beyond the 'Movement and Access' Approach*, West Bank and Gaza Update (Washington D.C.: World Bank, October 2008).

is facilitated through a policy framework of liberalization, deregulation, and privatization. According to the neoliberal institutionalist approach, prolonged conflict has created structural impairments such as persistent unemployment, dependency on Israel and international aid, political instability, and lacking legal protection for private property that are in need of adjustment for Palestine to economically recover and become a state.⁵⁰ In the case of trade, scholars disagree on the exact shape of the preferable trade regime for a potential Palestinian state, although there is a consensus surrounding the importance of trade liberalization and expansion in harmonizing Palestinian trade policies with neoliberal practices in an emerging world order.⁵¹ Furthermore, the neoliberal institutionalist approach calls for public sector reform and good governance in the Palestinian territories through institutional capacity building, fiscal discipline, and the encouragement of policies that support trade and private investment.

Despite the positive contributions of various scholars considering *why* or *how* Palestine has failed to form, there are few analytical tools available in these approaches for investigating the relationship between international institutions and the conceptualization of Palestine in our current moment. A neo-Gramscian approach can bridge the analytical gap in relation to international institutions and Palestinian state formation because the perspective allows for a more flexible analysis of state formation through the configuration of domestic and international social forces.⁵² I will utilize a neo-Gramscian approach as developed by Cox to investigate this relationship because it

⁵⁰ See previous note.

⁵¹ Arie Arnon and Saeb Bamtya, eds. "Economic Dimensions of a Two State Agreement between Israel and Palestine" *AIX Group* (November 2007); available, www.aixgroup.org.

⁵² Robert Cox, "Social Forces, States and World Order," 1537 – 1571 and "Gramsci, Hegemony, and International Relations," 1207 – 1222.

is the most useful perspective for organizing the structures and processes, i.e. the dynamic linkages between international institutions and social forces in the configuration of conceptualizing a neoliberal state in Palestine. Hegemony, as reinterpreted by Cox, is a centerpiece for understanding world order, meaning a neoliberal-influenced emerging world order and the corresponding processes that internationalize the state. Exploring international institutions as dynamic forces in the schema of conceptualizing Palestinian state formation allows for simultaneous conceptualization of producer and product of hegemony in domestic (Palestinian) and international political economy. Although hegemony is not singularly expressed or created in international institutions, it is an important mechanism in the process of institutionalization that creates norms, values, and rules in world order. In this way, a neo-Gramscian lens allows for the locations of structures and agents in the Palestinian territories that are configuring social forces toward a conceptualization of Palestine that is neoliberal in nature.

Chapter 3 – The Oslo Accords: International Institutions Create a Framework for Conceptualizing Palestinian Neoliberal State Formation (1993 – 2000)

3.1 The Oslo Context

The Oslo Accords were bilateral agreements between the government of Israel and the PLO that were brokered with the assistance of Norway. The Accords were based on United Nations Security Council (UNSC) resolution 242, the so-called land for peace formula, and UNSC resolution 338. The Oslo Accords consisted of the Declaration of Principles on Interim Self-Government Arrangements, otherwise known as the Declaration of Principles (DOP) or Oslo I along with an Interim Agreement or Oslo II that included the Gaza-Jericho Agreement, the Agreement on the Preparatory Transfer of Power and Responsibilities, and the Israeli-Palestinian Agreement on the West Bank and Gaza.⁵³ Additionally, the Protocol Concerning the Redeployment in Hebron was signed in January 1997 and in October 1998, the Wye River Memorandum was signed at the White House in Washington D.C., between Israel and the PLO.⁵⁴ The Accords ended five years of the first Palestinian uprising or *intifada* that represented many Palestinian frustrations as a result of Israeli military occupation and were cast as “interim” agreements that would eventually lead to a political settlement through final status negotiations. However, the Oslo Accords were agreements between two unequal parties, where one country was large, advanced, sovereign, and historically assisted in its

⁵³ *Declaration of Principles on Interim Self-Government Arrangements* (Washington D.C., 13 September 1993); *Gaza-Jericho Agreement* (Cairo, 4 May 1994); *Agreement on the Preparatory Transfer of Power and Responsibilities* (Erez, 29 August 1994); *Israeli-Palestinian Agreement on the West Bank and Gaza* (Washington D.C., 28 September 1995); available, www.mfa.gov.il.

⁵⁴ *Protocol Concerning the Redeployment in Hebron* (Jerusalem, 17 January 1997) and the *Wye River Memorandum* (Washington D.C., 23 October 1998); available, www.mfa.gov.il.

development (Israel); the other being small, not sovereign or developed, and only recently financially assisted (Palestinian territories). Asymmetrical power dynamics and a number of design flaws prohibited the Oslo Accords from transforming the Israeli-Palestinian conflict into anything beyond interim agreements.

The Accords themselves represent an international institution in that both parties agreed to the terms and accepted them as binding (at least in theory) and were supported by the international community. However, international support for agreements that clearly favor an industrialized, sovereign state over stateless indigenous peoples perpetuates the colonial relationship that Israel and its supporters bring to the conceptualization of Palestinian state formation. Specifically, the structure and terms of the Accords, and the Oslo process more generally prevented the actual formation of a Palestinian state by focusing instead on conceptualizing state formation through a framework of neoliberal policy prescriptions and development projects. This obviated the context of Israeli occupation and allowed Israel to further institutionalize its occupation in the Palestinian territories.⁵⁵

As part of the Accords, the Palestinian territories were divided into three groups; Palestinians were allowed a limited amount of “self-rule” over a small percentage of territory in the West Bank and Gaza Strip. In Area A, Palestinians were in control of civil administration and security, Area B was a mix of Palestinian civil administration and Israeli security control, while Israel retained full control of both civil administrative and security matters in Area C.⁵⁶ Area C amounted to 59 percent of the West Bank, while

⁵⁵ Roy, “The Palestinian-Israeli Conflict and the Palestinian Socioeconomic Decline,” 366.

⁵⁶ *Israeli-Palestinian Agreement on the West Bank and Gaza*, Article XI, Article XII, Article XIII (Washington D.C., 28 September 1995); available, www.mfa.gov.il.

Israel retained security control over an additional 23.8 percent in Area B. In total, Israel controlled 82.8 percent of the West Bank, while Palestinians were only in full control of the remaining 17.2 percent.⁵⁷ Areas A and B, of which Palestinians maintained minimal control, comprised the major Palestinian population centers in the territories, but only formed a small percentage of surface land, while Area C comprised a majority of the territory, was contiguous, and surrounded Areas A and B.⁵⁸

The Palestinian territories were further fragmented during the Oslo process by the rapid increase in the Israeli settler population. During the Oslo process, Israeli settlers in the Palestinian territories increased by over 50 percent from 240,000 in 1993 to 380,000 by 2000.⁵⁹ The Accords were very clear on maintaining Israeli territorial integrity in Area C and protecting the private property rights of Israelis in Palestinian controlled areas, although made no similar protections for Palestinians.⁶⁰ The customs union (CU) formed under the “Protocol on Economic Relations” (Paris Protocol 1994) in Annex V especially represented the larger dynamic of the agreements that ultimately gave Israel far more power and rights than those assigned to the PA. The Paris Protocol reinstated a quasi CU between Israel and the Palestinian territories that had been essentially in effect since Israel’s occupation of the territories in 1967.⁶¹ Because of structural constraints

⁵⁷ Roy, “The Palestinian-Israeli Conflict and Palestinian Socioeconomic Decline,” 369.

⁵⁸ *Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip*, Article XI, Map No. 1, Appendix 6 to Annex I (Washington, D.C., 28 September 28 1995); available, www.mfa.gov.il.

⁵⁹ Amnesty International, “Israel and the Occupied Territories: The Issue of Settlements must be Addressed According to International Law,” *Amnesty International* AI Index: MDE 15/085/2003 (8 September 2003); available, www.amnesty.org.

⁶⁰ *Gaza-Jericho Agreement*, Article III in Annex III (Cairo, 4 May 1994); *Agreement on the Preparatory Transfer of Power and Responsibilities*, Article IX (Erez, 29 August 1994); *Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip*, Article XVII, Article XX, Map No. 2 (Washington, D.C., 28 September 28 1995); available, www.mfa.gov.il.

⁶¹ *Gaza-Jericho Agreement*, Annex IV: Protocol on Economic Relations between the Government of the State of Israel and the PLO (Paris, 29 April 1994) and *The Israeli-Palestinian Interim Agreement on the*

built into the CU, economic viability for a future Palestinian state was severely curtailed. Trade was liberalized by applying a common external tariff, which was structured according to the Israeli economy and Israeli trade policy. As a developed country with one of the highest VAT rates in the world, Israel protected its own industry by not exposing it to the competition a less developed country could offer in a global economy.

In addition, a revenue clearance system was created as a part of the CU, whereby Israel collects taxes on behalf of the PA on goods imported through Israel whose final destination is the West Bank or Gaza Strip. Israel then remits these taxes back to the PA, which in turn provides a major source of revenue for the Authority. While a quasi CU existed prior to the Oslo process, the revenue clearance system was a specific feature of the Accords. Israel periodically uses its administrative role as transmitter of taxes for political and economic reasons. This happens when Israel withholds VAT and customs duties or uses the revenue to pay for Israeli services provided to Palestinians.⁶² Because the Paris Protocol institutionalized economic integration, the PA had very limited space to create its own policies and was restricted primarily to expenditure allocation.

Terms of the Accords permitted Israel to consolidate its control over its external borders and those within the West Bank. The DOP maintained Israel's control of internal and external security and delegated Palestinian foreign relations to final status

West Bank and Gaza Strip, Annex V: Protocol on Economic Relations (Washington, D.C., 28 September 1995); available, www.mfa.gov.il.

⁶² While neither of these practices is stipulated in the Oslo Accords, Israel has withheld clearance revenue numerous times since the Accords were signed. In the late 1990s after a wave of suicide bombings Israel withheld funds and more recently withheld revenues for political reasons when Hams won the PLC elections in January 2006. Additionally, “off-the-top” deductions from revenues destined for the PA are used to pay for electricity bills from the Israeli Electricity Corporation (IEC), who provides electricity to the Palestinian territories. Each of these practices violates terms of agreement in the Paris Protocol. See World Bank, *Implementing the Palestinian Reform and Development Agenda*, 11.

negotiations.⁶³ This allowed Israel to implement closure within and from the Palestinian territories, justified by Israel for security reasons and authorized by the international community. Closure, or the restriction of movement and access, has become a permanent fixture in the Palestinian territories since the Oslo process. It began as an elaborate permit and license plate system that dictated who could travel in and between certain areas and has expanded since Oslo to include other facets such as the separation wall that Israel began constructing in 2002.⁶⁴

Closure over the Palestinian territories works internally and externally by preventing movement of goods and people. It can be partial with some movement disrupted or total, where all movement and access is completely halted. Internal closure prevents movement within the West Bank through an extensive system of checkpoints, roadblocks, earth mounds, and other barriers to free movement. External closure prevents movement to and from Israel from the Palestinian territories or between the Gaza Strip and West Bank.⁶⁵ Finally, external closure prevents movement or access to the outside world from the West Bank to Jordan or from the Gaza Strip to Egypt. Between 1993 – 1996, closure and permits cost an estimated \$2.8 billion, which was double the amount of aid disbursed to the Palestinians during this time.⁶⁶ In addition, Israel imposed 443 days

⁶³ *Declaration of Principles on Interim Self-Government Arrangements*, Article V (Washington D.C., 13 September 1993); available, www.mfa.gov.il.

⁶⁴ Closure was initiated in 1991 during the first Gulf War and was institutionalized during the Oslo process. Since 2002, closure also includes the separation wall that Israel is constructing in the Palestinian territories and the permit system has also been extended to foreigners who wish to enter the Gaza Strip.

⁶⁵ *The Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip*, Annex I: Protocol Concerning Redeployment and Security Arrangements, Article IX (Washington D.C., 28 September 1995); available, www.mfa.gov.il.

⁶⁶ Ishac Diwan and Radwan Ali Shaban, “Development under Adversity: The Palestinian Economy in Transition,” *MAS-World Bank Joint Report* (1999), summary.

of closure, averaging 90 days per year between 1994 and 1999.⁶⁷ Since the status of East Jerusalem was put off for final status negotiations, it remained permanently closed to Palestinians in other parts of the West Bank and Gaza Strip.

The economic integration structured into the Paris Protocol made the Palestinian economy even more vulnerable to closure as Palestinian goods and labor waited for checkpoints to open at the discretion of Israel. Trade and regular employment were frequently disrupted and thus unemployment increased. The nature of the Accords provided very little space for Palestinians to create independent policy and created a pseudo-legal rubric for segmenting Palestinian territory and dislocating communities into semi-autonomous cantons, which prevented a uniform base for Palestinian political and economic relations. This led to redundant political institutions and segmented economic activity. Implementing the Oslo Accords led to the *de facto* fragmentation of Palestinian territories, thereby preventing economic viability in the areas under limited Palestinian self-rule and the prospect for an economically viable Palestinian state in the future. In this way, the Oslo Accords institutionalized Israeli occupation, which further dismembered Palestine and imprinted an Israeli-colonial vision for a potential state. International institutions supported these processes and ignored the context of Israeli occupation, focusing instead on configuring a neoliberal notion of state formation by ideologically ensuring neoliberal values through policy recommendations and development projects in the Palestinian territories.

⁶⁷ Farsakh, "Under Siege," available, www.merip.org.

3.2 International Institutions and Palestinian State Formation during the Oslo Process

The Oslo Accords became a juncture for international institutions to promote a neoliberal framework for political and economic development in conceptualizing a Palestinian state. With the signing of the Oslo Accords, a large influx of international organizations came to the Palestinian territories for the first time. The organizations ranged from state-based development agencies to international development and financial institutions. The number of international organizations and range of activities they were involved in was unprecedented for the Palestinian territories and a major indication of wide-ranging support for the internationally brokered Accords. Major international financial institutions such as the IMF and World Bank came for the first time to the Palestinian territories, creating country offices, allocating budgets for country specific research and development projects, and employing local and foreign employees. Importantly, Palestine is not a formal member of most international organizations that are state-based in their membership given that Palestine as a sovereign state does not exist. As such, the willingness of international organizations to come to the territories despite this actuality is unique and indicative of their desire to be involved in configuring neoliberal conditions in the Palestinian territories.

The World Bank in particular has played an important role in the Palestinian territories since negotiations between Israel and PLO began in the early 1990s. The United States and Russia asked the Bank to participate in the Madrid conference in 1991,

as assistant to the chair in three multilateral working groups.⁶⁸ When the Oslo Accords were signed, the Bank took on an extensive role in the territories, with some of its activities in line with its traditional role in other developing countries, and a number of activities outside its established purview. As in other developing countries, the Bank finances development projects and seeks to harmonize domestic policies with established rules, norms, and practices in an emerging neoliberal world order.

This is done primarily through monitoring and prioritizing macroeconomic domestic policies and supporting domestic social forces whose ideological leanings are mutually agreeable to consolidate national hegemony. The IMF also has an important, albeit slightly different role, in the Palestinian territories. Since the IMF became involved in the territories in the early 1990s it has worked closely with the PA, the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA), mainly on public sector institutional development, management, and reform. Through technical assistance, economic analysis, and policy advice, the IMF provides the PA with part of the means for creating a neoliberal policy framework and good governance practices in PA institutions.

International institutions viewed a political settlement as necessary but not required for economic development in the Palestinian territories.⁶⁹ Efforts to separate political and economic variables, particularly through the Bank's attempt to create "closure-proof trade routes" around industrial estates and free zones are one such

⁶⁸ Nu'man Kanafani and David Cobham, "The Economic Record of the World Bank and International Monetary Fund in the West Bank and Gaza: An Assessment," *Palestine Economic Policy Research Institute (MAS) Proceedings of MAS's Annual Conference 2007, Palestinian Economy: Forty Years of Occupation...Forty Years of Arrested Development (2007)*, 35.

⁶⁹ World Bank, *Developing the Occupied Territories: An Investment in Peace* Vol. 1 (Washington D.C.: World Bank, 1993), 13.

example.⁷⁰ International institutions tried to deemphasize Israeli occupation and depoliticize the realities of the Oslo process by focusing on neoliberal policy recommendations and donor-funded development projects. This was frustrating for international institutions such as the World Bank as they were given a mandate to enable an investor-friendly environment, yet had no institutional or political capabilities to work on the structural features that created the conditions for an unfriendly investment environment in the Palestinian territories.⁷¹

During this time, development discourse began to play a much larger role in Palestinian political economy. The basic vision for political and economic neoliberal development purported that market-driven private sector growth and government downsizing were the driving forces in transforming underdeveloped states. At the time, a “laundry list” of recommendations was supported in vastly different parts of the world to allegedly bring the world’s poorest nations to a state of development reached by advanced, wealthy states. As such, attempts to consolidate a neoliberal notion of Palestinian state formation during the Oslo process were “conducted under the hegemony of the ideology of economic liberalization, privatization, and ‘structural adjustment’ ...with effective powerful global institutions (economic, communicational, and financial) demanding a redefinition of state sovereignty that facilitates the free flow of capital and commodities on a world scale...”⁷² Although Palestinian statehood was put off until a later date pending final status agreements, the participation of the international community played a vital role in promoting political and economic neoliberalism during

⁷⁰ Kanafani and Cobham, “The Economic Record of the World Bank and International Monetary Fund in the West Bank and Gaza.”

⁷¹ Ibid, 69.

⁷² Hilal, 165.

the Oslo process. International institutions ideologically ensure neoliberal values in conceptualizing Palestinian state formation through policy recommendations and development projects.

3.2.1 Policy Recommendations

Policy recommendations to Palestinians during the Oslo process were consistent with those recommended in other parts of the world at that time. The ideological discourse of neoliberalism in general called for trade liberalization, private sector driven economic growth, and public sector reform through good governance principals in the Palestinian territories. In the case of trade, international institutions disagree on the exact shape of the preferable trade regime in the Palestinian territories (whether it should be a CU, free trade or non-discriminatory trade agreement), although there is a consensus surrounding the importance of trade liberalization and expansion in harmonizing Palestinian trade policies with existing norms and practices in an emerging world order.

The World Bank focused on three major policy areas during the Oslo process. These included the benefits of private sector investment, economic liberalization, and independent macroeconomic policy, especially the possibility of a Palestinian currency.⁷³ Two weeks after the Oslo Accords were signed by Israel and the PLO the World Bank issued a comprehensive six volume report titled, “Developing the Occupied Palestinian Territories: An investment in Peace.” The study emphasized the structural dislocations in the Palestinian economy and called for policies that would support private-sector growth, export promotion, improvement of infrastructure and service delivery, and diversification

⁷³ Kanafani and Cobham, 41.

of future trade relations.⁷⁴ The extensive nature of the volume and speed of its production raised some suspicion about the policy agendas of international institutions, and the Bank in particular. According to one of its own evaluation reports, the Bank notes, “The concomitant timing of publication of the report led some observers to wonder at the amazing speed and efficiency of the Bank, and other observers with a more conspiratorial turn of mind to infer that the Bank had somehow been appraised of the secret Oslo negotiations.”⁷⁵ From the perspective of international organizations, the report became the blueprint for policy prescriptions and development in the Palestinian territories during the Oslo process.⁷⁶

Good governance was encouraged through public management, fiscal discipline, and a policy framework that supported trade and investment. According to the World Bank, developing the private sector in Palestine “requires the creation of a legal and regulatory environment that supports private sector initiative. The legal system should provide a set of rules that govern property rights, their exchange and settlement of disputes...”⁷⁷ The IMF primarily assisted in formulating fiscal, banking, trade, and potential monetary policies for the PA. Similar to the World Bank, they emphasized in 1995 “the need for a strategy which is outward looking, led by the private sector, and able to promote sizeable nondebt credit private capital inflows for investment in productive, labor-intensive activities.”⁷⁸

⁷⁴ World Bank, *Developing the Occupied Territories*.

⁷⁵ Salvatore Schiavo-Campo, *Financing and Aid Management Arrangements in Post Conflict Situations*, World Bank CPR Working Papers No. 6 (Washington D.C: World Bank, June 2003), 4.

⁷⁶ Brynen, *A Very Political Economy*, 77 and Kanafani and Cobham, 40 – 41.

⁷⁷ World Bank, *Developing the Occupied Territories*, 17.

⁷⁸ IMF, *West Bank and Gaza Strip – Recent Economic Developments and Prospects and Progress in Institution-Building* (Washington D.C.: IMF, 1995), 28.

During the Oslo process, the PLO did sign several trade agreements in an effort to bolster the PA and show the international community its readiness to be good trading partner in the world economy. This allowed Palestinian exports duty-free access to the US, Canada, EU, the European Free Trade Association (EFTA), the Arab Free Trade Association (AFTA), and Turkey.⁷⁹ However, the agreements were only effective for Palestinian economic development insofar as Israel allowed goods to pass through its borders or the borders it controlled in the Palestinian territories to reach the outside world. Without this vital component in the process, Palestinian goods remained uncompetitive in regional and global markets as their stock and transit times continued to be unpredictable.

3.2.2 Development Projects

International organizations began to fund and plan for the future Palestinian state through development projects in the Palestinian territories during the Oslo process. In general, development projects work in tandem with policy prescriptions to create an enabling environment for the configuration of international and domestic social forces to negotiate and consolidate neoliberal values domestically and ensure those values in conceptualizing Palestinian state formation. Development projects focus on sectors such as education, health care, and infrastructure so that a stable environment is created for investment and production. The major actors involved in development projects include the major

⁷⁹ *Trade Agreement with Jordan* (January 1995); *Free Trade Agreement with the USA* (November 1996); *Interim Association Agreement with European Communities* (February 1997); *Trade Agreement with Egypt* (February 1997); *Joint Canadian-Palestinian Framework for Economic Cooperation and Trade* (June 1998); *Economic and Trade Cooperation with EFTA Countries* (November 1998); all available, www.paltrade.org.

international development and financial organizations such as the World Bank, IMF, various UN agencies, the EC, etc. along with individual state-based international development agencies (USAID, JICA, etc.).

While the activities of each organization take on different sectoral priorities, all development projects support a Palestinian state building project that coincides with the rules, norms, and practices of a neoliberal-influenced emerging world order. The construction of PA institutions was the focus of development during the Oslo process, as institutional development was seen as a vital component in creating the legal and regulatory environment necessary for neoliberal-based capital accumulation among elite social forces. The PA provided a governance structure for limited Palestinian self-rule over Areas A and B in West Bank and Gaza Strip. Similar to the larger thrust of the agreements, the PA was intended to be a transitional institution with restricted power. As such, the Authority had limited policy instruments at its disposal since it had no control over its borders or natural resources. The Paris Protocol further reinforced these structural limitations by integrating the Palestinian economy more into the Israeli economy than in the past by institutionalizing single monetary and trade policies between the Palestinian and Israeli economies.⁸⁰

Aiding the development of the PA has played a dual role for donors. First, supporting the creation of the PA and its constant reform and (re)structuring through good governance principals has ensured a Palestinian negotiating partner for Israel on

⁸⁰ The new Authority was a major political shift for Palestinians in that the PLO was the legitimized and sole representative of the Palestinian people up to that point which included Palestinians in the diaspora, the occupied territories, and Palestinians from 1948 residing in present day Israel. The PLO's importance was demoted to make way for the burgeoning PA, which then only came to represent Palestinians in the West Bank and Gaza Strip. Although the PLO remained the formal representative of the Palestinian people in negotiations with Israel.

terms agreed by the international community. Secondly, most donors believed that institutional development of the PA apparatus to be a foundational step in building a neoliberal environment for the ideological consolidation of social forces in the Palestinian state formation process. Even toward the end of the decade the World Bank was still saying "...more attention should be given to building competence within the PA, thus ensuring a capable system of governance that fosters and complements private-sector driven growth."⁸¹

Donors, Funding, and Aid Coordination

Coordination, management, and implementation of donor funds occurred through several complex mechanisms that were set up following the signing of the Oslo Accords. The international community donated over \$3.4 billion to Palestinians during the Oslo process, with a ratio of 7:1 in favor of development aid to humanitarian assistance.⁸² Main donors included the EC, US, World Bank, various EU countries, Japan, and Arab states.⁸³ The architecture of international aid during the Oslo process comprised over 40 countries, numerous UN agencies, local and international NGOs, Palestinian ministries, and the World Bank. At the Washington Conference for multilateral talks on peace in the Middle East in October 1993, the Multilateral Steering Group created the Ad Hoc Liaison Committee (AHLC). The AHLC consisted of 12 members and was the main body for developing a strategic vision and policy framework for international aid in the Palestinian

⁸¹ Ali Khadr, "Donor Assistance" in *Development under Adversity: The Palestinian Economy in Transition* by Ishac Diwan and Radwan Ali Shaban (Washington D.C.: IBRD/World Bank, 1999).

⁸² Diwan and Shaban, *Development under Adversity*, 143 and Yossi Alpher, "Israel's Aid Responsibilities Towards the Palestinian Population" in *Aid, Diplomacy, and Facts on the Ground: The Case of Palestine* by Michael Keating, Anne LeMore, and Robert Lowe, eds. (London: Chatham House, 2005), 155.

⁸³ MIFTAH, "Fact Sheet: The Palestinian National Authority's Sources of Funding," (February 2006); available, www.miftah.org.

territories. Also at the capital level, a Consultative Group (CG) was established by the World Bank, which as in other recipient countries served as a forum to mobilize donor pledges and discuss policy issues.

At the local level, two main bodies were initially established for coordinating international aid: the Joint Liaison Committee (JLC) and the Local Aid Coordination Committee (LACC). The JLC was set up to encourage policy coordination among major donors, Israel, and the PA, while the LACC served as a forum for all donors and coordinated international funds on the ground. The LACC also liaised between the AHLC and Sector Working Groups. Sector Working Groups were set up in 1995 as a local forum for sector-based coordination and implementation of development projects. As the Oslo process progressed, Israeli imposed restrictions on movement and access increased, posing major impediments to donor-funded development project implementation. In 1997, the JLC specially created the Task Force on Project Implementation (TFPI) to determine ways to work around those constraints. The AHLC, CG, JLC, LACC, TFPI, and the Sector Working Groups were all co-chaired by international institutions (World Bank, UNSCO, EU/EC, US/USAID, Japan/JICA, Norway) and sometimes a PA representative.

The international institutional architecture and corresponding configurations of international and domestic elite social forces represented the penetration of international institutions and deeply embedded nature of international intervention in Palestine's development and conceptualization. The complex and extensive structures devised by the international community to fund, coordinate, and manage neoliberal development projects ensured Palestine's continued and deepening internationalization. Furthermore,

the international institutional architecture set up after Oslo became a space for international and domestic elite social forces to congregate and consolidate neoliberal hegemony in conceptualizing Palestinian state formation and development.

In addition, the World Bank and leading Palestinian actors created the Palestinian Economic Council for Development and Reconstruction (PECDAR) in 1993 as a mechanism for managing aid and investments, along with drafting economic policies.⁸⁴ PECDAR was created because there were no public financial institutions in the Palestinian territories that could manage and implement the development projects funded by donor aid. The transitional rubric that Oslo operated under applied to PECDAR as well in that its mandate was originally supposed to expire in 1996, yet still remains today. Several PA ministries emerged from PECDAR program offices such as the office of program formulation became the Ministry of Finance and the economic analysis office became the Ministry of Planning.⁸⁵

Trust funds were also an important mechanism for channeling donor funds to the PA, but more importantly represented the unprecedented role the World Bank was willing to play in setting up neoliberal conditions in the Palestinian territories. Since the Palestinian territories are not a member country of the Bank, the Bank devised new institutional mechanisms that were extraordinary at the time and allowed the Bank to pursue neoliberal development projects on the ground. While numerous funds have been created since the Oslo process, the most important during that time was the Holst Fund (1994 – 2001), as it was the main way to channel funds to the development of PA institutions. The Holst Fund provided financing for three components of PA institutional

⁸⁴ Kanafani and Cobham, 43.

⁸⁵ Salvatore Schiavo-Campo, 9.

development: 1) recurrent budget support (initially only for a couple ministries but by 1995 had broadened to include financing for almost all PA central administration salaries, operations and maintenance expenses), 2) job creation, and 3) micro-projects. The purpose of the Fund exemplified the way international donors were willing to fund institutional development to create an environment for capital accumulation and institutionalize a neoliberal conception of Palestine.

Through the various funding and implementation mechanisms discussed above, the PA was a product of international institutionalization of the neoliberal project in Palestinian governance and institution building. Prior to the Oslo process, public Palestinian institutions did not exist in the Palestinian territories, and during the Oslo process, Israel would only allow Palestinian institutional development within the context of a peace process (i.e. with international oversight and consent given by Israel).⁸⁶ Separation between the Gaza Strip and West Bank led to inefficiency and duplication of institutions and the complete disconnect from East Jerusalem prevented any cohesion in Palestinian national institutions. Because the PA was a construction of international institutions and was limited by external constraints of occupation, the Authority had limited policymaking capacity. As the PA was a creation of the international community, it expectedly was dependent on international institutions for policy formulation. Particularly, the PA was dependent on economic policies that would guide the pseudo-state apparatus toward the domestic consolidation of hegemony with neoliberal values ensured by the social forces that were brought into the construction of the PA.

⁸⁶ Ibid, 8.

Industrial Estates

All projects through international institutions enable an environment for neoliberal development in some fashion; however, the most glaring reflection during the Oslo process was the creation of a free zones and industrial estates program. Industrial estates and free zones are specially designated customs and duty-free, export-processing zones that aim to attract foreign investment and facilitate joint ventures. They facilitate capital accumulation by creating enclaves of small-scale investor friendly environments (low cost labor, tax exemptions, few environmental regulations, advanced infrastructure, etc.) that guarantee few protections for local workers and the environment, but promise profits for international and domestic elite social forces. In the Palestinian territories, the industrial estates program represented a larger dynamic in the relationship between international institutions and Palestinian state formation during the Oslo process. The industrial estates were important development projects for international institutions that tried to isolate political variables from economic variables because they were an attempt to create “closure-free zones.” The idea that development could proceed in isolated enclaves, while ignoring the larger political context of military occupation mimicked the larger thrust of international support for the Oslo process that ignored the necessity of a political process that would lead to a political settlement and a Palestinian state.

The economic justification for the development of industrial estates in the Palestinian territories was that they would solve the persistent problem of Palestinian unemployment, build confidence and mutual trust through economic linkages with Israeli businesses, and integrate the Palestinian economy into global markets. The “Law for

Industrial Estates and Free Zones” and the “Law on the Encouragement of Investment” provided the main legal framework for establishing industrial estates and made clear that all incentives, exemptions and privileges were offered to investors regardless of nationality. The industrial estates encouraged foreign direct investment (FDI) by offering financial incentives and exemptions such as: goods imported and exported, profits earned, and buildings constructed were all exempt from customs duties and taxes. Capital invested, income generated, and foreign currencies could all be freely transferred and repatriated to home countries.⁸⁷

With the assistance of international institutions, particularly the World Bank, the Palestinian Industrial Estates and Free Zones Authority (PIEFZA) was created during the Oslo process, which allowed for a legal rubric for implementing industrial estates and free zones along the Green Line. PIEFZA managed the industrial estates and free zones program and provided “one stop shop” services for investors by coordinating all permits and licenses needed with relevant government agencies to begin production in the industrial estates. The entire concept of industrial estates and free zones in the Palestinian territories – where neoliberal policies and purported economic development could flourish in isolated enclaves permitted by Israel – further institutionalized the very nature of the Oslo Accords and the subsequent process that became infamous for cantonization and foreign control.

Before the Oslo process, Israel had established one industrial estate slightly north of the Gaza Strip called the Erez Industrial Estate (EIE). After the Oslo Accords were signed, the Israeli Minister of Industry and Trade, Natan Sharansky, and World Bank

⁸⁷ PNA, “Law No. 10/1998 regarding Industrial Estates and Free Zones,” available, www.piefza.org.

President, James Wolfensohn, sought to revive and expand the industrial estates program.⁸⁸ The GIE was the first and only operational industrial estate established during the Oslo process. The industrial estate was equipped with advanced infrastructure and service centers for conducting business. Nine other industrial estates were planned during the Oslo process, but none were launched during that time. Not coincidentally, the industrial estate was ceremonially opened in December 1998 when US President Bill Clinton visited the Gaza Strip. President Clinton cut the ribbon at the then standing Gaza Airport and US Commerce Secretary, William Daley, did the same at the GIE site.⁸⁹ The primary investors (elite social forces) in the GIE were the World Bank, USAID, European Investment Bank, Palestine Development and Investment Ltd. (PADICO), and the government of Israel. USAID, whose main function is a procurement agency for US firms in the Palestinian territories, contracted a number of companies such as The Services Group (now AECOM International Development), The Berger Group, and Chemonics to design and build infrastructure and install high-tech scanners so that Israel would accept the goods as safe for export.⁹⁰ Each of these private international development firms has development projects such as the construction of export processing zones in other “emerging markets.”

Industrial estates were an important mechanism for merging local social and economic forces led by the private sector in the Palestinian territories and Israel with the neoliberal ideological logic and international social forces of international institutions.

⁸⁸ David Harris, “Sharansky, PA to Discuss Industrial Zone,” *Jerusalem Post*, 31 July 1996, sec. Economics, p. 8.

⁸⁹ Business Week, “As Factories Bloom in the Gaza Strip...A Little Company Dreams Big Dreams,” (28 December 1998); available, www.businessweek.com.

⁹⁰ The Berger Group, “Supporting the Gaza Regional Transport and Logistics Plan,” available, www.bergergroup.com; USAID West Bank/Gaza, available, www.usaid.gov.

PADICO (among others) became representative of the new Palestinian elite social forces that were arranging themselves in the contested neoliberal process of conceptualizing Palestinian state formation.⁹¹ Industrial estates also became “vehicles for transmitting the global market discipline to the domestic economy” and a space for international institutions to have influence over Palestinian economic relations with Israel and the rest of the world.⁹² They were packaged as a model for economic development and a conduit for Palestinian economic integration into the global economy, similar to export processing zones in other developing countries. Seen as “closure-proof,” the industrial estates and free zone program not only attempted to ignore the context of Israeli occupation, but further refashion the impediments of economic development as an opportunity to globalize.⁹³ However, production in industrial estates was not for domestic consumption and as such had few linkages with the rest of the economy. They did not prove to be effective engines of economic growth as there were few “spillover” effects into the domestic Palestinian economy. Finally, industrial estates were quickly relegated from any notion of “closure proof” as the IDF frequently interfered with site development and imposed closure when the *al-Aqsa intifada* began in 2000.

3.3 Summary

The terms and structure of the Oslo Accords clearly favored Israel and its state expansionist goals through various mechanisms such as its unilateral right to impose closure over discountiguous Palestinian enclaves while simultaneously expanding its

⁹¹ Lagerquist, 12.

⁹² Ankie Hoogvelt, *Globalization and the Postcolonial World: The New Political Economy of Development* (Hong Kong: MacMillian, 1997), 134.

⁹³ Lagerquist, 14.

population in Palestinian territories. Israel defends its right to prevent movement and access through the use of checkpoints or closure more generally in the name of temporary security measures, however, the regularity and extent of these mechanisms go far beyond justifiable security concerns. Since the Oslo process, movement and access restrictions have been widespread and consistent, thus representing an institutionalized policy of closure since that time. Furthermore, the CU and revenue-clearance system as part of the Paris Protocol privileged Israel's economy and made PA funding partly dependent on Israel's willingness to remit money back to the Palestinians. Israeli occupation was institutionalized during the Oslo process with the support of the international community and these dynamics created the context from which the current inviability of Palestinian statehood derives. While the aspirations for Oslo may have been in the spirit of Palestinian statehood, the political and economic architecture created under its auspices was pointed toward creating a business friendly environment and the conditions for neoliberal-based capital accumulation in the Palestinian territories.

While international institutions had been involved in the Palestinian territories before the 1990s, most significantly the UN and its related agencies, the Oslo process opened the door for international intervention into the Palestinian territories. Through policy prescriptions and donor-sponsored development projects, international institutions have ensured neoliberal values in conceptualizing Palestinian state formation. Policy papers and recommendations encouraged the formulation of a policy framework that supported neoliberalism through good governance principals and market-based, investor-friendly macroeconomic policies. Institutional development and corresponding policies provided a legal and regulatory context for tangible development projects on the ground

in the Palestinian territories. Most notably during the Oslo process, institutional development was supported through the burgeoning PA apparatus. Economic development was assisted through various programs during the Oslo process, although for purposes of this paper the establishment of an industrial estates and free zone program was the most noteworthy. This is because of the direct economic and ideological role they played in linking the neoliberal rules, practices, and norms of an emerging world order with those of Palestinian economic development. In this process, international and Palestinian social forces are brought together for the purpose of domestic consolidation of neoliberal values in the process of conceptualizing Palestine.

Chapter 4 – International Institutions in the Palestinian Territories in the Post-Oslo Period (2000 – Present)

The Oslo process was problematic from the outset, as described in the previous chapter. During the Oslo process, international institutions made clear that Palestinian economic recovery was a three-pronged approach, whereby both Israel and the PA needed to make reform efforts, and the international community would support each in these endeavors. However, during the Oslo process, there was much emphasis on Palestinian institutional development and donor funding of what was considered vital projects for laying the foundations for conceptualizing neoliberal Palestinian state formation and economic integration into regional and global markets. During the Oslo process, international institutions tried to separate political and economic variables in hopes that economic development and a burgeoning PA apparatus would downplay the political and economic realities of Israeli occupation. Any hope surrounding the Oslo process, no matter how false it may have been, clearly had ended by the end of the decade. Negotiations between Israel and the Palestinians failed in 2000 at Camp David and Taba, Ariel Sharon was elected Prime Minister in Israel, and Palestinians took to the streets in 2000 in rejection of the configuration of Palestine that favored Israeli state expansionism and neoliberal global integration.

When the second *intifada* started in 2000 the Israeli military redeployed into many villages and towns in the Palestinian territories, particularly since 2002 when the IDF conducted “Operation Defensive Shield” and entered Areas A and B. Since that

time, Israel controls all of the West Bank and Gaza Strip.⁹⁴ Even after Israel's Disengagement from the Gaza Strip in 2005, the IDF still retains complete control over its land, air, and sea, which has proven devastating since Israel's siege on the territory that began in 2007. Since 2000, international organizations have increasingly diverted funds from development to humanitarian relief. Between 2001 and 2006 developmental assistance comprised only a little more than a quarter of total donor assistance to the Palestinians.⁹⁵ The ratio between development and humanitarian assistance was 7:1 during the Oslo process, but by 2002, the ratio practically reversed to 1:5.⁹⁶ During the second *intifada* donors nearly doubled aid, reaching approximately \$1 billion annually.⁹⁷

Since the PA was a construction and product of international intervention into Palestinian political development, donors have desperately attempted to prevent structural collapse of the PA and a humanitarian disaster in the Palestinian territories. Had either of these occurred, the negligent role of Israel and the international community in ending the conflict and implementing a political settlement that would lead to a Palestinian state would have been clearly illuminated. Mainly, international organizations provide humanitarian relief directly in the form of food or medical assistance or through budget support to PA institutions and short-term employment generation schemes (primarily within donor-funded neoliberal development projects).⁹⁸ While international institutions

⁹⁴ Israel retained full control of East Jerusalem during this time, but this does not represent any change from the Oslo Accords since Israel never relinquished its control of that part of the city as it was put off for final status negotiations.

⁹⁵ Kanafani and Cobham, 40.

⁹⁶ World Bank, *Twenty-Seven Months – Intifada, Closure and Palestinian Economic Crisis* (Washington D.C.: World Bank, May 2003), 51.

⁹⁷ David Shearere and Anuschka Meyer, "The Dilemma of Aid under Occupation" in *Aid, Diplomacy, and Facts on the Ground: The Case of Palestine* by Michael Keating, Ann LeMore, and Robert Lowe, eds. (London: Chatham House, 2005), 167.

⁹⁸ Kanafani and Cobham, 59.

initially allowed for public sector employment expansion as a response to closure-inflicted unproductive private sector unemployment, they have since reigned in on this practice. International institutions permitted this at first because it was easier than confronting Israel for creating the conditions under which massive unemployment was taking place. While international organizations now passively criticize Israel in their publications, more importantly they promote policies to the PA and condition funding on capping the public wage bill and other public sector reform measures. Following the neoliberal mantra and ignoring the conditions of occupation, the World Bank and other international institutions believe that support for the private sector can help the PA curtail a growing public sector.⁹⁹

In January 2006 when Hamas democratically won the PLC elections, the international community immediately boycotted the new Palestinian government by halting all aid and diplomatic contacts. Israel withheld clearance revenues that it was supposed to remit back to the PA as part of the Paris Protocol, amounting to a deficit over \$1 billion.¹⁰⁰ Agreeing to the terms set by dominant international social forces and mutually agreeable to local elites, Palestinian President Mahmoud Abbas officiated an “emergency government” and declared Hamas an illegal authority on 17 June 2007. A month later, the emergency government was transformed into a “caretaker government” and was unequivocally supported by the international community. Salaam Fayyad, a US-trained economist that previously worked at the World Bank and IMF was appointed

⁹⁹ Information from this paragraph can be found in World Bank, *The Preconditions for Palestinian Economic Recovery and Two Years after London*.

¹⁰⁰ World Bank, *Two Years after London*, 3.

Prime Minister.¹⁰¹ Israel released 256 mostly-Fatah prisoners from Israeli jails, increased entry permits for senior PLO officials, and started to remit some of the clearance revenue back to the PA that it had been withholding as part of the Hamas boycott.¹⁰² The international denouncement of democratic results in the PLC elections showed once again the deeply embedded nature of the international community in shaping Palestinian political development and was yet another example of the marriage between international and domestic social forces in securing an internationally approved legal and regulatory environment for capital accumulation. Furthermore, the configuring of domestic and international social forces during this processes further concretized the role of international elite social forces in conceptualizing Palestine.

At the Paris Donors Conference held in December 2007, acting Prime Minister Salaam Fayyad presented the Palestinian Reform and Development Plan (PRDP) for the years 2008 – 2010. In general, the PRDP sets out to “...reform the security sector and re-establish the rule of law, improve access to justice, move toward a more fiscally sustainable position, improve our management of public finances, strengthen the capacity of the public sector, and improve local governance.”¹⁰³ The PRDP embodies a comprehensive plan for neoliberal reform and development in the Palestinian territories on a sectoral basis, as prescribed by international institutions. The PRDP is a manifestation of Palestinian elite social forces negotiating the policies and ideology of neoliberal-influenced world order with the process of Palestinian state formation. According to the World Bank, “The PA’s recognition of the need to interface with donors

¹⁰¹ Pamela Ann Smith, “Will \$7.5bn Really Make a Difference?” *The Middle East* (February 2008): 49.

¹⁰² Information relating to this section, World Bank, “*Two Years after London, Annexes*,” 12.

¹⁰³ PNA, *Palestinian Reform and Development Plan 2008 – 2010* (2007), 6; available, www.mop-gov.ps.

is imbedded in the PRDP preparation process, whereby PA sub-teams were created on economic development, infrastructure, governance and social and humanitarian policy. The setup of these teams mirrors the structure of the Local Strategy Groups,” which is coordinated by LACS through the AHLC and Quartet.¹⁰⁴

The PRDP economic and development policy framework represents a complete embracement of what dominant international social forces expect from a Palestinian government, despite its limited capabilities and resources. In creating the PRDP, the PA stated that it held consultations with “internal stakeholders” such as the private sector and NGOs, in addition to “external development partners” such as international financial institutions and donors.¹⁰⁵ The PRDP approach is based on neoliberal economic principals and standardized with international institutional formats. For example, the PRDP utilizes a Medium-Term Expenditure Framework (MTEF), as developed by the World Bank and a Medium-Term Fiscal Framework created by UNCTAD.¹⁰⁶ Similar to most plans in the post-Oslo period, the PRDP is a performance based-plan with built in mechanisms for monitoring and evaluation.¹⁰⁷

Much of the PRDP is about public expenditure control and PA fiscal sustainability, an attempt to “slim down the PNA.”¹⁰⁸ Complying with neoliberal dictates, the PRDP promises to reduce the budget deficit, control the public sector wage bill, reduce public sector employment, reform the pension system in the future, privatize electricity distribution, improve public financial management, implement modern human

¹⁰⁴ World Bank, *Two Years after London*, 32.

¹⁰⁵ PNA, *Palestinian Reform and Development Plan 2008 – 2010*, 14.

¹⁰⁶ *Ibid*, 12, 30.

¹⁰⁷ *Ibid*, 107.

¹⁰⁸ *Ibid*, 25.

resources management thru performance evaluations and merit-based appointments, and introduce e-government. The PRDP embraces nearly all the policy recommendations proffered by international institutions in the Oslo and post-Oslo periods. For instance it says the PA will draft a Company Law, Competition Law, Land Law, Industrial Law, Trade Law, Public Audit Law, Civil Service Law, revise the Public Finance Law, revise the Landlord and Tenant Law, upgrade capacity of data collecting bodies (PCBS, MoF, MoP), build capacity of the Palestinian Standards Institute (PSI), establish an electricity regulatory body, develop the mortgage market, increase property registration, increase exports, create an agro-industrial park (described below), establish municipal industrial parks in Tulkarem and Hebron, and establish border industrial estates in Jenin and Tarqumiya (described below) – all of which have been previously recommended to the PA by international institutions.¹⁰⁹

Not surprisingly, international institutions support the PA’s drive to implement a neoliberal policy framework and believe the PA has done a remarkable job at implementing a number of the PRDP reforms.¹¹⁰ Elite social forces that have been built up through the PA (MoP and MoF in particular through pioneering of PRDP) admit, “Reformers have difficulty countering the allegations that the reform agenda is international, not Palestinian, lending credence to one of the most powerful arguments advanced by resisters of reform.”¹¹¹ The PRDP is a clear manifestation of domestic social forces agreeing to terms set by international elite social forces and mutually agreeable to

¹⁰⁹ Ibid, 44 – 49.

¹¹⁰ The World Bank notes that PA-related security “has received broad international support at the Berlin Conference on Palestinian Civil Society and the Rule of Law held on June 24.” World Bank, *Palestinian Economic Prospects*, 5, 29.

¹¹¹ PNA, *Palestinian Reform and Development Plan 2008 – 2010*, 19.

both groups for establishing a business friendly climate conducive to neoliberal capital accumulation in the Palestinian territories.

4.2.1 Policy Recommendations

The tone of policy recommendations after the Oslo process varied little from the earlier period. The general thrust toward the neoliberal condition remained the same as the World Bank reiterated in the post-Oslo period, “Palestinian economic recovery will depend on creating an export-based economy with unimpeded access to global markets.”¹¹² Not unlike the Oslo period, the post-Oslo phase has been heavily influenced by policy recommendations of international institutions. Enhancing institutional capacity to correspond more correctly with a neoliberal project continues to be a major policy emphasis for international institutions. One World Bank publication notes, “Without efficient customs, courts, standards institutes, statistical services and other necessary institutions, the Palestinian private sector will not be competitive.” International institutions prescribe the development of key institutions that promote trade such as the Department of Customs, which according to the World Bank, needs support in entering the World Customs Organization.¹¹³ International institutions also recommend establishment of the Palestinian Electricity Regulatory Council (PERC), enhancing the Palestinian Monetary Authority (PMA), and creating a credit bureau to further develop

¹¹² The Services Group, USAID, and World Bank, *Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects, Technical Paper II – Industrial Estates* (Washington D.C.: World Bank, December 2004), 1.

¹¹³ Last several references from World Bank, *Palestinian Economic Prospects*, 31.

the legal and regulatory environment and favorable neoliberal conditions in the Palestinian territories.¹¹⁴

While a number of ministries work directly with particular international institutions on drafting general policies, certain laws have been consistently prescribed in the post-Oslo period. Similar to aiding key institutions that support trade and investment, the laws that international institutions recommend foster a legal framework for neoliberal-based capital accumulation. This includes establishing competition and anti-money laundering laws, and reforming the existing electricity and pension laws to decrease the amount of public assistance.¹¹⁵ Privatization is encouraged through contractual arrangements for private management and investment in power distribution utilities. To harmonize Palestinian procedures and products with existing practices and rules in neoliberal influenced emerging world order international institutions recommend the development of the PSI to meet international standards. All PA manuals and procedures are also encouraged to become standardized with international norms.¹¹⁶ The largest change from international institutions in the post-Oslo period has not been in the prescriptions themselves, but that international institutions started to condition international assistance to Palestinians on reform towards those recommendations. In 2000 and 2002, the IMF was mandated by donors to provide assistance to the PA through a range of reforms in the Economic Policy Framework and the Transparency and Financial Accountability Support Group. More recently, the IMF works with the PA in creating its annual budget and monitoring public sector expenditure. President Bush's

¹¹⁴ World Bank, *West Bank and Gaza Investment Climate Assessment*, executive summary, 40.

¹¹⁵ *Ibid*, executive summary, 40.

¹¹⁶ World Bank, *Implementing the Palestinian Reform and Development Agenda*, 12.

Rose Garden speech in 2002 made Palestinian statehood conditional on the PA's ability to strengthen governance capacity and increase fiscal transparency. During this time, the Task Force on Palestinian Reform (TFPR) was created to implement, monitor, and evaluate Palestinian performance towards international recommended/imposed reforms.¹¹⁷ These reforms were further embodied in the 2003 Quartet sponsored "Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict."

A smaller, although also apparent, change in international institutions in the post-*Oslo* period appears in their critique of Israel's role in preventing Palestinian economic development. The World Bank, for example, has repeatedly stated that Israeli imposed movement and access restrictions "...go beyond concrete and checkpoints to [form] a complex matrix of restrictive policies and administrative procedures that combine to stunt Palestinian economic growth."¹¹⁸ Statements that identify Israeli obstacles to Palestinian economic development and the accompanying recommendations for removing these barriers remain baseless and decontextualized as they fall short of actually pressing Israel to change. No aid to Israel has been conditioned on these recommendations or support for agreements with the PLO. The context of Israeli occupation and necessary Israeli steps for improving the situation remain in publications of international organizations that focus on the Palestinian territories and not in the publications for Israel. In this way, there is a disconnect between what employees of international organizations know based on

¹¹⁷ The Quartet established the Task Force on Palestinian Reform in 2002. TFPR eventually included representatives of the Quartet, Norway, Japan, Canada, the World Bank, and the IMF.

¹¹⁸ World Bank, *Two Years after London*, 4.

realities on the ground and their ability to actually affect the structural dislocations in the Palestinian economy.¹¹⁹

4.2.2 Development Projects

Similar to the Oslo phase, development projects for Palestinians sought to align more directly development activities with those of neoliberalism so that these values would become incorporated into the conceptualization of Palestinian state formation. The logic behind the developmental framework did not change significantly in the post-Oslo phase. Good governance and other neoliberal prescriptions are encouraged through institutional development by building and strengthening technical, management, and administrative capabilities. Poverty is purportedly reduced by expanding access to productive assets, employment is generated through labor intensive, private-sector development, infrastructure is developed and improved to “increase the livelihood capacity” of Palestinians and for the facilitation of trade and communications into global markets.¹²⁰ UNDP, for example, still has the same main focuses as the earlier period of 1) poverty reduction through economic development and growth and 2) enhancing governance institutions.¹²¹ As part of its governance development program, UNDP supports “constructing courthouses and detention centers” in concretizing the neoliberal rule of law and resolving conflicts through the (neo) liberal state.

¹¹⁹ Marina Skuric Prodanovic (LACS), interview by author, Ramallah, Palestine, 2 March 2009; Helene Smith (LACS), interview by author, Ramallah, Palestine, 2 March 2009; Koike Seiichi and Akiko Komori (JICA), interview by author, Tel Aviv, Israel, 5 March 2009; Nader Atta (UNDP), interview with author, Jerusalem, Palestine, 13 March 2009; Ranan Al-Muthaffar (World Bank), interview with author, Jerusalem, Palestine 13 March 2009.

¹²⁰ UNDP/PAPP, *Mid-Term Strategic Framework, 2008 – 2011*, 26; available, www.undp.ps.

¹²¹ *Ibid.*, 23.

Development projects since the Oslo phase have tried to address some of the criticisms of neoliberal development by making development packages appear more participatory and locally oriented. UNDP, for example, notes that many of its development programs “are developed from a participatory community-based prioritization of local needs approach.”¹²² The World Bank connects gender to the protection of private property. They state, “Although shari’a law allows women to inherit land, this is rarely practiced due to the fear of women to claim their land rights. Often they forgo these rights in order to preserve harmony within the family. Such discriminatory social practices will persist unless a standard legal system is established to protect the land rights of all people.”¹²³ On the surface these development programs appear to be more participatory; however, even the World Bank admits that international aid to Palestinians is highly motivated by donors’ political views and has “created a ‘shopping list’ approach to development planning where projects are more aligned with the donor’s requirements than with local priorities.”¹²⁴ Moreover, the ends remain the same in neoliberal-based development programs – that of ensuring a stable environment for business and capital accumulation – despite some the means to these ends changing in emphasis to particular segments of the population.

Donors, Funding, and Aid Coordination

Despite minor changes, the international institutional architecture that coordinates and manages aid to the Palestinian territories varies little from the Oslo period. The AHLC

¹²² UNDP/PAPP, *Fast Facts*, available; www.undp.ps.

¹²³ World Bank, *The Preconditions for Palestinian Economic Recovery*, 9.

¹²⁴ World Bank, *Two Years after London*, 29.

approved a number of changes in aid coordination and management on 14 December 2005. Currently, Norway is the chair of the AHLC, the EU and US are the co-sponsors, and the World Bank serves as secretariat. At the capital level, the Quartet was given a formal place in the aid coordination hierarchy, serving as an adjunct to the AHLC on political matters. At the local level, the Local Development Forum (LDF) was established, which replaced the LACC, along with the Humanitarian and Emergency Policy Group (HEPG) and the Local Task Force for Palestinian Reform (LTFPR) that were created in 2002. The LDF is open to PA representatives, donors, development agencies, and a representative of Association of International Development Agencies (AIDA). The LDF supervises aid and international support issues and is co-chaired by the Palestinian Ministry of Planning, Norway, the World Bank, and UNSCO.¹²⁵ The JLC was dissolved in 2005 and then reinstated in September 2008, although aid coordination staff of international organizations does not believe it will last long due to continuous political instability.¹²⁶

Between 2002 – 2005, the TFPR and seven Reform Support Groups (RSGs) were established to specifically monitor and implement reform of PA institutions. The Civil Society RSG was coordinated by Norway, Elections were coordinated by the EC and the US, Financial Accountability was coordinated by the EC and the IMF, Judicial and Rule of Law Reform was coordinated by EC and the Netherlands, Market Economics was coordinated by the US and the World Bank, Local Government was coordinated by Japan, and Public Administration and Civil Service Reform was coordinated by

¹²⁵ LDF, *Local Aid Coordination Structures in the OPT*, available; www.ldf.ps.

¹²⁶ Marina Skuric Prodanovic, interview by author, Ramallah, Palestine, 2 March 2009; Helene Smith, interview by author, Ramallah, Palestine, 2 March 2009.

Germany, the World Bank, and the UK. Through these mechanisms international institutions have a direct link to local institutions and can ensure institutional development in the Palestinian territories is consistent with the norms and practices of an emerging neoliberal world order.

In 2005, the RSGs and The Sector Working Groups were consolidated into four Strategy Groups (SGs): economic, governance, infrastructure, and social development. Each of the SGs are chaired by a Palestinian ministry and an international actor and consist of a number of sector working groups, which are also co-headed by a Palestinian ministry and international representative. The Economic Strategy Group is co-chaired by the Ministry of Finance and the World Bank, the Governance Strategy Group is co-chaired by the Ministry of Planning and the EC, the Infrastructure Strategy Group is co-chaired by the Ministry of Housing and Public Works and USAID, and the Social Development Strategy Group is co-chaired by the Ministry of Social Affairs and UNSCO. Funds and projects are coordinated through the Local Aid Coordination Secretariat (LACS) and the Task Force on Project Implementation (TFPI). Together the LACS and TFPI work with sector-based strategy groups to implement neoliberal development projects on the ground.¹²⁷ As in the Oslo period, the expansive breadth of international structures and social forces represents how deeply intertwined international institutions are in Palestine's conceptualization and development. The neoliberal condition in Palestine is developing with the direct assistance of international institutions, which bring together international and domestic elite social forces in various arenas to consolidate hegemony and a neoliberal conceptualization of Palestine.

¹²⁷ LDF, *Local Aid Coordination Structures in the OPT*, available; www.ldf.ps.

The power and price of such internationalization was showcased when the international community boycotted the democratic election of Hamas to the PLC in January 2006 and froze nearly all international assistance to the PA at that time. In coordination with the World Bank, the EU formed a Temporary International Mechanism (TIM) as a way to bypass PA institutions (temporary administered by Hamas) while continuing to channel funds to neoliberal development projects and humanitarian relief in the Palestinian territories. The EU TIM closely monitored funds and beneficiaries to ensure that international assistance was only directed to those approved by international donors. In 2008, the EU TIM was replaced with the Palestino-Européen de Gestion et d'Aide Socio-Economique (PEGASE) mechanism, which is a longer-term instrument that allows for continued monitoring and evaluation of international funds to the Palestinian territories, but follows the timeline and framework of the internationally approved PRDP.

As in the Oslo period, World Bank Trust Funds play a large role in providing institutional mechanisms for donors to channel international assistance to development projects and humanitarian assistance in the Palestinian territories in the post-Oslo period. Most notable is the PRDP Trust Fund, as it follows a similar thrust as PEGASE in using the PRDP as the framework for financing. PRDP Trust funding is conditional upon successful implementation of reforms as set out in the PRDP. While the entire PRDP exemplifies Palestinian social forces presenting terms that are mutually agreeable to international institutions through a neoliberal framework, the PRDP TF specially targets political development through good governance within the PA as prescribed by international institutions. According to the World Bank, “Key policy items include expenditure containment (particularly wages and net lending) and progressive

strengthening of public finance management...”¹²⁸ Also similar to the PEGASE mechanism, the PRDP TF guarantees thorough monitoring and evaluation of budget allocation and progress toward PRDP implementation. Funds are dispersed upon successful evaluation of PA quarterly reports by the World Bank and IMF.¹²⁹ Through aid coordination structures and various funding mechanisms international institutions ensure neoliberal development programs continue in the Palestinian territories and provide an opportunity for elite international and domestic social forces to collaborate on the consolidation of neoliberal hegemony in the conceptualization of Palestinian state formation.

Industrial Estates

When the second intifada started in 2000, construction of all proposed industrial estates was halted. Despite the complete failure of the industrial estates program during the Oslo process, certain social forces keen on creating small enclaves for limited capitalist accumulation and integration in regional and global markets seek to revitalize and expand the program. In a World Bank Technical Paper on industrial estates (IEs) in 2004, the Bank says,

“In an improved operating environment, Palestinian entrepreneurs and foreign investors will look for well serviced industrial lands and supporting infrastructure. They will also seek a regulatory regime with a minimum of ‘red tape’ and with clear procedures for conducting business. Industrial estates, particularly those on the border between Palestinian and Israeli territory, can fulfill this need and thereby play an important role in supporting export-based growth.”¹³⁰

¹²⁸ World Bank, *Palestinian Reform and Development Plan Trust Fund*, available; www.worldbank.org.

¹²⁹ Ibid, available; www.worldbank.org.

¹³⁰ World Bank, *Industrial Estates*, 1.

Four estates were proposed for revitalization or creation: EIE, GIE, Jenin (JIE), and Tarqumiya (TIE). In addition, there is potential for a Tulkarem Peace Park (TPP), which is favored by the Israeli and Palestinian private sectors because of its proximity to the Israeli high tech corridor around Herzliya. Tulkarem was also the site of connection between the West Bank and Gaza Strip during the Oslo process, which is important to investors should the possibility arise again for connection between the Palestinian territories. According to World Bank, these sites are considered feasible because of their locations to Israeli ports (Ashdod, Ashkelon, and Haifa), land availability, and potential for movement of goods and people.¹³¹ The World Bank makes five recommendations for the success of the industrial estates and free zones program.¹³² This includes, unfettered access and movement of goods, linkages with Israeli businesses and markets, use of IEs to increase exports, support for PIEFZA, PIEDCO, and other Palestinian private development groups (Palestinian elite social forces), and an agreed protocol between Israel and the Palestinians that would enable investors to utilize fully the IEs. In a meeting held in Jerusalem on 30 March 2008 between US Secretary of State Condoleezza Rice, Israeli Defense Minister Ehud Barak, and Palestinian Prime Minister Salaam Fayyad, revival of the industrial estates and free zones program was a major topic for discussion.¹³³

A number of problems exist with these particular industrial estates in addition to the larger problems posed by export-processing zones in general in developing countries. TIE, for example, lies within Area C, which Israel directly controls. This is considered a

¹³¹ Ibid, 3.

¹³² Ibid, 6.

¹³³ Israel Ministry of Foreign Affairs, "DM Barak meets US Secretary of State Rice & Palestinian Authority PM Fayyad" (30 March 2008); available, www.mfa.gov.il.

Palestinian development project of which Palestinians have no control. To construct the JIE, Palestinian farmland was confiscated in 1998 when the idea was originally envisioned, and again in 2003 when the Israeli military seized the land for the separation wall¹³⁴ While the TPP is close to Israel's high tech corridor, it also lies within the "seam zone" created as a result of Israel's separation wall.¹³⁵ The wall and all areas confiscated by Israel for its construction was deemed illegal by the International Court of Justice in 2004, which effectively makes the wall and all economic activities illegal under international law in those areas.¹³⁶ It is unclear what legal ramifications this will have for Israel in the future or any business operating within those areas.

One of the saddest realities of the industrial estates and free zone program is that Karni Crossing, the site of the GIE, has become the only crossing for goods in and out of the Gaza Strip, whether they are going to the GIE or not.¹³⁷ The GIE in particular, and industrial estates in general reinforce colonial practices imprinted on the process of Palestinian state formation and neoliberal economic integration into regional and global markets. Industrial estates and the free zone program are propped up as economic development opportunities for the Palestinian economy and the Palestinian private sector in particular, but the entire scheme embodies international elite social forces through the form of Israel and international institutions working with Palestinian elite social forces in the pursuit of personal capital accumulation. Together, these social forces configure the process of conceptualizing Palestine to the norms of an emerging neoliberal world order.

¹³⁴ Adam Hanieh, "Palestine in the Middle East: Opposing Neoliberalism and US Power" Part 1 *Monthly Review* (19 July 2008); available, www.monthlyreview.org.

¹³⁵ World Bank, *Industrial Estates*, 4.

¹³⁶ International Court of Justice, "Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territory," (9 July 2004); available, www.icj-cij.org.

¹³⁷ Lagerquist, 17.

Agro-Industrial Park in the Jordan Valley

The proposed agro-industrial park in the Jericho area of the southern West Bank is part of several development schemes for the Jordan Valley. On the local level, it is part of JICA's Jericho and Jordan Valley Development Program that includes three sector-based subprograms: governance, tourism, and agriculture. The agro-industrial park is also part of JICA's regional development plan called the Corridor for Peace and Prosperity, originally proposed in 2006 and aims to bring Palestinians, Israelis, and Jordanians together for agricultural development and water management.¹³⁸ More recently, the agro-industrial park idea has also been subsumed within the Valley of Peace initiative that has been supported by Israeli President Shimon Peres and officially agreed to in 2007 by Israel, Jordan, Japan, and the PA. The Valley of Peace plan integrates several development projects including the JIE and the agro-industrial park in the Jericho area. More recently, Quartet Representative Tony Blair has endorsed a number of "Quick Impact Projects" of which the JIE, TIE, and the agro-industrial park in the Jericho area are all part.¹³⁹

Similar to industrial estates, the concept of an agro-industrial park in the Jordan Valley seeks to bring together international and domestic social forces to implement neoliberal development projects in the Palestinian territories. Specifically, JICA and other international institutions aim to develop and expand agribusiness in the Jordan Valley, which would allow a small amount of elite social forces to profit off the seasonal advantage of the area and its untapped potential in the Gulf and European markets. The

¹³⁸ JICA, *Annual Report 2008* (Tokyo: JICA, 2008), 49.

¹³⁹ Tony Blair, "Towards a Palestinian State," available; www.tonyblairoffice.org.

agro-industrial park would be a free-trade agricultural zone, where production of agricultural commodities would be geared toward export markets. The agro-industrial park would also be a facility where food processing would take place, from which processed foods could also be exported to regional and global markets.

The stated purpose of the park is to generate investment, create jobs, and stimulate agricultural and industrial development for producing competitive Palestinian products.

The Jordan Valley contains some of Palestine's most fertile land that has produced a majority of Palestinian agriculture; however, Israel has confiscated much of this land for settlements or closed military zones. Many Palestinian farmers that have been dispossessed of their lands have little choice other than becoming agricultural workers in settlement-based agribusinesses. Rather than supporting local Palestinian social forces in developing their own farms and productive capacity, JICA and other international institutions have chosen instead to support a neoliberal form of agriculture in the Jordan Valley. This will likely provide few options for dispossessed Palestinian farmers, but will be yet another arena for international and domestic elite social forces to collaborate in configuring and conceptualizing a neoliberal vision of Palestine.

4.3 Summary

The post-Oslo period is permeated with the effects of the Oslo process, resulting in worsening conditions for Palestinians and an intensification of the effects of international institutions in conceptualizing Palestinian state formation. Israel has clearly proven that it retains full control of Palestinian territories in its re-occupation of areas where Palestinians were allowed a limited amount of "self-rule" under the auspices of the Oslo

Accords. To prevent a humanitarian crisis and collapse of the PA, the international community has poured more funds into the Palestinian territories than during the Oslo process. While humanitarian aid is increasing, development aid is decreasing and becoming progressively more conditioned on the PA's ability to implement successfully neoliberal reforms. Concomitantly, the Palestinian economy is becoming more dependent on international funding and elite Palestinian social forces are becoming more deeply integrated into a neoliberal notion of state formation.

Palestinians were reminded how salient their governance structures were to international intervention when the international community boycotted the democratically elected government of the Palestinian people in January 2006. Funding to neoliberal development programs continued albeit in ways that bypassed Hamas and rather supported Palestinian social forces that were more agreeable to the neoliberal agenda in an emerging world order. The eventual caretaker government and its PRDP reassured international social forces that elite Palestinian social forces are capable of establishing the neoliberal condition in Palestine and any conceptualization of state formation.

Policy recommendations are not greatly divergent from the Oslo process in that neoliberal national structuring is the policy framework. Building and enhancing institutional capacity along with harmonizing Palestinian standards with international standards are policy priorities to establish the legal and regulatory framework necessary for capital accumulation. The importance of these policies is enforced through aid conditioning, which increasingly ties Palestinian institutional and policy reform with aid disbursements. Also in the post-Oslo period, international institutions have started to criticize Israel for imposing movement and access restrictions throughout the Palestinian

territories, particularly through closure. However, these critical evaluations remain decontextualized and the primary focus remains on the PA's ability to successfully implement neoliberal reforms.

Development projects follow a similar logic now as in the Oslo process. Developing institutional capacity, the private sector, infrastructure, and natural resources are major sectoral priorities for neoliberal development in the Palestinian territories. International funding for these projects is coordinated through a slightly modified structure remaining from the Oslo period. The Quartet has been added at the capital level while on the local level, the JLC exists intermittently and local sector working groups have been condensed. International institutions remain active at each level of aid coordination, management, and implementation, which ensures direct access to many Palestinian institutions and funding for internationally approved neoliberal development programs. The industrial estates development project was initially halted after the second intifada began, however, international and certain Palestinian social forces seek to reestablish the program as an engine for economic growth and integration into new regional and world markets. In addition, an agro-industrial park is being planned in the Jericho area. Similar to the industrial estates program, the agro-industrial park seeks to create an agricultural free-trade zone by expanding agribusiness and producing agriculture for export. Both the industrial estates and the agro-industrial park represent the configuring of elite international and domestic social forces working towards the consolidation of neoliberal hegemony in conceptualizing Palestine.

Chapter 5 – Conclusion

There is a consensus among international institutions and other international social forces about the conceptualization of a Palestinian state. Within this scheme, the political and economic structures and processes should be congruent with international norms toward neoliberalism. The recommendations and logic embodied in international institutions are guided by principals that are engineered within the capitalist development framework as designed by advanced, wealthy states and non-state elite social forces. To this end, the proposed Palestinian state is supported, at least in theory, by every international organization working in the Palestinian territories. This should not be confused with the necessary negotiating of a political settlement between Israel and the Palestinians. Instead, what has clearly been implemented in the Palestinian territories is an ideology surrounding the “proper” way an emerging state should politically and economically develop. This means that local Palestinian social forces should embrace neoliberal values in consolidating national hegemony and integrate into an emerging world order.

International institutions configure Palestine in two main ways. First, the international community is complicit in Israeli occupation of Palestinian lands by supporting imbalanced international agreements that clearly favor an industrialized sovereign state over dispossessed native peoples and their claims to statehood. Israeli domination of Palestinians through military occupation was institutionalized during the Oslo process in the unequal nature and terms of the Accords. Designating certain “Areas” in Palestinian territories to be controlled by varying degrees of Palestinians *and* Israelis while concomitantly providing a pseudo-legal classification for Israeli settlements and

their so-called natural growth in Palestinian territories implicitly showed international acceptance for Israeli occupation of Palestinian land, which has led to *de facto* fragmentation and deepening of Palestinian dislocation.

In addition, the Paris Protocol as stipulated in the Oslo Accords heavily skewed trade, monetary, and fiscal policy in favor of Israel's already industrialized and protected economy. Institutionalization of closure in and around Palestinian areas that was set out in the Accords and in the process more generally has completely crippled the Palestinian economy and prevented any hopes for a viable economy in a potential Palestinian state. Because Palestinians were granted very little space to develop independently during the Oslo period, the process institutionalized the current context from which inviability of a potential Palestinian state derives. The more recent Roadmap to Peace embodies a similar thrust and has yet to produce an independent, viable Palestinian state.

International institutions also configure Palestine by ensuring neoliberal values in conceptualizing a potential state through policy recommendations and development projects. While international organizations had operated in the Palestinian territories prior to the 1990s, the Oslo process presented an opportunity for increased international intervention into the Palestinian state building project. The World Bank and IMF were prolific in developing key PA institutions and their corresponding policies that aimed to create the correct legal and regulatory conditions for a neoliberal based, business-friendly environment for capital accumulation. Policy prescriptions vary little from the Oslo phase thru the post-Oslo period in that national structuring along neoliberal tenants of liberalization, deregulation, and privatization were underscored. Particularly, trade liberalization, private sector investment, and public sector management through good

governance principals were major areas of policy emphasis for international institutions during the Oslo process.

Development projects during that time worked in collaboration with policy prescriptions to structure the conditions in Palestine along neoliberal lines. International institutions largely supported the development of the PA to create public institutions that would foster an investor friendly climate conducive to capital accumulation in the Palestinian territories. This created a mechanism for domestic and international social forces to consolidate neoliberal hegemony. Although all development projects during the Oslo process supported the configuration of social forces for national neoliberal structuring, the most evident was the Industrial Estates and Free Zones program. In an attempt to separate economic and political variables through supposed “closure-proof” enclaves, international institutions supported the development of export-processing zones along the Green Line. Although ten industrial estates were promoted during the Oslo process, the GIE was the only one to open its doors. International institutions played a key role in conceptualizing and advancing the industrial estates through financial and technical support.

During the Oslo process, the international community devised complex aid coordination mechanisms to manage and implement donor funds. Elite social forces through international institutions and foreign states were active at each level. At the international level, the establishment of the AHLC, which still exists today, and the CG formulated the overall aid strategy in the Palestinian territories. Beneath this level, the JLC, LACC, and TFPI coordinated international funding. The LACC liaised between the AHLC and Sector Working Groups, which were also co-chaired with international social

forces. World Bank trust funds were important mechanisms for channeling funds to neoliberal development projects during the Oslo period, particularly the Holst Fund as it provided the startup costs associated with establishing PA institutions. Additionally, the creation of PEC DAR, which subsequently produced both the Ministry of Planning and the Ministry of Finance, has had a lasting effect in drafting PA policies. The compilation and complexity of these structures and processes has ensured a place for international institutions in defining Palestine and its development.

Taken together, the nature and terms of the Oslo Accords, policy prescriptions, and development projects during the Oslo process proved that international institutions play a major role in shaping the neoliberal condition and conceptualization of Palestine. The Oslo process set the foundation for international involvement in these processes. International institutions have continued and expanded in this capacity in the post-Oslo period, where change is mostly in emphasis rather than a change of course that could help Palestinians build a viable state in the near future.

In the post-Oslo period, the negative, lasting effects of the Oslo process became blatantly clear as Israel proved it retained ultimate control over Palestinian territories and the international community severely punished the Palestinians for exercising their democratic rights in the 2006 PLC elections. Shortly after the start of the *al-Aqsa intifada* in 2000, Israel redeployed its military into all Palestinian territories, even those that had been granted limited Palestinian autonomy under the Oslo Accords. International institutions have provided immense amounts of humanitarian relief to Palestinians in the post-Oslo phase to prevent starvation among Palestinians and the collapse of the PA; however, the international community boycotted the Hamas-elected government in 2006

and insisted on a government more amicable to neoliberal configuring. The caretaker government embodies elite Palestinian political and economic social forces collaborating with international institutions through terms that are mutually agreeable to ensure an environment for domestic and international capital accumulation. The recent PRDP is a glaring example of elite Palestinian social forces regurgitating the edicts of neoliberal development toward Palestinian state formation.

The objectives of policy prescriptions and developments projects varied little between the Oslo process and the post-Oslo period, rather differences lie in prioritization and fund allocation. To stave off a major humanitarian crisis in the Palestinian territories, the international community has continually provided food and medical aid to Palestinians, shifting international donor assistance from development towards humanitarian relief in the post-Oslo phase. Policy recommendations followed a similar thrust as those during the Oslo process, although international institutions became more rigorous in pushing Palestinian neoliberal reform and structuring. Since the Oslo process, there has been an increased emphasis on PA institutions and policies becoming more aligned with neoliberal rules and practices in an emerging world order. To ensure that the PA specifically, and Palestinian state formation more generally, follows a neoliberal path the international community has started to condition international assistance on successful implementation of the neoliberal reform agenda.

Similarly, donor-funded development projects did not change significantly in terms of content in the post-Oslo phase. Some development projects purport to include more local ownership in planning and implementation; however, this indicates an integration of domestic and international social forces on terms that are mutually

agreeable, rather than locally driven and supported development. In the post-Oslo period, the industrial estates program has been rejuvenated and seeks to develop more export-processing zones in Palestinian territories. While export-processing zones have been criticized for their inability to produce spillover effects and economic linkages in the domestic economies that house them, the proposed industrial estates in the Palestinian territories pose specific problems for Palestinian economic development. Each of the proposed industrial estates lies in legally problematic areas and/or on lands that was directly confiscated from Palestinian farmers. In Gaza, the Karni Crossing that contains the GIE has become a direct symbol of Israeli occupation and siege as it has become the only crossing allowed by Israel for export or imports into the coastal region. The agro-industrial park planned in the Jordan Valley also seeks to expand neoliberal development through the creation of an agricultural free-trade zone that would support agribusiness and integrate Palestinian agriculture into regional and global markets.

The complicated international aid architecture that was invoked during the Oslo process was slightly amended in 2005 to include the Quartet at the international level and consolidation of aid coordination groups on the local level. International institutions remained active at every stage and played an even greater role once the international community boycotted the democratic election results in the 2006 PLC elections. The EU TIM, the more recent PEGASE, and the World Bank PRDP TF channel funds to Palestinian social forces that agree to follow internationally directed neoliberal rules and norms, and are willing to work toward the configuration of social forces that consolidate neoliberal hegemony in conceptualizing Palestinian state formation. All these funding

mechanisms condition funding on implementing neoliberal reforms in the Palestinian territories.

The neoliberal values that international institutions have encouraged through policy recommendations and development projects do not create a Palestinian state, rather they are mechanisms for ensuring the ideological route for Palestine, whatever the shape. In this way, international institutions have supported agreements, policies, and development projects that all have been counterproductive to the necessary political engagement that is needed to form a Palestinian state. Aid and neoliberal values cannot substitute for the political process necessary to bring an end to the conflict and justice to Palestinians.

Even if Palestinians were granted a state to the ends promoted by international institutions and other social forces that celebrate neoliberal development, it is clear this process would be problematic in the least and would certainly not amount to the liberation Palestinians are seeking after decades of occupation. Supporting Palestinian self-determination requires a political process that results in a political settlement for Palestinians. Until that time comes, Palestine's internationalization will continue to intensify by international and domestic elite social forces configuring the neoliberal condition into the conceptualization of Palestine.

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