



**Arab American University**  
**Faculty of Graduate Studies**

**The Israeli Economic Peace Approach:  
Theory Versus Practice**

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Thesis approval

The Israeli economic peace approach:

Theory versus practice

By

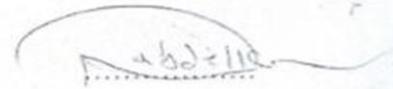
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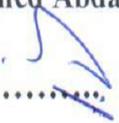


## Declaration of Originality

I, **Mohammed Abdallah Itaiwi**, one of the students of the faculty of graduate studies at the Arab American University (AAUP), hereby declare that this thesis, entitled "**Israeli Economic Peace Approach: Theory versus Practice**", is a product of my original research investigation, and the resources that are used in this thesis (including the internet resources) have been referred to and properly acknowledged as required.

I declare that I have fully understood the concept of plagiarism and acknowledge that my thesis will be immediately rejected if it includes any type of plagiarism.

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**Dedication**

This is dedicated to the spirit of my late father (May he rest in peace).

## **Acknowledgement**

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## **Abstract**

This study examines the Israeli approach to economic peace and its compatibility with economic peace theory. It analyzes the Israeli policies implemented during the implementation of the Paris Economic Protocol and explores the impact of these policies on Palestinian economic development.

Through combining evidence from literature and studies related to the subject, statistical data about the Palestinian economy, and personal interviews with numerous academics, researchers, and participants in the Palestinian-Israeli negotiations, this study reveals that the Israeli economic peace approach contradicts the theory of economic peace. This theory is based on achieving economic development as a means and primary goal for continuing the peace-building process.

The research also concludes that liberal economic measures cannot be effective without considering a political solution with the Palestinians. It suggests that there are various factors within Israel that hinder the implementation of economic peace, including the asymmetric relations between the two sides, the nature of the Israeli economy, and the absence of participation from the Israeli private sector in the peace process.

The study redefines the Israeli economic peace approach as daily economic facilitations provided to Palestinians rather than comprehensive policies that contribute to Palestinian economic development. This approach serves as a conditional tool used by Israel to serve its security interests. The main goal is to pacify the Palestinians and attempt to impose an economic solution instead of a political one.

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**List of Abbreviations****List of Abbreviations**

Abbreviations	Definition
PLO	Palestinian Liberation Organization
PA	Palestinian Authority
OPT	Occupied Palestinian Territories
JEC	Joint Economic Committee
IR	International Relations
NME	New Middle East
EU	European Union
VAT	Value-Added Tax
UNCTAD	United Nations Conference on Trade and Development
IMF	International Monetary Fund
UNSCO	United Nations Special Coordinator for the Middle East Peace Process Office
AHLC	Ad Hoc Liaison Committee
UN	United Nation
WBGS	West Bank and Gaza Strip

# **Chapter 1: Introduction**

## **Chapter 1:**

### **Introduction**

#### **1.1 Introduction**

The peace process, which is now approaching thirty years since the signing of the Oslo Accords, has seen the continuation of Israel's 55-year occupation of Palestinian territory. During this period, the number of settlers in illegal Israeli settlements in the Occupied Palestinian Territories (OPT) has been rising from 115,600 in 1993 to more than 705,000 (UN, 2021). This has crippled the Palestinian economy and left no real prospects for peace for Palestinians and Israelis. The Oslo agreement not only did not achieve the desired peaceful settlement but also, on the contrary, led to an increase in the intensity of the conflict between the Palestinian and Israeli parties and the deterioration of the living conditions of Palestinians in the West Bank and the Gaza Strip.

On September 13, 1993, in Washington, DC, the Palestinian Liberation Organization (PLO) and Israel signed the "Palestinian-Israeli Declaration of Principles". This signing was followed by the agreement on the Paris Protocol, the economic agreement signed on April 29, 1994, and then the "Gaza-Jericho" Agreement signed in Cairo on May 5, 1994. The Palestinian-Israeli Declaration of Principles (Oslo) included the establishment of the Palestinian Authority (PA) in the West Bank and the Gaza Strip for a transitional period not exceeding five years, leading to a permanent settlement. Thus, the Oslo agreement has confirmed the legal and political reference on which the foundations of the political settlement between the two sides are based (Boatman & Martin, 2019). "The accord states that Israel recognized international resolutions 242 and 338 but did not recognize the need for a fair resolution to the refugee issue and other important matters such as borders, Israeli settlements, and Jerusalem. The Palestinian

delegation in Oslo recognized during negotiations that they had inherent rights based on international legitimacy but were not able to successfully force or persuade Israel to address these core issues. As a result, the Palestinians agreed to postpone addressing their rights-related concerns until the final stage of negotiations, which ultimately never occurred (H. Hussein, personal communication, April 4, 2023).

In the transitional phase, a Palestinian government was established, the Paris Protocol on economic relations between the two sides entered into force, and partial responsibilities were transferred to the PA. When Palestinian-Israeli relations collapsed in 2000 with the start of the Second Intifada, the final status negotiations were frozen, and these temporary arrangements became permanent (Rahman, 2022). In the Oslo process, proponents paid particular attention to the "urgent need to deliver tangible benefits to the Palestinian population to reinforce the momentum towards peace" (World Bank, 1994, p. 1), benefits that they termed the peace dividend (Lasensky, 2004). The economic dimension was one of the most stable and entrenched in the international approach to the Palestinian issue. According to this approach, the international actors assume that if Palestinian institutions are completed, a prosperous Palestinian economy is built, and the Palestinians feel the peace dividend regarding their material situation, this will give great impetus to the peace process between the two sides, and the possibility of building an independent Palestinian state will become more realistic and lay the foundation for a lasting peace between Palestinians and Israelis (Alpher, 2016). Contrary to expectations, the economic situation has continued to deteriorate since the Oslo Accords were signed. The sharp increase in unemployment, the decline in family income, and the rise in poverty have posed significant challenges to economic sustainability. Since the accords were signed, there have been multiple military escalations and confrontations between Israelis

and Palestinians, hundreds of kilometers of walls, and massive settlement expansions that have cut people off from jobs and opportunities (Shaban & Diwan, 1999). This situation provided a strong incentive for Israel to maintain the status quo of occupation, whereby Israel controls more than half of the West Bank, exploiting it to build settlements and gain free access to resources such as water and gas (UN, 2017).

Israeli right-wing Prime Minister Binyamin Netanyahu embraced the idea of economic peace; he declared that fast economic growth would give ordinary Palestinians a stake in peace and foster the construction of political resolution in the future (Ben-Ami, 2019). In 2020, US President Donald Trump announced a plan to bolster the Palestinian economy, hoping that billions in investment would pave the way for a peace agreement between the Palestinians and Israel.

## **1.2 Research Problem**

Successive Israeli governments have followed contradictory policies toward Palestinians. Israel has proposed projects with economic dimensions on the pretext of "economic peace". Simultaneously, Israel has thwarted Palestinian economic development through its arbitrary actions and repressive measures, which contradict the interpretation of the theory of economic peace. Therefore,

## **1.3 Research Questions**

This study will answer the following main question: To what extent is the Israeli economic peace approach compatible with economic peace theory? And the following subquestions:

1. How have economic relations between the Israeli and Palestinian economies developed throughout the conflict?

2. How did Israel manipulate the Paris Economic Protocol to stifle Palestinian economic development?
3. What is Israel's definition of the concept of economic peace, and what is the Israeli objective behind this approach and the methods it has used to implement it?
4. How has Israel influenced international efforts to end the conflict through the economic peace approach?
5. How does Israel implement the Israeli economic peace approach amid the dilemma of liberalism and occupation?

#### **1.4 Research Objectives**

- 1- To trace the historical evolution of economic relations between the Israeli and Palestinian economies and understand the factors contributing to their development during the conflict.
- 2- To investigate how Israel utilized the Paris Economic Protocol to hinder Palestinian economic progress and to analyze the specific mechanisms and strategies employed in this context.
- 3- To define Israel's concept of "economic peace," examine the objectives associated with this approach, and explore the methods Israel has employed to implement it within the Israeli-Palestinian context.
- 4- To assess the impact of Israel's economic peace approach on international initiatives aimed at resolving the Israeli-Palestinian conflict and analyze the ways in which Israel has influenced these efforts.
- 5- To understand the complexities of implementing the Israeli economic peace approach while considering the dilemmas associated with liberal economic policies and the enduring Israeli occupation of Palestinian territories.

### **1.5 Hypothesis**

The Israeli economic peace approach does not align with the theory of economic peace. There is a significant gap between rhetoric and practice.

### **1.6 Research Significance and Justification**

The significance of this research is that it addresses the Israeli economic peace approach in relation to the ongoing conflict. Previous studies have suggested that economic peace is not the solution to the political conflict between Israelis and Palestinians. Although this assumption is accurate, it is not the main focus of this research. The objective of this study is to analyze whether the Israeli peace approach aligns with the theory of economic peace. Furthermore, previous research lacked understanding about the Israeli perspective on economic peace, including its background, definition, purpose, and context. This study aims to address these aspects. It intends to redefine the Israeli economic peace approach and thoroughly examine both the practices, implementation, and constraints of liberal methods in Israeli policies concerning the Palestinian economy. In addition, this research offers a unique perspective on the subject of the Palestinian-Israeli conflict by examining the Israeli economic peace strategy. Finally, researchers, students, and Palestinian policymakers will all gain advantages from the findings of this research.

### **1.7 Research Methodology**

This section will explore the type of research methodology and the techniques and tools used to collect and analyze data.

### **.A. Research Approach/ Methodology**

This particular study falls under the category of descriptive-analytical studies. The research utilized a mixed methodology, which involved incorporating both quantitative and qualitative research approaches to address the research inquiries. By combining these two methods, a more comprehensive understanding can be achieved compared to solely relying on quantitative or qualitative approaches. Mixed-methods research is frequently employed in the behavioral and social sciences, especially in interdisciplinary settings and studies involving complex situations or communities (George, 2023).

The qualitative approach refers to a scientific method of research and investigation that seeks to provide answers to a specific question by following a predetermined set of procedures (Mulisa, 2021). This study focused on examining the behavior of Israelis in relation to their economic perspective towards the Palestinian economy. The collected statistical data related to the Palestinian economy were analyzed using a quantitative approach. The purpose of this research was to interpret the Israeli measures against the Palestinian economy, and for this, a combination of qualitative and quantitative methods were used to complement each other and attain results.

### **B. Research Method (Study Tools)**

The process of collecting data involves gathering information to address the research question (Simelane, 2023). To conduct the study, two methods of data collection were employed: primary and secondary.

1. Secondary data refers to information that is gathered from existing sources such as books, articles, theses, and newspapers.
2. Primary data collection involves gathering data directly from a first-hand source. The researcher conducts interviews as a way to obtain qualitative data, as it allows for a

deeper understanding of the respondent's experiences through open-ended questions. In this study, the primary data was collected using interviews with two groups: academics and experts in the field of research. The first group consisted of Palestinian academics who had knowledge related to the study topic, while the second group comprised Palestinian experts with personal experience in Palestinian-Israeli negotiations, specifically in Paris economic negotiations. The researcher chose interviews as a method to ensure more accurate results. The participants were asked a series of open-ended questions, using a semi-structured format where some questions were predetermined and others were not. Interviews were selected as a tool because they are suitable for obtaining direct and realistic answers and data that align with the study's objectives, thus validating the results.

### **1.8 Research Limits**

1. Spatial framework: the study is focused on the territories of the state of Palestine.
2. Chronological framework: the study timeline includes the period from 1993 to 2022.

### **1.9 Research Structure/ Chapters**

This study consists of five chapters: an introduction, a theoretical framework, unearthing the Israeli methods of dominating the occupied Palestinian territories: understanding the System of Control over Palestinians, Unveiling the Israeli economic peace approach: Studying the Israeli economic peace approach between liberalism and occupation, and the research findings and conclusion.

Chapter 1: This chapter provides a general summary of the research being conducted. It primarily discusses how the research was initiated and the reasons behind conducting it. The research questions are also outlined. Additionally, the chapter goes into detail about

the methodology and design of the study, as well as how the data were collected. It emphasizes the significance of the research in terms of demonstrating its value and the outcomes it delivers. The second section entails a comprehensive examination of the literature review that is relevant to the research topic. This final section discusses various patterns observed in past research on the topic of Israeli economic peace.

Chapter 2: The chapter discusses the theories employed to address the research inquiry, namely the economic peace theory and the dependency theory.

Chapter 3 focuses on the Israeli methods and practices to control Palestinians through the Paris Protocol. The chapter is divided into three sections: Unveiling Israeli Strategies and Approaches to dominate the Occupied Palestinian Territories, Exploring the interaction of economic relations in the Israeli-Palestinian conflict. The third section focuses on the Paris Economic Protocol to analyze these relationships through tools of control used by Israel.

Chapter 4 of the study explores the economic peace approach. It is divided into five sections. The first section discusses Israel's economic peace approach, definition, and objectives. The second and third sections explore the two major Israeli initiatives for economic peace: Shimon Peres and Benjamin Netanyahu. The fourth section analyzes the American "Peace to Prosperity" plan and reveals the Israeli influence on the international proposals to resolve the Palestinian issue. In Section five, the liberal perspective is discussed to explore the economic role in the Palestinian-Israeli peace process.

Chapter 5 of the thesis presents the findings, analysis of the research results, and conclusion.

## **1.9 Research Terminology**

**1- Oslo Accords:** On September 13, 1993, the Palestine Liberation Organization (PLO) and Israel came to an agreement known as the "Oslo Accord" at the White House in Washington, D.C. This agreement marked a significant milestone as it involved both sides acknowledging each other after years of conflict and rejection. The agreement also established the creation of the Palestinian National Authority, which would gradually take control of the West Bank and Gaza Strip, territories that had been occupied by Israel since 1967. Additionally, the parties agreed to initiate negotiations on the remaining contentious issues, such as borders, security, refugees, and Jerusalem, with the aim of reaching a final resolution to the ongoing conflict (The Office of the Historian, n.d.).

**2-Paris Economic Protocol:** An agreement between the PLO and Israel that pertains to their economic relations over a period of five years. The protocol was signed in April 1994 after extensive negotiations in Paris. The main aspect of the protocol is the establishment of economic relations as a quasi-customs union, despite there being no physical borders between the two parties. The consequence of this arrangement was the Palestinian economy becoming reliant on the Israeli economy, resulting in complications and hindrances for the Palestinian economy (B'Tselem, 2011).

**3- Area C:** Area C, which covers around 60% of the West Bank, is home to an estimated 180,000 to 300,000 Palestinians. This area contains all of the Israeli settlements, totaling 125 settlements and approximately 100 settlement outposts. By the end of 2011, the number of Israeli settlers in this area had reached at least 325,500. Israel maintains control over security and land management in Area C, viewing it primarily as a means to serve its own needs such as settlement development, military training, and economic interests. As a result, it actively prevents Palestinian construction and development in the area while disregarding the needs of the residents. In contrast, Israel encourages the expansion and

advancement of settlements by implementing a separate, lenient planning system and turning a blind eye to building violations through the Civil Administration (B'Tselem, 2017).

**4- Economic Development:** An intentional change in the construction of economic activity in the industrial part, taking into account the social dimension, which is represented by achieving justice in the distribution of income, to move the economy from a state of underdevelopment to a state of progress. Growth occurs automatically, while development occurs due to forces and measures aimed at change. The successive global and regional developments since the last decades of the twentieth century and the beginning of the twenty-first century at all levels - especially the economic level - have led to the decline of the traditional concept of economic development to become more comprehensive and quantifiable, as the concept of economic development expanded in contemporary literature to include the principle of "Sustainability" in the development process in what is known as sustainable development, which is a process of economic, social, political and cognitive change to achieve specific goals that will increase the level of the overall well-being of the individual and society, taking into account the rights of future generations to natural resources and the environment (Abdel-Khaleq, 2022).

### **1.10 Literature Review**

A substantial body of research exists on the Israeli economic peace approach in the context of Palestinian Israeli conflict and yet it remains a strongly contested issue.

The Israeli idea of economic peace is not new. It can be summed up in a number of ideas, initiatives, or policies that were presented or practiced by successive Israeli governments. (Fischer et al., 1994). Previous studies have examined the earlier peace initiatives in the last three decades (Bouillon, 2004; Nitzan & Bichler, 2002; Peres & Naor, 1993; Abed,

2018). Among these initiatives, the first "Economic Peace" initiative, embodied in Shimon Peres' "New Middle East" vision, focused on the logic of building economic ties across the region based on the interdependence and peace argument (Peres & Naor, 1993). Some studies suggest that the idea of a peace dividend, which carried the promise of a new era of economic cooperation and prosperity if the Palestinians and Israel reached a peaceful solution under the umbrella of globalization, was the major motivation for Israel to sign the Oslo Accords. This idea has led some experts in political economy to describe the Oslo process as peace of business and peace of markets (Bouillon, 2004).

During its economic crisis in 1985, Israel found the solution through the liberalization of its economy as a neoliberal shift in strategic alternatives from a state of war to a state of liberalism and regional reconciliation. In that context, Israel accepted peace talks with Palestinians (Nitzan & Bichler, 2002). The Oslo Accords envisaged economic development as a key aspect of peacebuilding (Miller, 2014). In this sense, the Accords typified the era of Liberal and Democratic Peace, when academia and practice converged around the idea that promoting the development of free markets, the rule of law, and electoral democracies in post-war states would create sustainable peace (Richmond, 2006). Proponents paid particular attention to the urgent need to deliver tangible benefits to the Palestinian population to reinforce the momentum towards peace (World Bank, 1994; Lasensky, 2004).

A group of studies indicates that internationals and Israelis focused on the economic tool, adding important insights into the role of the economy in the peaceful resolution of the Palestinian issue. On the basis of their economic interests, businesspeople on all three sides would then exert pressure on their respective governments for a successful conclusion to the negotiations. This prognosis seemed to hold true at first. Israeli business

elites played a leading role in paving the way for and initiating the peace negotiations with Palestinians and Jordanians (Fishelson, 1989, 1994; Ben-Shahar et al., 198; Fischer et al., 1993; World Bank, 1993; Quandt & Fischer, 1994; Halbach, 1994, 1995; Porter et al., 1997).

Initially, there was broad agreement, including among the Palestinian leadership, on the concept of economic development: international aid would support the Palestinian transition to autonomy by building infrastructure, supporting new institutions, providing expertise in financial and other sectors, and changing the distribution of resources such as electricity and water (Lasensky, 2004). However, disputes quickly arose, first over the details of the economic arrangements (the Paris Protocol) and later over the impact of Israeli policies on Palestinian development (Miller, 2014).

Studies have been conducted to analyze the Israeli economic peace approach. The term "economic peace in the Israeli perspective refers to the offering of economic incentives and other concessions as a temporary solution in place of a fair and all-encompassing peace. The Israeli version of this idea is a form of exercise aimed at providing Palestinians with a stable life and improving the quality of life for a specific duration in exchange for granting Israel freedom to pursue their colonial and expansionist goals. The Israeli economic peace approach simply means further raising the number of work permits for Palestinians in Israel and expanding the fishing zone off the coast of Gaza. (Indyk, 1986; Khalidi et al., 2014; Gordon, 2008; Hyde, 2022; Arnon, 2007; Hever, 2006; Ahren, 2008; Abed, 2018).

Other studies have examined the Israeli economic peace approach and Israeli policies toward Palestinian economic development. The Israeli approach is carried out in the context of ongoing military occupation, where facilitating economic development mainly

involves easing various restrictions on the movement of people and goods within the Palestinian territories (Odeh, 2018; Mitrani and Press-Barnathan, 2015).

Scholars have also dedicated increasing attention to the Israeli approach to economic peace and reached the conclusion that the theory of economic peace is not applicable to the Israeli-Palestinian conflict due to the asymmetric relations between Israel and the OPT and the protracted nature of the conflict (Odeh, 2018; IKV Pax, 2012; Mitrani and Press-Barnathan, 2015; Amundsen et al., 2004; Lagerquist, 2003). However, some scholars believe that this does not make the economy irrelevant for the Israel-Palestinian issue (Davis, 2014; IKV Pax, 2012; Gross, 2000). Economic development is crucial, politically. The goal of creating a Palestinian state necessitates the creation of an independent and functioning Palestinian economy. Economic development is not only an important element in advancing peace or reducing the danger of violence, but it is also a significant part of creating a new state actor (Mitrani and Press-Barnathan, 2015).

Studies focused on the liberal argument that the PLO and Israel need to recognize and acknowledge each other and that economic exchanges between the two would lead to mutual trust and facilitate reaching a permanent solution. Liberals argue that the lack of progress in implementing the Oslo Accords was due to a lack of determination and competence on both sides (Rynhold, 2008). The Israeli-Palestinian conflict has used economic integration as a way of addressing the solution to peace. Historically, peace was achieved by using political gains to progress economic development. However, others believe that economic integration between the two opposing sides of Israel and Palestine has always served to highlight the asymmetry of power that exists. During times of economic integration, violence was still ongoing (Odeh, 2018).

Some studies have taken advanced steps towards analyzing Israeli policies towards Palestinians. The Israeli "economic peace" approach could be understood by considering the consequences of its implementation. Through Israel's policy of controlling the land, the Palestinian economy has been severely impacted. It has resulted in the inability to engage in trade and tourism and has caused disconnection between the West Bank, East Jerusalem, and Gaza, isolating them from the global economy (Mitrani & Press-Barnathan, 2015; IKV Pax, 2012; Lasensky & Grace, 2006).

Additional strands of research have revealed that Israel has also instituted closure policies, which have effectively thwarted attempts to develop a thriving local economy in the areas. In addition, closed border crossings and transport routes in and out of the Palestinian Territories, consequently restricting both its export and import capacities and the Palestinian labor movement to Israel. The policy of closure and its effects on the Palestinian economy in general and its economic relations with Israel in particular illustrate the role of security as a prerequisite for the economic peace logic. Similarly, the construction of the Separation Wall since 2003 has been driven by security measures. In turn, it further increased the territorial fragmentation of the West Bank itself and the direct impact on trade levels and the labor movement (Mitrani & Press-Barnathan, 2015; Le More, 2005; Mishal et al., 2001).

Some studies focused on the security dimension of the Israeli perspective in the relationship with the Palestinians. Israel has linked good relations with the Palestinian Authority to the security situation and considered successes in the security field a necessity for economic success in the Palestinian territories. At the same time, Israel considered the Palestinian economy a weakness, which would give it greater influence to ensure the realization of its policies on security and other issues. From an Israeli

perspective, if steps to improve the viability of the Palestinian economy always depend on Palestinian behavior, then this can easily be seen as a carrot for good behavior, just as closing passages or withholding the transfer of tax revenues is a stick of misbehavior. (Lagerquist, 2003; Amundsen et al., 2004).

One piece of research has taken tentative steps towards addressing the Israeli economic peace approach. Rachel Davis conducted a study titled "Economic Peace through the Israeli Lens," which explores the Israeli economic peace approach. Her research suggests that achieving peace through economic means is challenging due to various internal Israeli factors. These include Israeli nationalism and the Israeli security doctrine. As a result, the necessary conditions for economic peace are currently unattainable. Davis argues that economic peace reflects the divisive impact of Israeli identity politics, ideology, and isolation (Davis, 2014).

However, despite the extensive research conducted on this topic, there has been little focus on examining the compatibility of the Israeli approach to economic peace with the theory of economic peace. While some studies have acknowledged the restrictions imposed by Israel on Palestinian economic development, they have failed to explore the extent to which Israel exploits the liberal foundations of the peace process and economic peace theory. Although there have been assessments of the Israeli perspective towards the Palestinian economy and their understanding of economic peace, there has been limited effort to understand the relationship between the theory of economic peace and Israeli practices. Therefore, this thesis aims to address this research gap by asking: To what extent is the Israeli economic peace approach compatible with economic peace theory?

The next chapter presents the theoretical framework and describes the theory that explains the reason for the existence of the research problem under study.

## **Chapter 2**

# **Theoretical Framework**

## **Chapter 2**

### **Theoretical Framework**

The theories aim to provide an explanation for the presence of the research problem being investigated and will offer insights towards addressing the research inquiries. The theories employed in this study are the economic peace theory and the dependency theory. By utilizing these theories, the research aims to provide answers to the research questions.

#### **2.1 Economic Peace Theory**

Economic Peace Theory is a concept in international relations that suggests that economic interdependence between nations can contribute to peace and reduce the likelihood of conflict. It argues that countries that have strong economic ties are less likely to engage in armed conflict as they have more to lose economically. (Bijaoui, 2014; Dorussen, 1999). Additionally, according to Dorosson (1999), trade plays a significant role in promoting peace. This perspective, aligned with liberalism, emphasizes the importance of reaching agreements on contentious matters like borders and security in order to create a peaceful environment.

This theory is based on the premise that economic interests outweigh other factors, such as political ideologies or territorial disputes, in shaping international relations. The concept of economic peace theory has its roots in the liberal school of thought in international relations, which emphasizes cooperation and the pursuit of mutual interests among nations. It gained prominence in the late 20th century with the increasing

globalization of economies and the rise of trade and investment among countries (IKV Pax, 2012).

Economic peace as a concept in the peacebuilding literature is defined by Byrne, Thiessen, and Fissuh as a means "to address structural inequality and economic deprivation and thus assist in building the peace process in post-violent societies". Economic growth is achieved through funding from an outside party or donor. Economic development is needed in post-violent societies because inequality overshadows the potential for enduring peace-building initiatives (Byrne et al., 2007). Scholars like Byrne and Ayulo (1998) believe that outside intervention in economic affairs can help bring about peace. For instance, numerous studies on the Northern Ireland conflict have shown that economic progress alone is not enough to achieve peace. However, the European Union's external economic intervention had a significant impact in this situation. Providing targeted external economic aid can be a crucial means of fostering peace-building and reconciliation after an agreement is reached (Adam et al., 2008; Byrne et al., 2009; Byrne & Irvin, 2002).

Liberals agree that economic development is a primary goal that must be reached in societies after violence because a lack of development negatively affects the possibility of continuing the peace-building process (Byrne et al., 2007; Killick et al., 2005).

The idea of economic peace has spread widely in the literature on international and political relations. The idea has been found in the writings of Montesquieu, Bastiat, Mill, Cobden, Angell, and Adam Smith. Recently, economic peace theory has regained its influence, and some important research supports the theory. The theory of economic peace (called trade peace, capitalist peace, and mercantilist pacifism) asserts that political cooperation can be based on the mutual benefit of commercial interests (IKV Pax, 2012).

The capitalist peace theory is based on two main arguments. The first is the doctrine of the human nature of pleasure, which argues that capitalism has an impact on human behavior, turning combatant individuals into peace-desiring merchants and consumers. As for the second argument, the pacification effect of economics increases with the level of development (Hegre, 2000).

In recent years, many statistical studies have found that the impact of trade, interdependence, and democracy on conflict is conditioned by a third additional variable, which is economic development (Gartzke, 2007; McDonald, 2007; McDonald, 2009). In his study, Hegre (2000) explained how increased trade reduces the risks of military conflict only if it is accompanied by economic development. He builds on the view of Diebold and Rosecrance (1986) that minimal development is crucial to liberal peacemaking and that development, which means profit from trade, makes interdependence stronger.

The economic peace theory (sometimes called commercial peace, capitalist peace, commercial pacifism, or Pax moratoria) emphasizes that a cooperative political relationship can be founded on mutually beneficial commercial interests. This idea has seen a widespread resurgence in economic and international relations literature and on the political scene.

This argument focuses on the rationalizing effect of individual wealth and private property, as it weakens chauvinistic feelings and creates a greater share of the status quo. Schumpeter (1951, p. 89) suggests that with the rise of a capitalist economy, people "were all inevitably democratized, individualized, and rationalized".

### **Importance and Relevance of the Theory in Conflict Prevention**

Polachek (1999), Gelpi, and Grieco (2008) argue that trade reduces the level of political conflict between rational actors because these actors understand that conflict brings a potential loss of commercial gains. Since the rational actor aims to multiply his profits and gains at the lowest costs, he will not start the conflict because of his fear of losing the actual and potential profits from the trade. Other views on economic peace and trade can be used as a signal during a crisis to avoid a deterioration of the situation into violence (Stein, 2003).

### **Criticisms and Challenges of Economic Peace Theory**

#### **Nationalistic Policies and Protectionism**

One of the criticisms of the Economic Peace Theory is that it does not adequately account for nationalistic policies and protectionism. In some cases, countries may prioritize their own economic interests over cooperative relationships with other nations. Trade barriers, such as tariffs and quotas, can hinder economic interdependence and make it difficult for countries to establish long-term peace through economic cooperation. Additionally, nationalistic sentiments and protectionist policies can lead to economic conflicts and trade wars, undermining the potential for economic peace (McDonald, 2004).

#### **1- Socioeconomic Inequality**

Another challenge to the Economic Peace Theory is the issue of socioeconomic inequality. While economic interdependence can create opportunities for growth and development, it may also exacerbate existing inequalities between nations. Imbalances in economic power and resources can lead to exploitation and unequal benefits from economic cooperation. This can result in social and political unrest, undermining the

potential for lasting peace and cooperation (Mitrani & Press-Barnathan, 2015). The exact reasons why asymmetric relations between parties may influence the effect of economic interdependence are not exactly known. Various hypotheses exist. For example, in asymmetric relations, the dominant rival may monopolize the disposition of the essential stakes of the conflict, which affects the types of concessions that rivals can make to one another (Friedman, 2005). Also, the 'underdog' may regard economic exchange with the rival as exploitative and impeding rather than beneficial (El-Erian & Fischer, 2000) and may not want to engage in economic interaction in the first place. This can be observed in relation to Serbia and Kosovo, Sudan and South Sudan before the latter became independent, and one can imagine the same thing to be true in relation to China and Tibet as well as Israel and Palestine. Furthermore, the weaker party may reject economic cooperation with the rival exactly because it does not recognize the idea of economic peace (Friedman, 2005).

## **2- Protracted Conflicts**

In the case of protracted conflict with deep roots, some experts assume that the economic aspects will play a role in peace, but only when the economic aspects are strong, pervasive, and present at the heart of the conflict. Friedman believes that the economic peace theory focuses on maintaining peace and preventing conflict, but it is not a tool for conflict transformation. Since the protracted conflict is due to root, deep, and stable causes, it underestimates the importance of the economic aspects. The importance of economic gains often has little value within the basic components of the conflict. In that case, economic profits are inconsistent with the basic reasons, and they may be sacrificed (Friedman, 2005).

### **3- The Reverse Effect of Economic Interdependence**

Interdependence can generate conflict. Mastanduno (1991) and Gowa (1994) indicate that trade can lead to conflict when some countries achieve gains at the expense of others' losses. Hirschman (2018) claims that interdependence can cause conflict when actors try to mitigate their weaknesses or use the weaknesses of others as a means of influence or cooperation, accompanied by resentment that means compliance. In asymmetric relations, trade can be a source of influence that can lead to dependency, exploitation, and conflict (Polachek, 1999). In asymmetric relations, the dominant side may monopolize the order of the essential pillars of the conflict, which affects the types of waivers that parties can make to one another (Friedman, 2005). Also, the weakened party may regard economic exchange with the competitor as exploitation and undermining rather than beneficial (El-Erian & Fischer, 2000). It is important to consider these criticisms and challenges when analyzing the potential for economic peace and the impact of economic interdependence on international relations.

## **2.2 Dependency Theory**

### **I. Definition and Origins of Dependency Theory**

Dependency theory is a sociopolitical theory that seeks to explain the underdevelopment and economic inequalities between developed countries (core nations) and developing countries (peripheral nations). The theory emerged in the 1950s and 1960s as a response to the sociopolitical and economic dynamics of post-colonialism and globalization. It argues that the underdevelopment of peripheral nations is a result of their continued dependence on and exploitation by more powerful core nations. According to dependency theory, the economic development of peripheral nations is hindered by their role as suppliers of raw materials and cheap labor for the core nations. Dependency

theorists argue that developed countries impose obstacles to the economic growth of peripheral states in order to prioritize their own domestic economic interests (Crossman, 2018; Egeonu, 2017).

## **II. Key Scholars and Proponents of Dependency Theory**

Several scholars have contributed to the development and popularization of dependency theory. Some of the key scholars and proponents include:

- 1- Andre Gunder Frank was one of the pioneers of dependency theory. He argued that the underdevelopment of peripheral nations is a result of their integration into the global capitalist system, which perpetuates their dependency on core nations.
- 2- Fernando Henrique Cardoso, a former president of Brazil, was also a prominent scholar of dependency theory. He emphasized the historical and structural factors that contribute to the dependency of peripheral nations and advocated for policies that promote self-reliance and economic diversification.
- 3- Walter Rodney, a Guyanese historian and political activist, analyzed the impact of colonialism on African development. He argued that the historical process of colonization and exploitation has shaped the economic and social conditions of African countries.
- 4- Theotonio Dos Santos, a Brazilian economist, contributed to Dependency Theory by highlighting the unequal exchange of resources and the negative effects of multinational corporations on the economies of peripheral nations.

These scholars and proponents of dependency theory have played a significant role in shaping the discourse on global inequality and development. Their work has influenced policymakers, activists, and academics in their understanding of the complex dynamics between core and peripheral nations (Kufakurinani et al., 2017).

### **III. The Core-Periphery Model**

The core-periphery model is a key concept in the field of dependency theory. According to this model, global economic relations are characterized by a division of the world into core and peripheral countries, each playing distinct roles in the international economic system. The core countries refer to the economically advanced and industrialized nations that dominate the global economy. They have strong industries, advanced technology, and high levels of productivity. The core countries are typically located in North America, Western Europe, and parts of East Asia. On the other hand, the periphery countries are the less developed nations that are economically dependent on the core countries. They often have limited industrialization, a reliance on agriculture or raw material exports, and lower levels of productivity. The periphery countries are typically located in Latin America, Africa, and parts of Asia.

The core-periphery model suggests that the core countries exploit the periphery countries for their resources, cheap labor, and markets. This relationship creates a dependency between the two groups, where the periphery countries rely on the core countries for economic growth and development (Klimczuk & Klimczuk-Kochańska, 2019).

#### **Characteristics and Dynamics of the Core and Periphery Countries**

The core countries have several distinct characteristics:

1. **Economic Dominance:** The core countries have a dominant role in the global economy, with influential multinational corporations, financial institutions, and advanced technologies.

2. **High GDP and Industrialization:** These countries have high Gross Domestic Product (GDP) per capita and advanced industrial sectors, contributing to their economic power and global influence.
3. **Technological Advancement:** The core countries invest heavily in research and development, innovation, and technological advancements, giving them a competitive edge in the global market.
4. **High Standard of Living:** The core countries generally have higher standards of living, with access to modern infrastructure, healthcare, education, and social welfare systems. On the other hand, the periphery countries exhibit the following characteristics:
  5. **Economic Dependence:** Periphery countries rely heavily on the core countries for trade, investment, and aid, creating a state of economic dependency.
  6. **Poverty and Underdevelopment:** Many periphery countries struggle with extreme poverty, limited access to basic services, and underdeveloped infrastructure.
  7. **Reliance on the Primary Sector:** Periphery countries often depend on the export of primary commodities, such as agricultural products, minerals, and raw materials, which makes them vulnerable to price fluctuations and global market trends.
  8. **Low Productivity and Technology:** These countries generally have lower levels of productivity, limited access to advanced technology, and a lack of skills and technical expertise.

The dynamics between the core and peripheral countries create a system of global inequality and uneven development. The core countries benefit from the exploitation of resources and labor in the periphery, while the periphery countries struggle with economic dependence and underdevelopment. Understanding the core-periphery model is essential

for analyzing the structural issues and power dynamics in the global economy, as well as the impact of globalization on different regions (Csermely et al., 2013).

### **Structural Dependence**

In dependency theory, structural dependence refers to the economic, political, and social relationships between dominant and dependent nations. It emphasizes the unequal and exploitative nature of these relationships, where the dominant nations extract resources and wealth from the dependent nations, perpetuating their underdevelopment. (Santos, 1970)

The dependency theory is helpful in understanding the relationship between the Israeli and Palestinian economies. According to this theory, the interactions between more powerful and less powerful states perpetuate unequal patterns of development and hinder the progress of developing states. Numerous studies suggest that the Palestinian economy relies on the income earned by Palestinian workers in Israel (Zilberfarb, 2018). Additionally, scholars argue that the Palestinian National Authority's budget is heavily reliant on clearance revenue collected by Israel on its behalf. Israel has at times withheld or deducted these funds as a means of punishing the PA (Daoudi & Khalidi, 2008).

## **Chapter 3**

# **Revealing Israeli Strategies for Exerting Control in Occupied Palestinian Territories: Gaining Insight into the Mechanisms of Israeli control**

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### **3.1 The Israeli View of the Palestinian Economy: Exploring Ideological and Security Factors - A Historical Context**

Traditional Zionists reduced their interaction with the Palestinian economy until the end of World War I for two reasons. On a practical level, the socialist-Zionist leadership of the Yishuv recognized early that European Jewish immigrants could never compete with the low wages accepted by Arab workers and so sought to create a separate, all-Jewish economy. On the discursive level, by separating the two economies, the Zionists were able to simultaneously deny any responsibility for the numerous problems facing the traditional and "stagnant" indigenous economies while offering their modern economy as a model for "reviving" the Palestinian economy (LeVine, 1995). "The fundamental idea behind Zionist ideology is the complete acquisition of historical Palestine, regardless of the process and length of time required. The key factor is that they are making progress in this direction and utilizing various methods and tools, such as economics, demography, military capabilities, and international relations. Initially, when Jewish immigration commenced, they faced the challenge of Palestinian workers, leading to the promotion of the concept of Jewish labor. In order to establish themselves as a Jewish entity, they find it crucial for the Jews to have authority over all aspects, including employment. Ultimately, if the capital is owned by Jews yet the workforce is Palestinian, Jewish control cannot be attained. (G. Khateeb, personal communication, April 4, 2023)

While economic cooperation was undesired before Israel was officially recognized because it ran counter to socialist goals aimed at establishing a self-sufficient, Jewish majority, agriculture-based economy, this has changed after the establishment of Jewish-majority cities with a high-tech industrial economy (Nahir, 1998).

Early Zionists like Ber Borokov believed that the local population would cooperate economically with the influx of Jews, which meant regional economic growth for the benefit of all. He wrote: "The inhabitants of Eretz Yisra'el will adapt themselves to the economic and cultural type that seizes a dominant economic position in the country. The natives of Eretz Yisra'el will assimilate economically and culturally with whoever brings order to the country and whoever undertakes the development of the forces of production of Eretz Yisrael. It is the Jewish immigrants who will undertake the development of the forces of production of "Eretz Yisrael," and the local population of "Eretz Yisra'el" will soon assimilate economically and culturally to the Jews" (Lockman, 1996, p. 42). Borokov's reasoning is similar to Defense Minister Moshe Dayan's belief that economic development and better living conditions would replace the Palestinian desire for political rights (Arnon, 2007). In practical terms, the Zionists made no serious attempts to integrate the Palestinians into their economic projects or to share with them the benefits of Jewish prosperity. By the end of the third decade of the twentieth century, with some prosperity taking place in Palestine, to some extent, the Palestinian Arab population benefited from economic growth inspired by the Jewish economy. The Zionists used this argument about the benefits of Jewish colonization to support their claims. However, the Arab population still suffered from serious structural problems that hindered their economic development (Levine, 1995).

"In the 1996 elections in Israel, the right-wing party, led by Benjamin Netanyahu, gained power. Netanyahu was strongly against the Oslo Accords, causing a deep crisis and mistrust between Israel and the Palestinians. As a result, a serious confrontation occurred between the two sides in October 1996, leading to major violence. The Oslo Agreement ultimately ended with the assassination of Rabin, allowing the Israeli right-wing to come to power. Essentially, the right-wing in Israel opposes the idea of a Palestinian state and hinders Palestinian economic development" (S. Khalil, personal communication, April 2, 2023).

The Israeli security strategy is justified by the argument that if restrictions on the Palestinian-Israeli border are eased, terrorism will have more opportunities to operate. Additionally, the increase in Palestinians' access to capital is seen as a potential threat, as they could use it to build weapons against Israel. As a result, Israel maintains tight control over the Palestinian movement in the OPT, which hinders their economic growth (Davis, 2014). In 1994, the Jerusalem Media Center & Communication Center pointed out that "security concerns have provided the Israeli authorities with a convenient pretext for rejecting anything leading to political independence" (Jerusalem Media & Communication Centre, 1994).

According to the Israeli perspective. This explains why the PLO continues negotiations and emphasizes economic growth as a supposedly important objective (Lavie, 2013). Therefore, "Israel opposes Palestinian economic development as it believes that it would strengthen their national identity. The national economy is considered crucial for the national existence, which Israel rejects" (G. Khateeb, personal communication, April 4, 2023).

### **3.2 Israeli Strategies for Dominance in the Occupied Palestinian Territories: Revealing Methods and Approaches**

The examination of Israeli policies in the OPT will take place in two stages. The initial stage covers the period from 1967 to 1993, while the second stage focuses on the post-Oslo Accords era. During this latter phase, Israel altered the execution of its policies in response to the political and security circumstances that emerged after the Oslo agreement.

Soon after the end of the 1967 war, to integrate and link the OPT with Israel, Moshe Dayan, the Israeli defense minister, advocated the integration of the Palestinian and Israeli economies into a single economic entity, arguing for the free movement not only of goods and services but also of labor and capital (Gazit, 1995). Dayan's three main principles for managing the areas were: first, minimizing both the Israeli presence and the presence of infrastructure (government buildings, military camps, etc.). The second principle was non-interference, which meant maximum Palestinian autonomy in conducting their affairs. The third principle, open bridges, involved freedom of movement between the territories and the Arab states (Gazit, 2003). To be less intrusive, Dayan planned to create what he called a "liberal occupation" in which Israeli rule would remain "invisible" (Beinart, 2021, p. 1), including a policy of cracking down on any possible uprising (Shamir, 2013).

Thus, Israel put in place several mechanisms to confiscate the occupied lands without annexing them. Attempts continued to separate the occupied lands from their inhabitants by trying to integrate the West Bank and Gaza Strip into the State of Israel without integrating the Palestinian population into Israeli society. These mechanisms, Israel's unwillingness to assimilate the occupied Palestinians, and the separation between

the Palestinian people and their land reinforced the logic of the comprehensive occupation of the Palestinian land (Gordon, 2008).

To incorporate the conquered territories into Israel, several eradication actions were instituted by Israel. A few months after the occupation, on December 17, 1967, the Israeli government began calling the West Bank Judea and Samaria, establishing a religious link between Israel and the biblical land of the Jewish people (Coone et al., 1983). To confirm the wiping of borders, Israel linked the transportation and communication infrastructure of the occupied territories and Israel itself (Tamari, 1989). Almost all landmarks that characterize the international border were taken away; most of the barriers of the cross-border were removed; there was a free movement of Israeli shoppers to travel daily and buy cheap products; and many Israeli schools were established in the West Bank.

In addition, Israel removed the distinction between government spending within Israel and spending in the OPT from the yearly budget, making the whole area from the Jordan Valley to the Mediterranean Sea into one economic entity. These policies served their purpose, and the OPT became, for many years, indiscernible from Israel in the sight of most Israelis. Israeli economic policy not only seeks to satisfy Israel's economic interests but also plays a decisive role in controlling the OPT. In that sense, Israel supported the economic productivity of Palestinians as individuals while stifling their national demands by impeding the development of a Palestinian economy relying on industry and modern agriculture. Israel encouraged Palestinian citizens as unskilled workers, thereby utilizing the economic benefits of the Palestinians in the Israeli economy (Gordon, 2008).

Since 1967, Israel has been facing a question about the fate of the Palestinians living in the occupied territories. Extremists consider that preserving these lands with the continued presence of their original inhabitants implies weakening the Zionist goal of establishing a Jewish state on all Palestinian lands. Therefore, many settler leaders propose to create economic hardship in the West Bank and Gaza Strip to bring about large-scale emigration (Will, 1980).

From 1967 to 1993, the Israeli government, with the help of its military authorities, implemented various measures that limited both private and public investment in OPT. These measures also reduced the range of economic activities and restricted economic opportunities. These policies were enforced through numerous military orders that covered all aspects of economic activity in the OPT. The intention behind these Israeli policies and practices was to protect the Israeli economy from potential competition from Palestinians, allowing Israeli products to be sold in the occupied territories and exploiting Palestinian labor for the Israeli economy. The environment created by Israeli control in the occupied Palestinian territory during this time was restrictive and discouraging for private investment. In 1985, Israeli Defense Minister Rabin announced that "there will be no development for Palestinians in the OPT initiated by the Israeli Government, and no permits will be given for expanding agriculture or industry [there], which may compete with the State of Israel" (Shakir, 2023, p. 70). Moreover, the Palestinian attempts to establish new businesses or enlarge existing ones were hindered by a convoluted system of licenses and permits, which involved a protracted bureaucratic procedure.

Following the start of the occupation in 1967, through Military Order No. 7, Israel decided to close all banks operating in the West Bank and Gaza. Only two Arab banks

were allowed to reopen under very strict conditions (Harris, 1988). These restrictions, along with limitations on importing machinery and raw materials, had a negative impact on domestic growth (Kubursi & Naqib, 2008) and increased Palestinian dependence on Israel (Abu Kishk, 1988). Additionally, indirect taxes on Palestinian imports that should have been used for public investment and infrastructure in OPT were instead paid to the Israeli treasury. It has been estimated that Israel collected between \$5.2 billion and \$9.4 billion in Palestinian tariff revenue between 1970 and 1987 (Hamed & Shaban, 1993), but allocated very little of it for public investment and infrastructure within the OPT. As a result, the infrastructure in the West Bank and Gaza Strip deteriorated and fell far behind neighboring countries with similar income levels at the time (World Bank, 1993).

In her study of the economy in the Gaza Strip, Sara Roy found that Israel has hindered two critical elements necessary for Palestinian economic growth: the gradual increase in productivity that would enable the accumulation of capital and the establishment of stable political and economic connections between the Palestinian economy and other economies. Roy's analysis suggests that when Israel mentioned improving prosperity in the OPT by emphasizing forms of authority and control, they also heavily used mechanisms to subordinate the Palestinian economy to Israel's economic interests and requirements. As a result, they effectively concealed the social stagnation brought about by Israel in the economic realm (Roy, 1995).

Following the establishment of the PA in 1994, Israeli policies and practices worsened. During 1993 and 1994, Israel and the PLO reached several transitional agreements that raised hopes for a better economic future in the OPT but had serious political and economic consequences. Since 1994, due to the Oslo Accords, the Palestinian economy has operated in a negative political, territorial, and security

environment. The Oslo Accords played a role in the decline of the Palestinian economy in various ways. Oslo I allowed for the continuation of Israeli military orders issued since June 1967, and Oslo II further complicated the situation by dividing the West Bank into three administrative regions: A, B, and C (approximately 18%, 22%, and 60%, respectively) (ESCWA, 2022). Areas A and B, controlled by the PA either fully or partially, were non-contiguous and divided into 165 isolated cantons by Area C. Israeli military control exclusively governs water resources, land use, external borders, travel and immigration, and the population register in Area C (Van Esveld, 2023).

The implementation of restrictive Israeli policies and practices after the Oslo Accords intensified the geographic and political situation. These policies included the expansion of settlements in the OPT (EU and UNRWA, 2022), the construction of roads and bridges to connect these settlements (Rosen & Shaul, 2020), and the control of Palestinian natural resources (World Bank, 2013). Additionally, there was a separation of East Jerusalem from the West Bank as well as from the Gaza Strip (Gisha, 2012). Economically, Israeli security domination and violation of the Paris Protocol resulted in constraints on free movement and trade (World Bank, 2014a), restrictions on Palestinian economic investment in resource-rich Area C (OCHA, 2008b), and a complex closure and permit regime (OCHA, 2008a). These actions caused significant economic losses to the OPT (World Bank, 2018), along with restrictions on the importation of essential goods through a vague and arbitrary-defined "dual-use" goods system and Israel's control of PA revenues (UNCTAD, 2008).

The upcoming section of this analysis will examine how Israel manipulates the Paris Protocol in trade, Palestinian labor, and clearance revenues as tools of control. This

was done in order to prioritize its own economic and security objectives, even if it meant disregarding the interests of Palestinians.

### **3.3 The Paris Protocol and Israel's System of Control: Analyzing the Dynamics of Economic Relations in the Israeli-Palestinian Conflict**

The Oslo Accords considered economic development essential for peacebuilding (Tessler, 2009). In line with the "liberal peace" era and democratic peace theory, the Accords aimed to foster free markets, the rule of law, and elected governments in conflict-ridden states in order to maintain lasting peace (Paris, 2010). "The economic provisions of the agreement between Israel and the PLO are set out in the Protocol on Economic Relations signed in Paris on April 29, 1994. Formally titled "Protocol on Economic Relations between Israel and the PLO as Representing the Palestinian People", incorporated as Annex IV to the Cairo Accords signed on May 4, 1994" (Kleiman, 1994, p. 1). The Paris Protocol was designed to serve as a temporary agreement until a political resolution could be reached. However, as no such resolution was achieved by May 1999, the Protocol remained in place, effectively governing the economic interactions between Palestinians and Israel. The Protocol solidified the imbalanced nature of the economic relationship between the two parties, which had been established since 1967 through an enforced one-sided customs union framework for trade (Samhuri, 2016). The Paris Protocol marked a shift in relations between the two parties, representing a new era. It reinstated the economic integration that existed during the occupation, but based on mutual understanding rather than unilateral understanding (Arnon et al., 1997).

In order to highlight the significance of the economic aspect between both sides, the preamble to the Paris Protocol starts by stating: "The two parties view the economic domain as one of the cornerstones in their mutual relations to enhance their interest in the

achievement of a just, lasting, and comprehensive peace. Both parties shall cooperate in this field to establish a sound economic base for these relations, which will be governed in various economic spheres by the principles of mutual respect of each other's economic interests, reciprocity, equity, and fairness" (Paris Protocol on Economic Relations, 1994). Both parties acknowledged that there was an imbalanced connection between the Palestinian economy and Israel. Consequently, the objective of the protocol, as it was written in the preamble, was to rectify this asymmetrical relationship by "strengthening the economic base of the Palestinian side" and "exercising its right to economic decision-making in accordance with its development plan and priorities" (Paris Protocol on Economic Relations, 1994). Despite the initial promises of the protocol, conflicts arose shortly after its implementation. These conflicts primarily revolved around specific economic arrangements and the negative impact of Israeli policies on Palestinian economic development (Miller, 2014). The disappointing realities greatly contrasted with the ambitious goals initially set to be achieved within five years. While certain aspects of the Paris Protocol contributed to the ongoing imbalance between the parties, other events gradually hindered growth opportunities in the West Bank and Gaza (Bahour, 2011). Not only was the Paris Protocol burdensome for the Palestinians in many ways (Samhuri, 2016), but the Israeli implementation was also selective and arbitrary, frequently violating its provisions (ESCWA, 2022). In addition to the overall political security context, the Paris Protocol had a severely detrimental effect on the Palestinian economy.

The next part of the chapter will examine the Paris Protocol as solid proof of Israel's efforts to suppress the Palestinian economy and hinder the potential for establishing a robust and stable Palestinian economy.

### **3.3.1 First Control Tool: Investigating How Israel Utilizes Trade for Control**

The Protocol outlines the regulations for trade between the PA and Israel, as well as trade with the rest of the world. It includes three specific lists of goods that Palestinians can import from countries other than Israel, with restrictions on quantity, origin, and quality standards. The Protocol also emphasizes the importance of allowing exports to move freely between OPT and Israel, as long as they meet health, safety, and other standards. While the Palestinians wanted a completely free trade area, Israel wanted a customs union that would avoid border problems. Ultimately, both sides agreed to include elements of both free trade and a common market (Elkhafif et al., 2014). "The system is called "quasi-customs union". Israel reasoned that this was necessary due to the Palestinians' inability to have their own currency, limited capital, absence of control over economic and financial decisions, and lack of defined borders for their controlled regions" (H. Hussein, personal communication, April 4, 2023).

During the period between the 1967 occupation and the start of the Oslo era, there existed a de facto trade arrangement between Palestinians and Israelis known as a customs union. In this type of trade agreement, participating countries allow for the unrestricted movement of goods within their own borders and also permit the export of goods to other countries. It is worth noting that while Israel has a highly industrialized economy with a tariff structure designed for experienced traders, the nature of Palestinian trade with other countries differs from that eligible for Israel (Hussein & Khalidi, 2013). The Protocol states that trade between Israel and the PA continued to be governed by the Customs Union regime, which permits free and preferential trade between the two. Various aspects such as customs, purchase duty, value-added tax (VAT), import procedures, price valuation, distribution, regulations, and hygiene standards are aligned with Israeli customs and import regulations. Importantly, the tax rate cannot be lower than the

prevailing rate in Israel. Although PA was granted the authority to set its own tariffs for specific products from Arab countries, "in 1998, these products were valued at only "\$35 million, or just 1.1% of all Palestinian imports. (Levin, 2007, p. 1).

The incompetence of the Custom Union and poor process management have led to minimal profits for PA. With the absence of a port, airport, and safe passage between the West Bank and Gaza, Palestinians must rely on complicated and costly procedures to transport their goods from the West Bank to Gaza or outside of the country. This has caused import and export expenses to increase by approximately 30% compared to their Israeli counterparts and the delivery times for Palestinian products to be 20–80% longer than those of Israeli products (Levin, 2007). "The outcome was a customs arrangement that established the dominance of the Israeli economy over the Palestinian economy, leaving them without the ability to enact their own independent policies. This is most evident in the fact that all imports and exports will be conducted through Israeli-controlled crossings, ports, and airports, with Israeli security overseeing these activities. Israel will have the authority to determine the type and quantity of imported goods, as well as their country of origin. Essentially, the intention was for Israel to permit Palestinian trade, but only under their conditions and control" (H. Husseini, personal communication, April 4, 2023).

According to the theory of dependency, the costs of Israeli security and the export of low-technology products to the Palestinian territories have a negative impact on the competitiveness of Palestinian manufacturing and give an advantage to Israeli companies. Israel's control over access to the West Bank allows them to benefit their own companies while increasing costs for Palestinian companies, which aligns with the explanation provided by dependency theory on how developed countries can promote their own

economic growth at the expense of developing countries. The security costs do not hinder imports from Israel because Israeli companies pay lower shipping costs and are not subject to the same security restrictions at Israeli ports as other imports to the Palestinian territories (Fesen, 2021). Because of this, Israeli exports to the West Bank remained stable despite the security restrictions imposed during the Second Intifada, accounting for 70% of total imports in 1999 and 72% in 2006 (PCBS, 1999, pp. 38–45; 2006, pp. 46–51). As a result, the manufacturing GDP of the Palestinians decreased from 21.2% of GDP in 1994 to 12.6% in 2007 (PCBS, 2003, p. 71, 2009, p. 73). The security restrictions imposed by Israel benefited their own security and economic interests but limited the potential output of Palestinian manufacturing companies. Therefore, dependency theory helps explain how Israel's presence in the Palestinian territories harms Palestinian economic growth while benefiting Israeli security and economic concerns (Fesen, 2021).

Although the quasi-customs union is not the favored choice for Palestinian development, it remains the ideal plan for Israel, as it aids in market entry, generates profits, and addresses their security concerns (Husseini & Khalidi, 2013). As long as Israel continues to benefit economically, it is unlikely that it will replace the customs union with another system. The decision to implement the customs union in Israel's strategy was primarily driven by political interests aimed at preserving the non-state solution rather than economic interests. By adopting the customs union, Israel was able to avoid defining borders and eliminate the border issue from discussions. Therefore, Israel does not express interest in any proposed ideas to bolster the Palestinian economy (Arafeh, 2019). "The underlying principles of Judaism and Zionism are founded on the notion that this land belongs to Israel, and the concept of rights is deemed irrelevant in negotiations. During the Oslo and Paris negotiations, rights were disregarded, and

temporary agreements were treated as if they were permanent (H. Husseini, personal communication, April 4, 2023).

### **3.3.2 Second Control Tool: Analyzing Israel's Regulation of Goods and Labor Mobility as a Control Strategy**

One crucial part of the protocol involves determining how goods and people can move between Israel and the PA. In theory, the protocol's goal is to remove any discrimination against Palestinian traders in terms of importing and exporting items. This means that Palestinian shippers are required to utilize the same commercial facilities as Israeli shippers. According to the Protocol, "the Palestinian side has the right to use all points of exit and entry in Israel designated for that purpose. The import and export of the Palestinians through the points of exit and entry in Israel will be given equal trade and economic treatment" (Paris Protocol on Economic Relations, 1994, art. III (13)). In practice, Israel has stopped goods and materials coming into the Palestinian territories from other countries through Israeli ports for security reasons. They have asked the Palestinians to follow Israeli rules, even if it goes against their own business interests. These rules were created to help Israeli trade, but at the expense of Palestinian trade. Israelis do not recognize the Palestinian Quality Certificate, and goods that can have military and civilian uses are either completely prohibited or subjected to complex security measures due to Israel's belief that they can be used for military purposes. These actions by Israel go against the protocol that grants equal rights to Palestinian exports and imports as their Israeli counterparts (Arafah, 2019).

The Palestinian Authority's trade with countries that have no relations with Israel has been restricted by Israel, which has had negative effects on Palestinian trade. This has led to a decrease in profits and a reduced ability for Palestinian goods to compete (Injass

et al., 2017). Israel has also implemented restrictions on the movement of goods within OPT, with a particular focus on separating the Gaza Strip from the West Bank since 1997. The Israeli blockade on Gaza has further disrupted trade between the two regions for the past decade. Additionally, Israel's closure policy has hindered trade within the West Bank itself. As a result, the West Bank economy has been divided into separate markets, increasing the time and cost of transporting goods within Palestinian cities and population centers. These factors have ultimately made the Occupied Palestinian Territories a captive market for Israeli exports (Arafah, 2019).

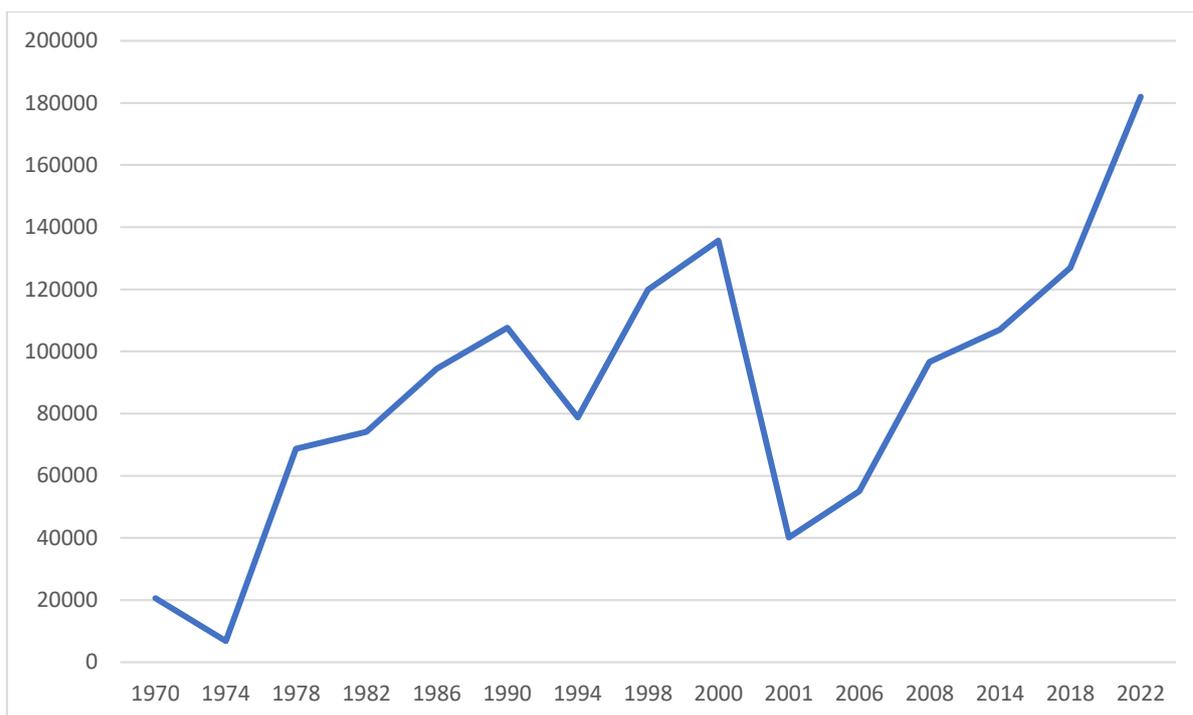
In the labor sector, both parties agreed to aim for a regular flow of workers, but Israel maintained its right to determine the extent and conditions of the labor movement. According to the Protocol, "Both sides will attempt to maintain the normality of the movement of labor between them" (Paris Protocol on Economic Relations, 1994, art. VII (1)).

Figure 1 illustrates a significant increase in the number of workers over time, starting from 11,800 in 1970 and reaching 182,000 in 2022. However, the situation for Palestinian workers entering Israel became challenging after Oslo, as frequent closures and movement restrictions were implemented by Israel for security reasons. These actions contradicted the assumption made in the protocol that normal labor entry into Israel was feasible. From 1993 to 2000, the flow of Palestinian workers was inconsistent, experiencing fluctuations. The number of workers dropped drastically, from 115,400 in 1992 to less than 62,300 in 1996. It began rising again, reaching 135,000 workers in mid-2000, but by June 2001, it fell to 40,000 due to Israeli security concerns during the second intifada. It is worth noting that during this period, Palestinian labor in Israel remained important for Israeli economic interests but underwent changes in terms of its pattern and

geographic composition. The employment of Palestinian workers in Israel demonstrated conflicting Israeli policies towards Gaza and the West Bank. In Gaza, Israel aimed to sever ties and turn Gaza workers into a reserve labor force as per Israeli requirements. On the other hand, Israel continued to employ Palestinian workers in the West Bank and Israeli settlements, encouraging the integration of the Palestinian economy into the Israeli economy. The current state of Palestinian employment can be attributed to the stagnant political and economic situation in Palestine post-Oslo. During this period, the Palestinian economy did not grow sufficiently to create more job opportunities for local workers, leading to a reliance on the Israeli labor market for income (Farsakh, 2002). Dependency theory highlights that Israel, functioning as a central country, capitalizes on the Palestinian territories, which serve as peripheral nations, by employing their cheap workforce. This interaction fosters a reliance whereby Palestinians depend on Israel for their economic development and growth.

Furthermore, Israel has implemented closures on various occasions since 1993, taking advantage of the security situation following a series of bombings. According to the data presented in Table 2, the total number of closure days between 1993 and 2021 amounts to 1791 days, which represents approximately 17% of the entire period. The year 2001 witnessed the harshest closure measures, with 244 days of closure accounting for around 67% of the total year. From 1993 to 1999, the final year of the transitional period, Israel enforced 363 closure days on Palestinians, implementing both partial and complete closures. Israel often justified these closures as preventive measures (Human Rights Watch, 1996). To ensure that the shortage of Palestinian labor does not cause significant disruption in key sectors of the Israeli economy, the Israeli government has granted permits to foreign workers. These permits allow foreign workers to be employed in

sectors that are in high demand for labor, particularly agriculture and construction. In March 1994, Israel issued 10,000 permits for foreign workers, but this number significantly increased to 100,000 permits by December 1996 (Bank of Israel, 2010). According to Palestinian economist Nasr Abdelkarim, it is incorrect to claim that Israel benefits economically from the West Bank and relies on Palestinian territories. Abdelkarim states that "Israel stopped its economic transactions with Palestinians in 2001, which included no longer hiring Palestinian workers within its borders. Despite its powerful economy and abundant resources, Israel maintains control over its relations with Palestinians and only uses them in ways that serve its security, strategic, and political goals" (N. Abdelkarim, personal communication, February 22, 2023).



**Figure 1: Numbers of Palestinian Workers in Israel and Israeli Settlements From 1970 to 2022**

**The diagram was created by the researcher using the data provided in Table 1.**

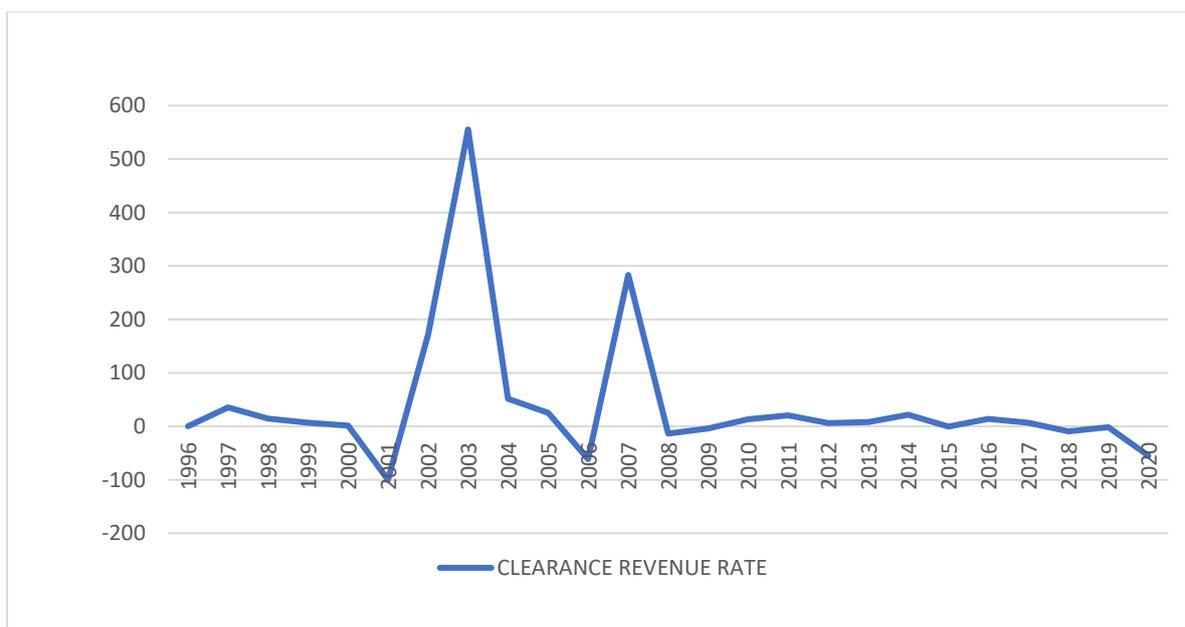
### **3.3.3 Third Control Tool: Examining Israel's Use of Clearance Revenues for Control**

The Protocol includes a system known as the clearance revenue system, which involves the collection of financial revenues from taxes on Palestinian imports passing through or to Israel. These revenues are collected by Israel in favor of the Palestinian National Authority. (Elkhafif et al., 2014). "The clearance of revenues from all import taxes and levies between Israel and the Palestinian Authority will be based on the principle of the place of final destination. In addition, these tax revenues will be allocated to the Palestinian Authority even if the importation was carried out by Israeli importers when the final destination explicitly stated in the import documentation is a corporation registered by the Palestinian Authority and conducting business activity in the Areas (Paris Protocol on Economic Relations, 1994, art. III (15)). Indirect taxes are allocated based on the principle of the country of destination, with transfers occurring monthly after account reconciliation. On the other hand, direct taxes are allocated based on the service principle, as most Palestinian workers commute to Israel and receive welfare benefits in their home country. Therefore, direct taxes paid should go to the Palestinian Authority. Israel charges a 3 percent fee on all gross clearance proceeds for collection and processing. The main components of customs clearance revenue are customs duties, value-added tax (VAT), and petroleum taxes, each making up approximately one-third of the total. Additionally, there is a small portion of billing income from other direct and indirect taxes, like income tax and purchase tax (Kock & Qassis, 2011).

From 1996 to 2021, there was a significant increase in clearance revenues (shown in Figure 2). The revenue volume went from \$351.7 million in 1996 to \$2,663 million in 2021. However, in the early years (1996–2006), clearance revenues decreased and hit rock bottom in 2001, reaching zero with a growth rate of -100%. This was a result of not

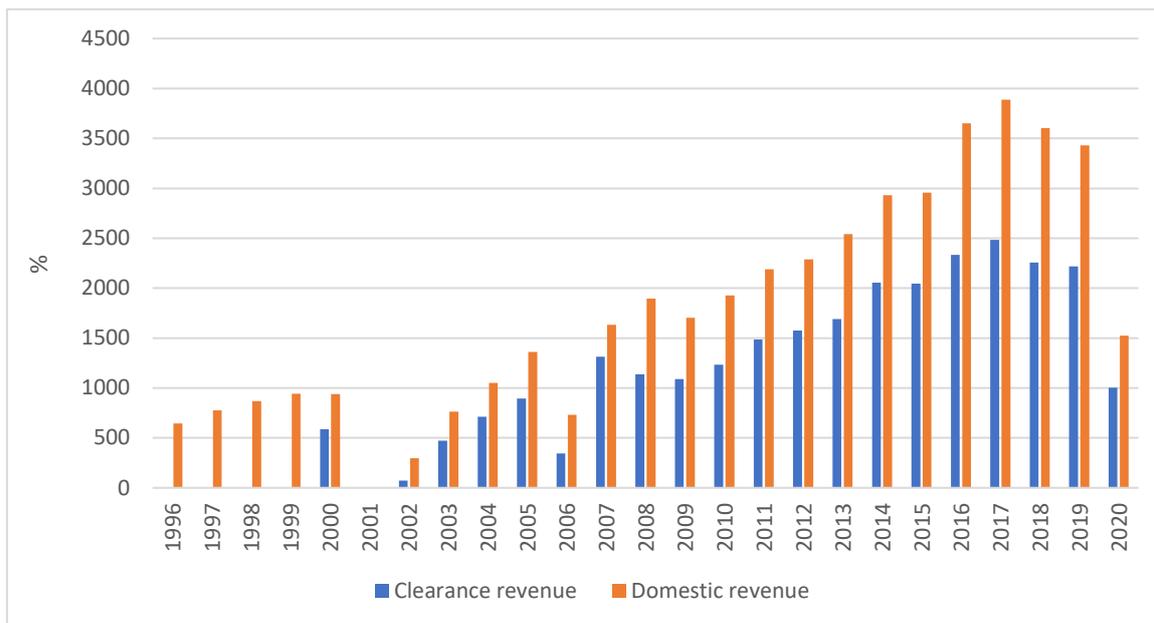
receiving any funds from clearance revenues that year, which had a negative impact on the Palestinian economy's performance due to the second Palestinian Intifada and Israeli repressive practices (Arab Monetary Fund, 2002). In 2020, clearance revenues decreased again to \$1,003.61 due to the

Corona pandemic and the Israeli withholding of funds for several months.



**Figure 2: The Rate of Palestinian Clearance Revenues During the Period 1996-2020**  
The diagram was created by the researcher using the data provided in Table 3

In recent years, there has been an increase in the contribution of clearance revenues to overall revenues and public spending. According to Figure 3, on average, roughly 51.6% of clearance revenues came from local revenues, and approximately 31.9% came from public expenditures during the period of 1996 to 2006. However, from 2007 to 2020, the value of clearance revenues and their impact on local revenues and public expenditures notably rose. During this period, about 65.9% of local revenue came from clearance revenues, which constituted around 49.3% of public expenditures.



**Figure 3: Comparing Palestinian Clearance Revenues with Domestic Revenues During the Period 1996-2020**

**The diagram was created by the researcher using the data provided in Table 3**

Clearance revenues have become more crucial for the PA today compared to the early years. This increased reliance on clearance revenues has made the PA more susceptible to the unilateral suspension of transfers by the Israeli government. Consequently, the PA heavily depends on these revenues to cover recurring expenses such as wages. Any disruption to these revenues not only impacts the PA's finances but also its economic performance due to its significant role in the overall economy (World Bank, 2020). According to the Protocol, the Israeli government is responsible for collecting these revenues and remitting them monthly as a fundamental step in reducing instability and ensuring economic stability.

In terms of collecting clearance revenues between Israel and PA, the current system allows Israel to have control over two-thirds of Palestinian revenues. This means that Israel has the power to stop transferring revenue or deduct funds without providing

any clear reasons. The World Bank reports that Israel has previously suspended Palestinian revenues, which they consider a form of sanction in response to the political actions taken by the PA in joining international organizations. The details can be found in Table No. 4.

In November 2012, the Israeli government stopped transferring clearance revenues and instead used the money to pay the electricity bill owed by the Jerusalem Electricity Company to the Israel Electric Corporation (IEC). This revenue is equivalent to the Palestinian Authority Fund, which provided monthly payments to the families of Palestinians who were killed, injured, or imprisoned in Israel (UN, 2020). In response, the Palestinian National Authority refused to accept the clearance for several months, resulting in ongoing discounts that amounted to \$104 million in 2021. Israel's control over PA revenue has been a major issue (UNCTAD, 2008), and this strategy has been widely used as part of Israel's "security-first" approach, giving Israel the ability to exert control and impose penalties on the PA when it does not meet Israel's security, political, and economic priorities. As a result, the PA's role as a self-governing entity working toward Palestinian independence has been compromised (Taghdisi-Rad, 2015).

Furthermore, the leakage of Palestinian financial resources into the Israeli treasury is a major issue with this system. The exact amount of leakage is not known, but both international and Palestinian reports have indicated that significant amounts of financial resources are lost on an annual basis (World Bank, 2013). Tax leakage is a drawback of the Paris Protocol, mainly due to the slow and vague process for lifting secrecy in Israel. All the data is held by the Ministries of Finance and Defense in Israel, making it difficult for Palestinians to access and monitor the information. A study by UNCTAD found that Palestinian taxes are leaked at a rate exceeding \$200 million each year, largely due to

weak customs controls and outdated clearance rules in Israel. This means that since 2005, the accumulated leakage is equivalent to the budget deficit of the Palestinian National Authority (PA) since 2001, which was approximately \$1.5 billion. Despite the intervention of international organizations, Israel has refused to acknowledge a loss of more than \$70 million in PA revenues annually. Consequently, it is challenging to make any progress in addressing this issue (Husseini & Khalidi, 2013).

The income generated from clearance revenue is a significant source of funding for the PA, so when it is interrupted, there is a sudden decline in public spending. This, in turn, leads to economic challenges for the Palestinian people and different sectors. According to the World Bank (2020), the continuous suspension of revenue transfers has not only disrupted the budget but also hindered progress in reforms and the development of Palestinian institutions (Kock & Qassis, 2011).

### **3.3.4 Fourth Control Tool: Assessing the Influence and Function of the Joint Economic Committee (JEC) in Israel's Control Strategies**

Regarding direct trade relations with Israel, the JEC, composed of equal numbers of official experts from both sides, should resolve any disputes between the two parties and bring about amendments to the agreement through negotiations (Elmusa & El-Jaafari, 1995). The committee deals with issues between the two sides, adding other materials in tables A1, A2, and B based on the proposals of the Palestinian side; any proposals related to customs duties; licensing; imports and standards regarding imports; estimation of the needs of the Palestinian market in terms of goods; consultation; verification of implementation rules of origin; exchange of information related to the issue of licensing; and resolving any problems that may arise between the two sides (Paris Protocol on Economic Relations, 1994, art. III (16)).

This committee did not fulfill the tasks for which it was set up because Israel combined economic issues with its political and security concerns (Khalidi & Taghdisi-Rad, 2009), which crippled the committee's work. The JEC has been almost completely inactive since 2000, and only a brief meeting at the ministerial level took place in September 2009 (EL-Jaafari, 2000). The implementation of the Protocol was therefore based on imposing "a fait accompli" rather than resorting to negotiations and examining the mutual benefits between a small and a larger economy (Khalidi & Taghdisi-Rad, 2009). Israel viewed the Joint Economic Committee (JEC) as a forum in which PA could raise issues and claims. Any contentious issue is followed up by establishing a new sub-committee at the technical level of the JEC, and this sub-committee usually holds meetings for months before approving or rejecting any specific step. In the history of the Palestinian-Israeli economic relationship through these committees, the Israeli response to the Palestinian demands was not part of a process of strategic economic cooperation between the two sides but rather a response to an urgent need when it appeared and following Israeli interests. "In a more important development, Israel made changes to the structure of the Economic Committee. It was incorporated into the Israeli Ministry of Defense, thus becoming an integral part of the country's security system" (S. Hleileh, personal communication, March 8, 2023).

The JEC continued to meet until the end of the 1990s. After the Wye River agreements of 1998, the committee was revived slightly with Israel's approval of some additions and amendments to lists A and B that had been demanded by the PA for several years. Some of its subcommittees continue to function in the management of day-to-day affairs as a means of informing the PA of income due from tax collection and of changes in Israeli laws (Husseini & Khalidi, 2013).

In conclusion, Israel manipulated its dominant position through the Paris Protocol to control the fate of the Palestinian economy and subject it to its security measures. Within this framework, Israel controlled the Palestinian trade sector in terms of movement, specifications, and tax revenues, leading to a decline in Palestinian domestic trade with the outside world in favor of Israeli trade. Israel also used the Palestinian labor sector in Israel to expand its influence in the Palestinian economy and connect it to Israeli measures. The Paris Protocol became an Israeli tool to pressure Palestinians and control their economy instead of being a means to enhance economic integration and development. All the outputs of the Paris Protocol were transformed by Israel into bargaining tools with the Palestinians based on economy versus security.

## **Chapter 4**

### **Exploring the Israeli Economic Peace**

#### **Approach: Investigating the Intersection of Liberalism and Occupation**

## Chapter 4

### **Exploring the Israeli Economic Peace Approach: Investigating the Intersection of Liberalism and Occupation**

#### **4.1 Understanding the Israeli Economic Peace Approach: Defining its Objectives and Goals**

From Israeli perspective, the concept of "economic peace" entails providing economic incentives and other compromises as an alternative to achieving a comprehensive and fair peace. Essentially, it is a strategy employed to divert the attention of regular individuals from political matters by shifting their focus towards securing their economic well-being. (Khalidi et al., 2014).

Some Israelis suppose that deprivation in Palestinian lives creates chaos and motivates resistance to Israel, while improved economic opportunities raise the cost of resisting Israeli occupation. This approach was endorsed by Israeli Defense Minister Moshe Dayan after the 1967 occupation, as he sought to improve the economic situation of the Palestinians as individuals to normalize the occupation. An Israeli military report in 1970 mentioned that "the only way to avoid a potential outbreak of social forces is to continually strive to improve the standard of living and services of this disadvantaged community" (Gordon, 2008, p. 63). Such an economic approach means the Palestinians sustain their economy through Israel; they work in Israel, receive some of their medical care in Israel, buy their electricity in Israel, gather indirect taxes, and so on. The Israeli economic peace approach simply means further raising the number of work permits for Palestinians in Israel and expanding the fishing zone off the coast of Gaza (Hyde, 2022). Israeli methods of pacifying Palestinians are at the core of counterinsurgency theory. This theory suggests that unlike conventional warfare and the use of force against the enemy

to quell the insurgency, modern counterinsurgency is more focused on the population (Arafeh, 2022). Counterinsurgency is defined as "a competition... for the right and the ability to win the hearts, minds, and acquiescence of the population, thereby deterring them from supporting an insurgency" (Kilcullen, 2010, p. 9). To satisfy civilians, counterinsurgency theory relies on tactics such as strengthening economic capacity, giving social services, and supporting local elites (Arafeh, 2022). It thus rewards certain individuals. "One example of this is the employment of Palestinians, which might give some people financial stability but does not contribute to overall economic growth. Consequently, Israeli economic peace mainly leads to individual prosperity rather than benefiting the Palestinian gross national income. However, this prosperity can be jeopardized, withdrawn, or reversed if the Palestinians provoke or take actions that do not meet Israel's satisfaction" (S.Hleileh, personal communication, March 8, 2023). In other words, "Israel's perspective on economic peace involves prioritizing security in exchange for economic advantages. As a result, whenever Israel feels secure regarding the Palestinians, it offers economic opportunities" (N. Abdelkarim, personal communication, February 22, 2023).

The primary objective of the Israeli policy that has been in place since the occupation in 1967 is to pacify the Palestinians instead of addressing the fundamental political problems of the Palestine-Israel conflict. Israel adopted this strategy to relieve itself from both internal and external pressures. Israel has no interest in engaging in political matters or seeking a political resolution with the Palestinians, nor does it support the establishment of a Palestinian state. Instead, Israel proposes the idea of economic peace. Several Israeli leaders have expressed their view that their discussions with the Palestinians focus on the economy rather than political matters (Khaldi, n.d.). Another

objective of this project "is to make it more difficult and costly for Palestinians to separate themselves from Israel, with the ultimate goal of creating a sense of apathy among the Palestinian population and discouraging any resistance efforts. This is achieved by dividing the people through economic interests. The Israeli economic peace approach focuses on targeting peaceful individuals by providing economic benefits, commercial relations, and special privileges for movement and entry into Israel, as well as opportunities for Palestinian labor within Israel. The aim is to control and suppress the will of the Palestinians. Currently, the economic aspect is being used as a tool to control and manipulate the people, leading to a state of indifference" (N. Abdelkarim, personal communication, February 22, 2023) Israel's aim is "to maintain the Palestinians' basic necessities of life, but not to allow them to thrive economically. One example of this is how they allow Palestinians to work in Israel and earn a decent income, but this income is limited to individual earnings and does not contribute to the overall national income. As a result, while Palestinians are able to consume and improve their daily lives, there is no sustainable development taking place. Instead, there is a cycle of consumption. In fact, the consumption of Israeli goods by Palestinians has reached a staggering 85%." (H. Husseini, personal communication, April 4, 2023)

In light of various developments in Israel-Palestinian relations, it appears that the economic peace of Netanyahu and the other Israeli governments, instead of attempting to make the economy a part of the political peace process, is viewed as isolated and opposes it (Arnon, 2007; Hever, 2006).

The Israeli policy of economic facilitation for Palestinians continued after Oslo. For example, Israel took measures in 2022, including the issuance of twenty thousand new work permits for Palestinians in the West Bank and increasing the number of workers

from the Gaza Strip. Israeli policy in the OPT during the post-Oslo period was shaped by this logic. Since access to all types of permits is subject to Israeli security approval, Israel has taken advantage of this factor and linked the facilitation for Palestinians to travel, trade, and work in Israel with compliance and acceptance of the occupation. Therefore, it can be concluded that the permit system acts as a disciplinary tool, whether by rewarding them in the case of compliance or punishing them when they resist. As an example, in Gaza, Israel's economic facilitation provided Hamas with an incentive not to engage in future rounds of escalation with Israel.

The idea of economic peace can be seen as either "malignant" or "benign", depending on the context in which a specific initiative is developed. The negative version involves an attempt to control Palestinians and offer them stability for a certain period of time in exchange for giving Israel unchecked power to pursue its colonial and expansionist goals. This is essentially a tactic to divert attention from political issues by focusing on economic survival instead. Examples of this type of economic peace include Moshe Dayan's "open bridges" policy after the 1967 war, which aimed to eradicate armed resistance in Palestinian territories; the "quality of life" strategy pursued by U.S. Secretary of State George Schultz and Israeli defense minister Yitzhak Rabin from 1984 to 1986; and the term "economic peace" coined by Israeli prime minister Benjamin Netanyahu in 2009.

The more "benign" economic peace is the type agreed upon by both Israelis and Palestinians for a limited duration and for a specific purpose, and it derives from what is at its core a political process. The best example of this is the Protocol on Economic Relations, or Paris Protocol, signed by the Israeli government and the PLO in 1994. Israel undoubtedly remains the greatest beneficiary of such deals, as they prolong its occupation

and strengthen its colonial enterprise. This was all too apparent at the end of the five-year interim period following the signature of the Oslo Accord in 1993: by undermining the full and balanced operation of the Protocol through arbitrary policy decisions affecting Palestinian trade and labor flows through or with Israel (Khalidi et al., 2014).

By examining and analyzing significant economic initiatives proposed by Israel, one can gain a deeper understanding of their approach in this particular context.

## **4.2 Reviewing Israeli Initiatives within the Framework of Economic Peace**

### **4.2.1 The Shimon Peres' Plan for the New Middle East**

"Peace dividend" is a term that was widely used in the Israeli-Palestinian peace process in the 1990s. The term indicates the potential economic prosperity that peace can bring by freeing up money currently spent on military affairs and security and by promoting tourism and trade (Nitzan & Bichler, 2002). The international community focused on the economic tool, adding important insights into the role of the economy in the peaceful resolution of the Palestinian issue. Among these initiatives, the initiative, embodied in Shimon Peres' "New Middle East" vision, focused on the logic of building economic ties across the region, echoing the interdependence and peace argument (Peres & Naor, 1993). The plan for NME was formulated in 1993, after the signing of the Oslo Accords. Shimon Peres, the Foreign Minister, drafted the plan and presented his main ideas in the book "The New Middle East" (Beilin, 1999). Advances in the peace process between Israel and the Palestinians, supplemented by the peace agreement with Jordan, accelerated attempts to implement some parts of the NME plan. The concept of NME is based on the premise that only through the creation of a regional framework encompassing all Middle Eastern countries can the conflict between Israel and the Arab states be ended (Leslau, 2006). Such a framework would encourage countries in the

region to work together to solve regional problems, and this cooperation would in turn promote regional economic development (Peres & Naor, 1993). This hypothesis is based on Neoliberal theories, which "elaborate the insight that state-society relations—the relationship of states to the domestic and transnational social context in which they are embedded—have a fundamental impact on state behavior in world politics. Societal ideas, interests, and institutions influence state behavior by shaping state preferences, that is, the fundamental social purposes underlying the strategic calculations of governments "(Moravcsik, 1997, p. 513).

During its economic crisis in 1985, Israel found the solution through the liberalization of its economy as a neoliberal shift in strategic alternatives from a state of war to a state of liberalism and regional reconciliation. In that context, Israel accepted peace talks with Palestinians (Nitzan & Bichler, 2002). Using the solution to the Palestinian issue as a strategic tool toward building a "New Middle East" as Peres' vision It also helped Israel obtain enormous economic opportunities abroad through good relations with European and Asian countries and opened new markets and areas of activity for the Israeli economy, as well as the formation of economic relations with regional countries like some Gulf countries, despite the absence of diplomatic relations (Klieman, 1994). The desired peace dividends and the outbreak of the first Palestinian intifada contributed to Israel's retreat from resisting the Palestinian national entity and national aspirations for independence, which Israel maintained during the years of the Israeli occupation before Oslo. Moreover, the concept of "peace dividend" has been expanded beyond the Israeli-Palestinian borders to the larger regional context. The changing world structure, Peres argued, "favors economic growth over territorial acquisition and requires that Israel and its neighbors change their priorities or risk becoming marginal in the world

economy. Toward the end of the twentieth century, relations between nations began to take on a new, qualitative dimension. The scale has tipped in the direction of economics rather than military might. “(Peres & Naor, 1993, p. 35–36). In practice, Israel shared meetings and economic congresses such as the 1994 Casablanca Conference and the 1995 Amman Conference, as well as the establishment of trade and commerce offices, contributed to the enhancement of trade relations between Israel and the Arab states (particularly the Gulf and Maghreb states). Another element of economic development that received widespread international support was the establishment of joint trade zones between PA and Israel, such as the Karni Crossing Industrial Zone (Leslau, 2006).

The labor Israeli government, which needs support, chose to create and ride the waves of optimism, backed up by the business community and media (Ben-Porat, 2005c).

The stock market reflected the explosion of business optimism as investors bet on peace, breaking all records three days after the signing of the principle declaration with Palestinians in Washington, DC. The newspapers were full of stories about the economic gains that awaited Israel, and the businessmen were filled with optimism. Foreign companies that had previously avoided doing business in Israel were now entering the Israeli market. The list included major American retail chains such as Pepsi Cola, McDonald's, Burger King, Tower Records, Office Depot, and Ace Hardware; European companies like Heineken, Amstel, and Daimler Benz; and East Asian companies like Hyundai and Acer. Newspapers drew a new map of the region, opening up countries in the Middle East, the Mediterranean, and the Far East previously closed to Israel.

Because it has a strong economy compared to its neighbors, developments in the peace process contributed to globalizing the Israeli economy rather than regionalizing it.

(Ben-Porat, 2005a). From an Israeli business perspective, Israeli businessmen saw the region primarily as a source of cheap labor and a market for some exports. (Drake, 1999). Their interests were in following the global markets. The end of the Arab boycott opened up new markets for Israeli businessmen, particularly in Southeast Asia. In addition, political stability has encouraged the entry of foreign companies and investment as the Israeli economy has become attractive to foreign investors (Ben-Porat, 2005a).

However, the practical achievements in these facets of the program were tinier on paper than they were. The actual outcome of the economic conferences was limited. Ultimately, the volume of trade between Israel and the Arab states has not increased significantly (Bar-El & Schwartz, 2003). This globalization trend has had important positive effects on the Israeli economy, but rather limited effects on the peace process. Palestinians, neighboring Arab states, and even the poorer sections of Israeli society have benefited little, if at all. It soon became apparent that, despite early enthusiasm, the peace process and the NME suffered from a lack of legitimacy, not only in the Arab world at large but also in Israel in particular (Ben-Porat, 2005a). The Arab states were wary of cooperation because of Israel's economic superiority, which could translate into Israel's advantage and exploitation. The NME even made Egypt uneasy, despite a peace treaty with Israel that had lasted for over fifteen years. Asked Egyptian President Mubarak: "What is the new Middle East? If it is peace and cooperation, that's OK. But people say Israel wants to be the strongest state in the region and control the economy. Talk like this makes all the countries in the region afraid" (Drake, 1999).

For many Israelis, despite these economic facts, the peace movements have historically been perceived as upper-class and Ashkenazi (of European descent)-oriented, and the peace they sought within the NME framework was perceived as self-serving. The

1990s were marked not only by impressive growth but also by growing economic gaps. Such peace dividends were at best a myth and at worst a threat to large sections of Israeli society, as part of the new ventures involved shifting labor-intensive industries from Israel to neighboring Arab states. Second, the peace process and the general desire to normalize Israel through global integration were "anathema" to Israel's ideological right wing. Territorial compromises have been described as a betrayal of Zionism, and the government has often been described in harsh terms, labeling members as traitors. At the extremes, this ideology was translated into acts of violence. Internal extremist violence culminated when, in November 1995, Prime Minister Rabin was assassinated (Ben-Porat, 2005a).

For the Palestinians, official partners in the peace process, the situation was even less promising. In 1993, the Palestinian economy was a mess. After 25 years of occupation, the WBGS remained poor regions that supplied Israel's manual labor and had few economic resources of their own. They were heavily dependent on Israel and paid a high price for the intifada in the form of productivity losses, trade with Israel, and employment in Israel. The peace process failed to alleviate the economic plight of the majority of Palestinians. Their economic situation has deteriorated, especially when compared to Israel's booming economy (Roy, 1999). While in September 1993, about 65 percent of Palestinians expressed support for the Oslo Accords, just over a year later, in December 1994, only 41.5 percent expressed their support. In 1995, a majority of Palestinians (59.5 percent) said they did not expect a lasting peace with Israel, while only 23 percent expected a lasting peace (PSR, 1993). In Peres Vision, the NME should take an example from the EU. In contrast to the EU, however, the Middle East not only suffered from high inequalities between Israel and its Arab neighbors, but cooperation

was also dependent on the development of the peace process between Israel and the Palestinians (Drake, 1999).

The peace process has gradually turned into a process of division that overshadows notions of cooperation. The negotiations failed to resolve the insurmountable issues that were being postponed to the final phase: the status of Jerusalem, the right of return for Palestinian refugees, and the location of the final borders (Ben-Porat, 2005b).

#### **4.2.2 Netanyahu's Economic Peace Project: Analyzing Israel's Approach to Economic Relations in the Israeli-Palestinian Conflict**

In 2009, Prime Minister Netanyahu proposed an economic peace plan with the PA in the West Bank based on improving economic conditions. Netanyahu suggested conducting negotiations on economic issues as an area that can be agreed upon and a precondition for moving on to political issues after achieving economic cooperation. Netanyahu elaborates further, saying that economic peace relies on two forces: Israeli security and market forces. "We must weave economic peace alongside a political process. That means that we have to strengthen the moderate parts of the Palestinian economy by handing over rapid growth in those areas, rapid economic growth that gives a stake in peace to the ordinary Palestinians. (Leech, 2016, p. 129).

Netanyahu claimed that there is a rich agenda of economic initiatives that, if vigorously pursued jointly by Palestinians and Israelis, could yield quick and demonstrably positive results. This would translate into job creation, increased income, and faster economic growth for the Palestinians. In addition, Netanyahu claimed that, while this is not a substitute for political progress, it will have a positive impact on it (Ahren, 2008). Therefore, to advance his approach, Netanyahu took several steps: He

institutionalized his economic peace approach by establishing the Ministry of Regional Cooperation in June 2009. The ministry is responsible for promoting economic partnerships with countries in the region and the PA, as well as realizing joint economic projects in the region (Prime Minister's Office, 2009).

From an Israeli perspective, Israel's policies are based on the distinction between a conflictual political field animated by national convictions and a consensual, peaceful, and rational economic field. For these institutional actors, peaceful trade and economic cooperation projects will allow market rationality to override political differences (Havkin, 2017). The ministry's first act was the expanded opening of the Allenby Bridge across Jordan to promote trade relations between Palestinians, Jordanians, and Israelis (Shabi, 2009). Israel has advanced 25 economic initiatives in the Palestinian private sector. Almost 1200 new companies were registered in the West Bank in 2009 (Harel & Ravid, 2009). In 2010, Israel took several economic steps, including facilitating access to the West Bank, facilitating investments in the private sector, improving the number of border crossings (Gevel, 2010), and removing three major checkpoints in 2011 (UNSCO, 2012). At that time, the Israelis began to promote the importance of economics as a tool that could serve to pacify Israeli-Palestinian relations. Baruch Spiegel, a member of the Economic Cooperation Foundation (ECF), says: "We want the Palestinians to live comfortably; an economic peace will reduce terrorist attacks" (Havkin, 2017, p. 22). Checkpoint improvement was limited and fragile. These improvements have not been deepened and sustained, as orderly liberation of the Palestinian economy requires continued shutdowns of checkpoints in response to ever-improving security. The main obstacle is Israel's security control over Area C. Removing a large number of Israeli checkpoints found in Area C directly protecting settlements is unlikely to be considered.

Thus, the Israeli economic peace approach is limited, as Israel will not lift military protections of what it sees as its intrinsic security in the OPT. For Israel, it only takes a single attack to cause an overnight reversal or even an escalation. Such violence is made all the more likely by Israel's approach to settlement expansion (Green, 2010). For Netanyahu, the idea of economic peace was more important in his domestic political context. He sought to balance his right-wing domestic political support base, offer concessions to the Palestinians, and exert American pressure (Leech, 2016). Netanyahu utilized the economic peace approach to change international priorities from ending the Israeli occupation to improving economic conditions. He tried to portray the situation as a struggle between two equal sides on economic grounds and called for economic development that would exclude or at least postpone political considerations. The focus of the international community on solving the economic disputes between the two parties has led to the implication that the continuation of the occupation was a secondary factor in the conflict (Miller, 2014).

Economic arguments justifying the improvement of Palestinian life and the mutual economic benefits of Palestinians and Israelis produced a cumulative effect that declined the political dimension (Azoulay & Ophir, 2012). Another negative impact of the Israeli economic peace project was represented by the fact that most of the international reports dealt with the economic dimension at the expense of the political problem, focusing on the details of occupation costs on the Palestinian economy rather than the occupation itself (UN, 2012). The Israeli economic peace approach was a plan presented to the Palestinians that included limited economic gains in exchange for waivers of political rights (Khalidi & Samour, 2011). Moreover, Israel aimed to alter the dynamics of the conflict. Instead of prioritizing peace, economy, and security in that

order, Israel believes in prioritizing security first, followed by the economy, and ultimately peace.

As a result, the liberal economic approach ended up being a realist approach to managing conflicts. The equation of security, economy, and peace can be divided into two components. The liberal aspect emphasizes the role of economics and economic growth in promoting peace and resolving conflicts, but it is dependent on the realist aspect, which views security as a prerequisite for economic development and collaboration.

There are two problems with this triangular equation. First, as noted before, Israeli efforts to ensure security hinder the potential for Palestinian economic development, resulting in a never-ending cycle. Although there are those within Israel who recognize the connection between restrictions and radicalization and advocate for easing the Israeli restrictions within the confines of maintaining security, a different perspective typically prevails during times of crisis. This perspective favors utilizing the economy as a means of coercion. (Lasensky & Grace, 2006, p. 4–5). Second, if the improvement of the Palestinian economy is constantly dependent on the actions of Palestinians, it can be perceived as a reward (a carrot) for positive conduct and as a punishment (a stick) for negative behavior, such as imposing restrictions or withholding the transfer of clearance revenues. If this is indeed the strategy, then the pronounced goal of helping to build a viable Palestinian economy is unlikely to be truly advanced (Mitrani & Press-Barnathan, 2015).

Moreover, diplomatic maneuvers were used by Netanyahu to call for more involvement by the two countries that have made peace with Israel and border both Israel and the OPT, namely Jordan and Egypt. This could, in his opinion, lead to tangible

progress at the regional level. Netanyahu called for some economic ideas related to infrastructure projects that require extensive international cooperation. Netanyahu called for a new multilateral regional framework that could shore up economic peace options, some of which require extensive regional cooperation, expanding as far as the Gulf (Alpher, 2016).

Netanyahu's reasoning involved utilizing the concept of economic peace only in a fragmented manner. Netanyahu's project appeared to use partly Schumpeter's liberal viewpoint. The idea was that enhancing an individual's quality of life would result in the emergence of a "price" that could later justify opting for the advantages of peace. In Netanyahu's perspective, the advantages of peace mean economic but not political achievements. Netanyahu followed with the argument that these actors understand that conflict brings a potential loss of commercial gains. Since the rational actor aims to multiply his profits and gains at the lowest costs, he will not start the conflict because of his fear of losing the actual and potential profits from the trade (Polachek, 1999; Gelpi & Grieco, 2008). Feldman (2009) believes that a side (the Palestinian side) striving for independence would be willing to endure greater economic risks and would be more motivated to change the current situation. All past attempts and suggestions for achieving "economic peace" have failed, either because of Israel's desire for territorial expansion or insufficient planning.

In summary, the two initiatives discussed have shown different degrees of utilizing the concept of economic peace. Shimon Peres' initiative, particularly within the context of the New Middle East project, focused on enhancing economic collaboration as a means to foster peaceful relations with Israel's Arab neighbors, including the Palestinians. The Oslo Accord played a significant role in using economic progress to aid

in resolving political issues. On the other hand, Netanyahu's approach emphasized altering the approach to resolving problems with the Palestinians, with a focus on security and the economy rather than a political solution. Netanyahu primarily prioritized domestic and security matters, while Peres' vision gave more importance to interdependence and peace within liberal perspectives.

The next section will examine the American Plan for Peace, known as the "Peace to Prosperity" plan, introduced by President Trump in 2020, as well as the impact of the Israeli economic and security approach's involvement on the overall plan.

#### **4.3 Examining the Details and Implications of the American "Peace to Prosperity" Plan**

The American proposals closely mirror the Israeli position on all the important issues. (Khalidi et al., 2014). The US seemed to embrace Netanyahu's approach of prioritizing economic development instead of actively seeking Palestinian statehood, following two decades of pursuing it through the Oslo Accords. (Cook, 2021).

On January 28, 2020, the President of the United States unveiled his "Peace to Prosperity" plan, which has been in the making for three years and took center stage after US President Donald Trump declared Jerusalem the "capital of Israel" on December 6, 2017, in violation of all UNGA and Security Council resolutions regarding the conflict. It was largely rejected by the Palestinian leadership and the Palestinian public (Iriqat, 2020). Trump's proposal is a Marshall Plan. The "Deal of the Century" defines itself as "a vision to improve the lives of the Palestinian and Israeli people (Peace to Prosperity, 2020, p. 1).

It's a 181-page document divided into two parts: political and economic. The first 50 pages of the plan are devoted to the political framework, which covers important political

issues already set as final status issues in the Oslo Accords. They include Jerusalem, refugees, settlements, borders, security, and international relations (Iriqat, 2020). In comparison to previous negotiations and proposals, the Trump plan represents a deviation and is quite different from anything proposed before. The principle of contiguity for the Palestinian state, as well as the idea of sovereignty, are both missing. Only Israel's interests are taken into account and valued. Moreover, the Americans excluded the Palestinians from the process. They did not mediate a negotiation; there was no negotiation. Palestinians did not present an obstacle to the Trump plan since there was no negotiating process. The American plan was actually an American-Israeli plan. The only talks, if any, were between the US and Israel (Golan, 2020).

The plan acknowledges Israel's large security needs and allows Israel to exercise its sovereignty over the settlement blocks, the Jordan Valley, and isolated settlements; it maintains Jerusalem unified under Israeli sovereignty. For the Palestinians, The plan includes the establishment of a state for the Palestinians that would have limited sovereignty over a portion of the West Bank and the Gaza Strip, as well as two districts in the Negev. Practically, it sets out the conditions for a non-state divided into six "cantons" that will be completely encircled by Israel and have full Israeli control over the surrounding area and border crossings. In addition, the plan denies the right of return for Palestinian refugees. In practical terms, the plan amounts to surrendering to the Palestinians, who have rejected it outright (Dekel et al., 2020).

### **The Economic Framework of Trump's Plan**

"Creative Economic Framework" occupies the other 130 pages (Iriqat, 2020). The economic part of the plan was outlined in a workshop held in June 2019 in Bahrain. At the heart of the plan is the creation of a \$50 billion investment fund. \$28 billion of the fund is allocated for investing in the PA and the Gaza Strip, while the remaining \$28

billion will be invested in neighboring countries to win their support. Jordan alone will receive \$7.5 billion, while Egypt will receive \$9 billion. This money is not being proposed as US aid money but rather in the form of grants and loans, mostly from Arab regimes (Iriqat, 2020). The plan mentions nearly 200 projects in various areas, such as infrastructure (e.g., the overland Gaza Strip-West Bank crossing), health, legislation, education, employment, etc., but the sources of funding are unclear. Furthermore, the timelines for achieving the plan's headline targets—doubling GDP growth, creating 1 million jobs, and bringing unemployment down to single digits within 10 years—are unreasonable (Dekel et al., 2020).

The economic framework provides an incentive for the Palestinian public to accept the plan and mitigate any opposition. Supporters of the plan say that when the Palestinians realize the huge potential of becoming a prosperous country with a Western way of life, they will enthusiastically join the plan (Dekel et al., 2020). The plan included expanding industrial and commercial zones and other projects and creating tens of thousands of job opportunities for Palestinians. The borders between a future state of Palestine and Israel, with their long, twisty borders and enclaves on either side, would make economic separation extremely difficult and would necessitate a unified customs regime since there would be no alternative to fighting smuggling. This means that the current tax policy will not be changed (Zaken & Levi-Weinrib, 2020).

As a result, the US plan would largely be a continuation of Israeli Prime Minister Binyamin Netanyahu's economic peace approach. That means large-scale investment in the Palestinian economy as a substitute for self-determination with the status of a sovereign state. It is worth noting that the Trump administration used the term "facilitator" rather than "mediator" because it was fully aware of the mediator's role in bringing the

conflict parties to a negotiating table as equal sides. Therefore, this administration abandoned its role as a mediator. Moreover, this can be considered an approval by the American team that this is more of a commercial agreement than a peace agreement (Pnc, 2020).

Some Palestinian economists defined the plan as a recipe for destroying the Palestinian economy by slicing and fragmenting the Palestinian geography, blocking Palestinians in ghettos, preventing any urban or agricultural expansion, imposing absolute Israeli control over the movement of goods and people, annexing Jerusalem, the Jordan Valley, and all settlements, grasping Palestinian water and groundwater, and controlling the Palestinian airspace, cyberspace, and communications sector. The plan does not design a framework for economic relations between the Palestinians and Israel, such as the Paris Protocol. Nasr Abdelkarim, a professor of economics at the Arab University (AAUP), said the "deal is about transforming the interim crises in the Palestinian economy into a permanent reality, and this will lead to disastrous results (MAS, 2020).

A careful analysis of the terms and conditions imposed on the PA will give the impression that it will be unable to establish a state, especially since Israel and the US determine the extent to which the PA will comply with its commitments and the conditions imposed on it. Even if the PA does form a state, it would be a state under the sovereignty of Israel, which would control all aspects of the state, including security, sovereignty, and the economy of the state. It is doubtful that Palestinians would enjoy a good economic situation on a land of 6,000 square kilometers (Mkdadi, 2022).

In conclusion, President Donald Trump's "Peace to Prosperity" plan largely resembles the ongoing temporary agreements, such as the Oslo Accords, but with a few important differences in negotiation approaches. This involves keeping the existing single

customs cover formula, which will further strengthen the economic dependency of the Palestinian economy on the Israeli one. The Israeli desires are given priority in the agreement, while the Palestinian aspirations are not given enough attention. The agreement seems to be a modified version of Netanyahu's plan for economic peace, as it focuses on security and the economy from an Israeli perspective. The plan is being characterized as more of a transaction in the business world than a political endeavor.

#### **4.4 Analyzing the Israeli Economic Peace Approach: The Dilemma of Liberalism and Occupation**

There are differing opinions regarding the reasons for the failure of the peace process between Palestinians and Israelis. One perspective, held by liberals, suggests poor implementation, particularly in the area of economic interdependence. On the other hand, another viewpoint argues that the use of liberal strategies in the Palestinian situation was flawed and ultimately led to the breakdown of the process. The upcoming sections will examine both Perspectives in more detail.

##### **4.4.1 Economic Interdependence as a Catalyst for Peace: A Liberal Perspective**

Initially, the Oslo Process was driven by liberal ideas and policies (Makovsky, 1996). In broad terms, liberalism favors the creation of peace through endogenous social, economic, cultural, and political processes. Neoliberalism's emphasis on the importance of absolute material gains leads to a propensity for the creation of free markets, facilitated by open borders. It is argued that institutional integration leads to interdependence, which in turn helps build a common interest in peace (Dunne, 1997).

Liberals argued the Oslo process embodied the core of liberal strategies for promoting peace and resolving conflict. These strategies included recognizing national

rights and confidence-building measures (CBMs) to build mutual trust and economic integration. The Liberals believed that by creating economic benefits, there would be more support for the peace process, making it less vulnerable to extremist interference. Additionally, this economic integration would help obtain public acceptance for the necessary compromises on permanent status matters. Essentially, the Liberals believed that economic gains would contribute to political readiness, while trust would be a valuable asset in negotiations (Rynhold, 2008).

During a time when there was increasing international involvement in conflict and post-conflict areas, Israelis and Palestinians engaged in negotiations to form the accords. These areas, now known as post-conflict regions, became a topic of international concern and intervention. The Oslo Accords were influenced by these global shifts, as they were primarily negotiated under the auspices of multilateral auspices and with the goal of receiving resources and support from international donors. After the accords were implemented, the West Bank and Gaza Strip became areas where post-war relief efforts were conducted, despite ongoing and sometimes escalating violence (Miller, 2014). It was evident from the beginning that the peace process could only be sustained with significant financial and institutional support from foreign donors and international organizations. By October 1993, these donors had already pledged billions of dollars in aid (Le More, 2008). According to the World Bank in 2003, the disbursement of funds from donors to the West Bank and Gaza Strip has maintained the highest per capita disbursement rate to any recipient in the world since World War II (World Bank, 2004). According to a liberal perspective, economic development plays a crucial role in politics. The establishment of a Palestinian state requires the creation of an independent and functional Palestinian economy. Economic development not only contributes to peace

and reduces violence but also plays a significant role in creating a new state actor. However, in order for economic interdependence to promote peace, economic independence must come first (Mitrani & Press-Barnathan, 2015). International aid has aimed not only to promote economic growth and alleviate suffering but also to make peace and negotiations more appealing to the Palestinians than resorting to violence (Rynhold, 2008). In the early stages of negotiation, the proponents of the Oslo process believed that if the Palestinians received tangible rewards at the beginning, they would embrace peace and reject violence (Rynhold, 2008).

Supporters of this perspective view the European Union (EU) as a significant illustration of how economic interdependence can unite countries that have a history of warfare and disputes. In certain cases, economic interdependence can reduce the likelihood of conflict, while in other cases, it may actually increase the chances of hostility. Frequently, conflicts arise from long-standing economic disparities between different communities. The origin of these disparities can be rooted in religion, ethnicity, social factors, or politics. However, it is the ongoing economic impact that transforms perceived or genuine injustice into group resentment, which often leads to actual conflicts. Interdependence lies in one side of a conflict blaming another for their economic deprivation, loss of power and land, and the resulting suffering of their people (Braddon, 2012).

According to Alamaro (2002), the conflict between Israel and the Palestinians is mainly seen as a political problem that requires a political solution. Consequently, the peace process has had to prioritize the contentious political issues of land and security. However, Alamaro criticizes the notion that resolving these issues alone can guarantee lasting peace. Alamaro argues that true peace cannot be achieved if a poverty-stricken

third-world nation looks across a border at a prosperous modern democracy. Additionally, he emphasizes that any potential political agreement cannot be implemented without considering economic factors, particularly the role Israel could play in the economic development of Palestine.

Alamaro argues that the conflict resolution process between Japan and South Korea serves as an important example of what can be achieved when the significance of economic interdependence is acknowledged and addressed. In the 1950s, Japan took proactive measures to improve the South Korean economy and promote economic development in order to establish a peaceful and mutually beneficial relationship with a hostile South Korea. Given the deeply rooted animosities between the two countries, such as Japan's annexation of Korea in 1910 and its cultural assimilation agenda in the 1930s, this was a significant undertaking. After diplomatic relations were officially reestablished in 1965, Japan went a step further by providing financial support to help South Korea's nascent economy. This demonstrated a remarkable recognition of economic interdependence, as Japan increased loans, investments, and trade to aid in South Korean industrialization. Ultimately, this reconciliation had substantial economic advantages for both nations and effectively eliminated any remaining conflicts (Alamaro, 2002).

Another example is the use of economics in post-conflict Northern Ireland, where the British and Irish governments implemented economic aid programs to encourage interaction, reconciliation, and alleviate economic hardship through collaboration. The success of incorporating economic aspects into the peacebuilding process in this case relied on acknowledging that economic hardship and inequality were barriers to peace. However, this is significantly different from the Israeli-Palestinian conflict, where economic struggles in the OPT are an issue but not the decisive factor in resolving the

conflict. Economic factors can only contribute to peace when they are understood in the context of the political situation and applied accordingly. Otherwise, they merely serve as means of subduing rather than genuine tools for peace (Tucker, 2010).

Finally, it is important to explain Israel's contradictory policies during the implementation of economic peace with the Palestinians. Unlike Northern Ireland, Israel has not intended to adopt a peacebuilding program. Roy (1995) pointed out that the reason was because of Israel's policy of "de-development", which is defined as "the deliberate and systematic deconstruction of an indigenous economy by a dominant power, a policy that was very successful for the Israelis between 1967 and 1993. Hutton (1995, p. 24) notes this with regard to Northern Ireland's economic peace model, which facilitates peace negotiations. "The key to long-term social and economic success is incorporating commitment and cooperation into the system". In addition, Hutton (1995, p. 22) notes that there is one reason for the success of peacebuilding in Northern Ireland, and that is the British desire to get it up and running to facilitate peace negotiations. He stated that "the combination of economic and security spending around which the region has revolved is becoming unsustainable for the British state, which explains why John Major made his peace initiative such a high priority. The security commitment to Northern Ireland is beginning to curtail other military obligation. With a desire to bring peace, economic peace was used without being undermined by other British policies. Therefore, economic peace cannot work at its most basic level unless the dominant aid-providing state also addresses other sources of dissent and tension and does not undermine economic peace by neglecting them in the initial peace-building process (Tucker, 2010). The example of economic peace in Israel-Palestine shows little commitment on the part of Israelis, aware that they are the cause of economic failure, and even less cooperation,

particularly at the political level. The reverse development of Palestine is a possible explanation for why Israel's economic peace initiative has not worked. Israelis see economic policy as a means, alongside military intervention, to achieve their political goals of keeping the Palestinian people in a politically and economically subordinate position (Roy, 1999). Therefore, the main argument of the liberals is that the Oslo process was unsuccessful due to the improper implementation of the conflict resolution mechanisms that initially supported it (Rynhold, 2008).

#### **4.4.2 Economic Interdependence as a Catalyst for Conflict: Analyzing the Economic Interdependence between Palestinians and Israelis**

The opposite perspective argues that it is unrealistic to bring liberal policies into the Palestinian situation, despite the economic interdependence between Palestinians and Israelis. From their point of view, the issue does not stem from the policies themselves failing to be successful, but rather from the very act of trying to impose them. The extent of this integration between both sides led to important political consequences that greatly hindered policymakers' ability to establish the necessary trust for creating a peaceful liberal environment. The presence of open borders allowed the settlers to firmly establish themselves in the territories and become increasingly powerful. Consequently, physically removing them became a difficult task, as they could easily return. Conversely, economic interdependence also made the Palestinian economy vulnerable to Israeli security policies and violence, resulting in increased tensions. As a whole, the integration added to the level of friction between Israel and the Palestinians. The concept of integration was unsuitable for these sides. According to neoliberal theory, absolute material gains typically have a positive impact on the political sphere. However, this is not always true.

In Western Europe, integration had positive political effects because it occurred between economically and socially similar states (Rynhold, 2008).

Furthermore, this scenario leads to a feeling of being at a disadvantage for those who are weaker, as those who are stronger gain more benefits and the social divide becomes greater. The issue in this particular case was not the lack of complete execution of the concept of liberal integration, but rather the act of attempting to implement it in the first place. The incomplete implementation of the interdependence strategy resulted in establishing relationships that mirror the imbalance of power and involve actors that can never foster social trust or lay the foundation for the overall growth of the Palestinian economy (Rynhold, 2008).

The assertion that Israel's approach to fostering economic peace was liberal is disproven by various realities. Besides the main issue of occupation, there are additional factors, including the unequal relations between the parties and internal dynamics within Israel. This encompasses the widening economic gap between the two economies and the limited participation of the Israeli private sector in enhancing economic connections with Palestinians. The upcoming section, will examine and evaluate these variables.

#### **4.4.2.1 Driver One: Asymmetrical Relations between Palestinians and Israelis**

One specific feature of the Israeli-Palestinian conflict that influences the effect of economic interdependence is the asymmetric relationship between Israel and Palestine. The Palestinian-Israeli conflict can be described as a conflict between two unequal parties and the result of a severe asymmetry of power through which Israel can maintain and even reinforce the weakness of the Palestinians (Amundsen et al., 2004).

When economic peace is implemented in an illiberal environment, particularly in the context of Israeli military occupation, liberal beliefs and strategies are either

insignificant, insufficient, or seen as insincere tactics. Therefore, as long as Israel holds the power to utilize economic tools to exert political influence, primarily through positive and negative sanctions, to achieve short-term "security," the liberal aspect of its policies is largely deceptive. With regards to power imbalances, economic interaction generates worry or fear in the weaker party or becomes a temptation to be exploited by the more dominant party. Such wide disparities also lead to a lack of significant mutually beneficial economic gains that could incentivize both parties to reach an agreement (Mitrani & Press-Barnathan, 2015). Israel currently controls around 62% of the West Bank, encompassing the C areas (Friedman, 2005). Additionally, the Palestinian authorities do not have control over Palestine's borders. Consequently, the Palestinian trade system heavily relies on Israel, with about 90% of Palestinian exports going to Israel and around 80% of imports originating from Israel, resulting in a substantial trade deficit (UNCTAD, 2011).

Israeli policies implemented under the guise of economic peace have essentially amounted to economic occupation for Palestine when Israel used tax revenues transferred by them to the Palestinians as a form of pressure. (Keating et al., 2005). In addition, different Israeli restrictions and closures affected Palestinian trade and labor movements. Israel's official position and policies have long been filled with contradictions, such as efforts to improve the living standards of occupied Palestinians, followed by attacks that destroy essential infrastructure (Gordon, 2008). However, the political goal of independence takes precedence over economic growth. The challenges faced by the Paris Protocol and the dilemmas surrounding economic relations between the two parties show that independence should be seen as a prerequisite for interdependence. Only when both sides are politically and economically independent can they develop economic relations

where cost and benefit calculations outweigh political considerations, as emphasized by the economic peace theory (Mitrani & Press-Barnathan, 2015).

#### **4.4.2.2 Driver Two: Israeli internal factors**

Israeli domestic considerations also impact the type of relationship established with the Palestinians. Various economic factors within Israel hinder the prioritization of economic collaboration with the Palestinians and also drive the decision-making process from a political standpoint. These influential factors are the disparities in the sizes of both economies and the constrained involvement of the Israeli private sector.

#### **The Increasing Disparity in the Structures of the Two Economies**

The Israeli and Palestinian economies have significant differences in size, development level, and trade. As a result, the Palestinian economy is considered relatively unimportant to the Israeli economy (Gross, 2000). Additionally, the Palestinian economy's limited purchasing power and the advanced technological market of Israel, which focuses on manufacturing and exporting products for affluent consumers in developed nations, result in the Palestinian market having less economic importance for Israeli manufacturers (The Economist, 2009).

Powerful Israeli interest groups, like the agricultural sector, often support the political argument against having close economic relationships with Palestinians. These groups have enjoyed protection against competition from Palestinians and are concerned about facing competition in the future. Moreover, other economic factors are considered by these groups, such as the possibility of the Palestinian territories being used to bypass Israel's import regulations and trade and environmental policies. There is also concern

that the Palestinian territories could be used as tax havens for Israeli citizens (Kleiman, 1994).

In labor, while certain sectors in Israel were indeed more vulnerable to a shortage of Palestinian labor (namely construction and agriculture), the expectation was that they would adjust once such labor became unavailable. The Palestinian labor force in Israel was subject to the requirements of the Israeli market, and the Palestinian labor force was replaced by a foreign one in many cases. It follows then that the fortunes of the Palestinian economy were seen as important much more for political than economic reasons (Naqib, 2003).

### **The Role of Private Sector and the Nature of Israeli Economy**

In her study "Economic Peace in the Israeli Lens," Davis suggests that the influence of Israeli business on the peace process is hindered by strong relationships between business interests and the political elite. "The strongest of Israel's business interests cannot be disentangled from Israel's political elite. (Davis, 2014, p. 12). Davis added that the private sector in Israel values ideology over commercial interests and that "the absence of a strong, independent business community driven by profit explains why free-market capitalism does not characterize Israel's interest in Palestine (Davis, 2014, p. 51). The Palestinian researcher from the Arab American University, Dr. Dalal Erekat, elaborates that "while Israeli strategy is to utilize the economy as a means of influencing the conflict with the Palestinians by changing their way of thinking, their beliefs, and their national goals, there have been no attempts from the Israeli side to change the ideological outlook of their own citizens concerning the conflict with Palestinians (D. Erekat, personal communication, March 1, 2023).

Although Israeli business leaders promoted the benefits of peace and spoke much about regional cooperation and development, their attention was focused elsewhere. Despite the rhetorical emphasis on regional cooperation, integration, and development, the actual interest of Israeli businessmen did not aim at regional markets but rather at those overseas, in particular in Asia and Eastern Europe (Retzky, 1995: 30–31). The Israeli business sector proposed a solution to maintain Israeli dominance over the Palestinian market for political reasons. With the Israeli economy opening up to global competition, it was crucial to keep the Palestinian Territories as a major export market. Due to concerns about the potential effects of a peace agreement, many Israeli entrepreneurs believed that maintaining current economic relations would be the most favorable outcome. Hence, a peace agreement with the Palestinians was necessary to open up new markets overseas, but Israeli business people lobbied equally hard to have the status quo of their almost total control over the Palestinian market preserved regionally in order to truly expand sales rather than replace one market with others (Bouillon, 2004).

The Palestinian territories are still among the most important export markets for Israel. With a total of close to \$3.5 billion in goods exports a year between 2014 and 2016, the Palestinian market ranks fourth among Israel's top export markets—after the United States (US), China, Hong Kong, and the United Kingdom (UK)—and accounts for 6 percent of total Israeli exports of goods (Gal & Rock, 2018).

In conclusion, during its occupation of Palestinian territories, Israel exploited the economic tool as a means to manage Palestinians, replacing any political solution with them. After the Oslo Accords, security and economy became the two terms that embodied the Israeli discourse towards Palestinians, even in international initiatives related to the Palestinian issue. Israelis were able to include these two elements in the political process.

This was aided by the asymmetric relations between the Palestinian and Israeli sides, which Israel exploited to enhance its influence and control over the occupied Palestinian territories, consequently achieving further economic dependency for Palestine on Israel. Due to internal factors, Israel cannot manage an economic peace with Palestinians until its final stages. These factors include the nature and size of the Israeli economy compared to the Palestinian economy, as well as the absence of an effective role for the Israeli private sector that aligns with the state and society's ideology regardless of economic interests.

## **Chapter 5**

# **Findings and conclusion – Analyzing the Results and Concluding Remarks of the Study**

## Chapter 5

### **Findings and conclusion: Analyzing the Results and Concluding**

#### **Remarks of the Study**

The research has obtained findings on the Israeli economic peace strategy by comparing it to the theory of economic peace and examining its implementation and goals. Particularly, it explores the effects of adhering to the Paris Economic Protocol, which regulates economic ties between Palestinians and Israelis, on Palestinian economic growth. These findings highlight the following key points:

#### **The Israeli Perception of the Economic Relationship with The Palestinians**

- 1- According to the Zionist movement, the Israeli economy is seen as the sole economy in historical Palestine, on the other hand, Palestinians might experience economic advantages under Israeli control but are unable to establish their own self-sufficient economy.
- 2- Israel continued to annex the Palestinian territories it occupied in 1967 without including the population. To achieve this goal, Israel implemented two policies. Firstly, restrictions were imposed on the Palestinian population, leading to the prevention of any economic progress and the use of military force to control water and other resources. Secondly, limited trade was allowed, and Palestinian workers were employed in Israel to create a slight opportunity for economic prosperity, pacify Palestinians, and ensure their dependency on Israel.
- 3- Israel's approach to the Palestinians was mainly shaped by ideological motives, concerns about Israeli security, and the belief that Palestinians posed a threat. These factors formed the basis of Israel's policies towards the Palestinian situation.

## **Israeli Exploitation of the Paris Protocol to Impede Palestinian Economic Development**

4. Despite its temporary nature, the Paris Protocol still serves as the regulatory framework for economic relations between the Palestinian Authority and Israel. Israel considers the protocol an extension of the economic relations between both sides since its occupation of Palestinian territories in 1967. Therefore, it seeks to make the protocol the final ceiling for relations between the two sides, viewing the proposed Palestinian state as devoid of sovereignty and remaining within the Israeli envelope.
- 5- Israel utilized the Paris Protocol as a means to maintain control and force Palestinian dependency on their economy, rather than fostering economic collaboration as outlined in the protocol. The manner in which Israel executed this showed a clear inconsistency between the concept of economic peace and their real actions.
- 6- The Palestinian trade is under Israel's control as they have exclusive control over access points. As a result, Israeli security requirements determine the conditions for this trade. From 1993 to 2021, there were a total of 1,791 days when Palestinian territories faced closure, which favored Israeli trade in terms of movement, promotion, and competition.
- 7- The competitiveness of Palestinian manufacturing is affected negatively by the expenses of Israeli security and the export of low-tech products to Palestinian territories, which in turn gives an advantage to Israeli companies. Israeli control over access to the West Bank leads to benefits for their own companies, while increasing expenses for Palestinian companies and favoring Israel's economic growth at the expense of Palestinians.

- 8- Security expenses do not hinder imports from Israel as Israeli companies have lower shipping costs and are not subject to the same security restrictions at Israeli ports as other imports to Palestinian territories. Due to this reason, Israeli exports to the West Bank have remained steady despite the imposed security restrictions. Consequently, Israel's presence in Palestinian territories not only undermines Palestinian economic growth but also aligns with their own security and economic interests.
- 9- Israeli economic and security interests play a significant role in determining employment opportunities for Palestinians within Israel. These opportunities are directly influenced by Israeli policies towards the Palestinian territories. Due to the Palestinian economy's inability to generate sufficient job openings for local workers, it heavily relies on the Israeli labor market for income. Israel, acting as a central state, benefits from the cheap labor force provided by the peripheral state of the Palestinian territories. This dynamic reinforces the Palestinians' dependency on Israel for their economic development and growth. Consequently, in the short term, the Palestinians will be unable to break free from economic reliance on Israel due to the presence of a significant number of Palestinian workers within Israel.
- 10- The clearance revenue plays a crucial role in the overall Palestinian revenues, accounting for around 65.9% of the total revenues earned by the Palestinian Authority. Consequently, it greatly impacts the authority's spending. Reliance on clearance revenues has made the Palestinian Authority more susceptible to Israeli influence, particularly when the Israeli government decides to halt these transfers without mutual agreement. Any interruption in these revenues not only affects the financial stability of the Palestinian Authority but also negatively affects its economic progress due to its significant role in the overall economy.

- 11- Israel's authority, as outlined in the Paris Agreement, is restricted to gathering and transferring funds to the Palestinians. However, it has ceased transferring revenues or deducting funds without explanation or prior notice. This has caused strain in the Palestinian-Israeli relationship and intensified the conflict. This shows the negative effects of economic interdependence between the two sides, in contrast to the theory of economic peace.
- 12- Israel has been able to turn the system of collecting clearance revenue into a pressure tool against PA. This has undermined the authority's autonomy and its goal of achieving Palestinian independence and has hindered progress on reforms and the building of Palestinian institutions.
- 13- The Joint Economic Committee (JEC), which was established according to the Paris Protocol, failed to fulfill its intended objectives due to Israel's utilization of it as a political and security instrument. By linking it to the Israeli Ministry of Defense, the JEC became an inseparable component of Israel's security apparatus.
- 14- Israel's approach to the joint economic committee mirrored their de facto policy in implementing the protocol, without considering the potential mutual gains between the two economies. The committee did not contribute to a strategic economic cooperation between the two parties, but rather served as a reaction to any Israeli requirements.

### **Defining the Israeli Economic Peace Approach and Its Objectives**

- 15- The Israeli economic peace approach is to offer economic benefits to the Palestinians, aiming to enhance their quality of life and increase their income on an individual basis, as an alternative to resolving the Palestinian-Israeli issue through political means. This includes fostering business connections, facilitating movement and

entrance into Israel, issuing more work permits within Israel, and extending the fishing zone along the Gaza coastline.

- 16- The main objective of the economic peace approach is to exercise control over the Palestinians and ensure their obedience to the occupation. By focusing on improving the economy, Israel discourages their involvement in any kind of rebellion. Consequently, economic peace serves as a means of both reward and punishment to influence Palestinians' behavior. Economic peace is used, alongside military dominance, to hinder the Palestinian population's desires for self-determination. Instead of integrating the economy into the peace process, it was detached and treated separately.
- 17- Israel uses this approach to free itself from both internal and external pressures and to shift the international conversation from ending the Israeli occupation to the developing of the Palestinian economy.
- 18- Israel aims to preserve the status quo by threatening the Palestinians either with confrontation with Israel or with Palestinian disengagement from Israel.
- 19- Israel's objective is to keep the Palestinians confined to a regular life within certain boundaries, without allowing them to achieve true prosperity. These actions effectively ensure that the Palestinians remain politically and economically reliant on Israel.
- 20- The economic benefits and the beginning of the first Palestinian intifada played a role in Israel's decision to no longer oppose the establishment of a Palestinian state and their desire for independence. This change in Israel's stance came after years of occupying Palestinian territories before the Oslo Accords.

- 21- During the 1990s, Israel embraced a new wave of liberal thinking and economic liberalization. As part of this shift, Israel engaged in peace talks with the Palestinians, seeing it as a strategic means to normalize relations with the Arab world. Additionally, these peace talks allowed Israel to tap into vast economic opportunities abroad by establishing strong ties with European and Asian nations, opening up new markets and avenues for the Israeli economy. Surprisingly, even without diplomatic relations, Israel managed to form economic partnerships with some Gulf countries. As a result, foreign companies that had previously been hesitant about conducting business in Israel were now eager to enter the Israeli market.
- 22- Due to its robust economy in comparison to neighboring countries, the advancement of the peace process resulted in the Israeli economy becoming more integrated on a global scale rather than tied solely to the region. Israeli businesses primarily viewed the surrounding area as a source of inexpensive labor and a market for certain exports. Their main focus was on international markets and expanding opportunities for Israeli businessmen, especially in Southeast Asia. This trend of globalization has had significant beneficial impacts on the Israeli economy, but its influence on the peace process has been relatively limited.
- 23- Netanyahu's economic peace initiative sought to change the dynamics of the conflict by rearranging the priorities. Rather than placing peace, economy, and security in that order, Israel advocates for prioritizing security first, followed by the economy, and ultimately peace. Security has become a necessary condition for economic progress and cooperation. As a result, the improvement of the Palestinian economy relies heavily on the actions of Palestinians, almost like a reward and punishment

system. Israel has employed tactics such as imposing restrictions and withholding clearance revenues on numerous occasions against Palestinians.

24- Netanyahu proposed a new collaborative regional framework that could strengthen economic peace approach. These pathways would necessitate extensive regional cooperation, possibly spanning to the Gulf. The focus of his initiative extends beyond political talks and negotiations with the Palestinians, encompassing what is now referred to as normalization.

25- Netanyahu based his approach to achieving economic peace on Schumpeter's liberal perspective, which suggests that improving the quality of life for individuals would ultimately lead to certain benefits that could justify pursuing peace. Additionally, Netanyahu followed the idea that individuals and institutions involved in conflicts recognize that such conflicts can result in a loss of economic gains. Therefore, it is rational for these actors to avoid initiating conflicts out of a fear of losing the current and future profits derived from trade. Therefore, Netanyahu regarded this as a central point to monitor Palestinian actions and implemented a system where rewards and punishments play a role in the interaction with the Palestinians.

26- Netanyahu urged for the establishment of a fresh regional framework where multiple countries collaborate to endorse economic prosperity, bypassing the necessity of a political resolution with the Palestinians.

27- The two discussed initiatives presented contrasting approaches to the concept of economic peace. Shimon Peres emphasized regional peace as a means to achieve economic advantages, particularly within the context of the new Middle East project and following the signing of the Oslo Accords. On the other hand, Netanyahu aimed to address issues with the Palestinians by shifting the focus towards security, the

economy, and away from a political solution. Netanyahu's priorities primarily revolved around domestic affairs and security matters, while Peres' vision placed greater significance on the liberal notion of economic interdependence as a catalyst for peace.

- 28- The American plan "Deal of the Century" highlights the impact of the Israeli approach to resolving the Israeli-Palestinian conflict based on security and economy. The plan appears entirely biased towards Israeli requirements, neglecting the national rights of the Palestinian people.
- 29- In the economic details of the American "Peace to Prosperity" plan, the plan preserves the existing Palestinian-Israeli economic relationship through the Paris Protocol. The plan does not include Palestinian sovereign borders, which means the continuation of the political and economic relationship within the Israeli envelope.
- 30- Although it does not explicitly indicate that, the American "Peace to Prosperity" plan includes economic provisions that maintain the current Palestinian-Israeli economic relationship as outlined in the Paris Protocol. The plan does not address Palestinian sovereign borders, resulting in the ongoing political and economic dependence on Israel. As a result, this hinders any potential economic growth for Palestinians.
- 31- Liberals believe that the reason for the lack of success of the peace process between Palestinians and Israelis is because the Israelis did not fully commit to supporting Palestinian economic growth through utilizing the economic interdependence between the two sides. On the other hand, Israelis see economic policy and military intervention as tools to maintain the political and economic dependency of the Palestinian people on Israel. Therefore, liberals argue that the failed implementation

of conflict resolution mechanisms, which were initially endorsed, is the main cause of the failure of the Oslo process.

- 32- A different perspective suggests that the problem is not that the policies are ineffective, but rather the act of attempting to enforce them. The strong economic interdependence between the two sides has resulted in significant political consequences that have made it difficult for policymakers to build the trust required to foster a harmonious liberal atmosphere.
- 33- The Palestinian economy's reliance on Israel made it susceptible to Israeli security policies and violence, leading to heightened tensions. Overall, the economic interdependence between Israel and the Palestinians contributed to increased friction. However, this concept was not suitable for these parties, as it usually has positive political effects when it occurs between economically and socially similar states, which is not the case for the Palestinians and Israel.
- 34- Israel's strategy of promoting economic peace is illiberal. This is evident through a range of factual evidence. Apart from the core issue of occupation, there are other contributing factors such as the unequal power dynamics between involved parties and internal dynamics within Israel. This involves the growing economic disparity between the two economies and the limited involvement of Israeli businesses in bolstering economic ties with Palestinians.
- 35- The results above proved the validity of hypothesis of this study, which was based on the fact that the Israeli approach to economic peace does not align with the theory of economic peace, and the Israeli discourse about the prosperity of Palestinians is not consistent with Israeli practices towards the Palestinian economy in the occupied Palestinian territories.

## **Conclusion**

This study aimed to examine the Israeli approach to economic peace and its compatibility with the theory of economic peace, as well as Israeli policies when implementing the Paris Protocol and using it as a means to prevent Palestinian economic development. Israeli governments have, over time, implemented policies that contradict each other when it comes to dealing with Palestinians. On one hand, they have put forth economic projects under the guise of "economic peace". On the other hand, they have hindered Palestinian economic progress through their arbitrary actions and oppressive measures, which go against the principles of economic peace theory.

The research problem raised multiple questions, with the primary one focusing on whether the theory of economic peace aligns with Israel's approach to economic peace. To address this question, a combination of quantitative and qualitative methods were employed. Secondary data, gathered from books, specialized magazines, the internet, and articles, alongside primary data acquired through personal interviews with experts involved in the Oslo negotiations, the Paris Economic Protocol, and academics specializing in the Palestinian economy, were utilized. These interviews aimed to gain more insight into the Paris Agreement and the relationship between the Palestinian and Israeli economies, as well as further understanding of the Israeli approach towards the Palestinian economy. The theories of economic peace and dependency were also used in answering the research questions and guiding the analysis of the collected data. The research provided satisfactory responses to the research questions, confirming the research hypothesis that the Israeli approach to economic peace is incompatible with the theory of economic peace. It was observed that the Israeli approach aimed to strengthen the dependence of the Palestinian economy on Israel rather than striving for economic

peace and the development of Palestinian economic and political independence. The significance of this research lies in illuminating the reality of the Israeli discourse surrounding economic peace. While prior studies have shown that the Palestinian issue cannot be resolved solely through economic means, this study additionally explored the extent to which the Israeli approach aligns with the theory of economic peace, emphasizing that the Israeli approach is not compatible with this theory.

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**Annex: List of Experts and Competent Individuals Interviewed**

<b>Name</b>	<b>Title</b>	<b>Date of Interview</b>	<b>Location of Interview</b>
Naser Abdelkarim	Professor of Finance and Accounting at the Faculty of Graduate Studies at the Arab American University in Palestine	14-02-2023	Ramallah-Palestine
Dalal Erikat	Assistant professor, graduate studies at the Arab American University in Palestine	01-03-2023	Ramallah-Palestine
Ghassan Elkhatib	A Palestinian Academic and politician., a member of the Madrid Peace Delegation in 1991, and Involved in the Washington negotiations from 1991 to 1993	04-03-2023	Ramallah-Palestine
Sameer Hleleh	A member of the Palestinian delegation to the Paris economic negotiations between the PLO and Israel.	08-03-2023	Ramallah-Palestine
Shaker Khalil	Assistant professor at An-Najah National University, the Prime Minister's Adviser on Economic Affairs (Palestinian government )	02-04-2023	Ramallah-Palestine
Hiba Husseini	A former legal advisor to the PLO Negotiations Affairs Department.	20-04-2023	Ramallah-Palestine

## List of Tables

**Table 1: Palestinian Workers in Israel and Israeli Settlements (1970- 2022)**

Years	Employed in Israel (thousands)	Employed in Israel%
1970	20.6	11.8
1971	33.8	19.1
1972	52.4	27.7
1973	61.3	31.5
1974	68.7	32.6
1975	66.3	32.3
1976	64.9	31.5
1977	63	30.8
1978	68.2	32.1
1979	74.1	34.8
1980	75	34.7
1981	75.7	35
1982	79	35.4
1983	87.8	33.74
1984	90.3	36.8
1985	89.2	36.8
1986	94.5	36.4
1987	108.8	39.1
1988	109.4	38.8
1989	104.9	37.5
1990	107.6	36.3
1991	79.7	33.9
1992	115.4	36.1
1993	83.8	26.5
1995	64.8	16.2
1996	62.3	14.1

Years	Employed in Israel (thousands)	Employed in Israel%
1997	82.6	17.1
1998	119.9	21.7
1999	134.9	22.9
2000	135.7	18.8
2001	40.1	12.5
2002	42	9.3
2003	58	8.7
2004	48.3	8.0
2005	52.7	9.3
2006	55	8.6
2007	66	8.9
2008	96.6	9.5
2009	73.1	9.8
2010	79	10.4
2011	87	9.8
2012	87	9.5
2013	103	11.0
2014	107	11.6
2015	112,3	11.5
2016	116,9	11.8
2017	122	13
2018	127	13.3
2019	133	13.2
2020	125	13.1
2021	145	14.1
2022	182000	16.3

**Sources: Data between 1967 and 1997, Leila Farsakh book “Palestinian employment in Israel: 1967 - 1997: a review”, page 55, MAS. Data between 1998 and 2022 Central Bureau of Statistics of Israel (PCBS).**

**Table 2: Days of Closure Imposed by Israel on the Palestinian Territories from 1993 to 2021**

<b>Year</b>	<b>Days of closure</b>
1993	6
1994	68
1995	98
1996	105
1997	70
1998	48
1999	12
2000	73
2001	244
2002	77
2003	178
2004	163
2005	132
2006	122
2007	34
2008	52
2009	55
2010	44
2011	31
2012	11
2013	7
2014	29
2015	2

<b>Year</b>	<b>Days of closure</b>
2016	16
2017	32
2018	27
2019	28
2020	14
2021	13
<b>SUM</b>	<b>1791</b>

**Sources: Closure Update No. 2, Palestinian Centre for Human Rights, March 12, 1996; B'Tselem, Figures on comprehensive closure days, 31May 2021;**

**[https://www.btselem.org/freedom\\_of\\_movement/siege\\_figures](https://www.btselem.org/freedom_of_movement/siege_figures)**

**Wafa Agency, years (97-1999) took from Wafa Cite**

**[https://info.wafa.ps/ar\\_page.aspx?id=9pnSRia3055127130a9pnSRi](https://info.wafa.ps/ar_page.aspx?id=9pnSRia3055127130a9pnSRi)**

**Table 3: The Percentage of Clearance Revenues in Local Revenues and Public Expenditures from 1996 to 2021 (in Millions of US Dollars)**

Year	Gross clearance Revenue (million \$)	Clearance revenue growth rate%	Total net revenues (million \$)	Contribution of clearance revenues to domestic revenues%	Contribution of clearance revenues to total expenditures%
1996	351,7		645.5	54.5	32.8
1997	475,9	35.31	807.2	59	42.1
1998	543,9	14.29	868.4	62.6	50.6
1999	579,7	6.58	941.5	61.6	49
2000	587	1.26	939.0	62.5	35.2
2001	0	-100	273.0	00.00	0
2002	72	172	290.0	24.4	5.8
2003	472	555.56	747.0	61.9	28.9
2004	713	51.6	1,050.0	67.9	46.7
2005	894	25.39	1,370.0	65.3	39.2
2006	344	-61.52	722.0	47.6	20.2
2007	1,3118	283.14	1,616.0	80.3	45.8
2008	1,137	-13.72	1,779.9	60	32.6
2009	1,090	-4.13	1,548.6	65.1	32.3
2010	1,234.2	13.23	1,845.4	64	38.6
2011	1,487.4	20.52	2,176.0	67.9	45.7
2012	1,574.4	5.85	2,240.1	68.8	48.3
2013	1,690.5	7.73	2,319.9	66.5	49.4
2014	2,054.3	21.52	2,791.2	70.1	57
2015	2,046.9	-0.36	2,891.4	69.2	69.4
2016	2,332.4	13.95	3,551.9	63.9	63.7
2017	2,483,0	6.46	3,651.5	67	65.4
2018	2,255.3	-9.17	3,462.9	62.6	61.7
2019	2,219.2	-1.6	3,290.6	64.7	60.6
2020	1,003.61	-54.8	3,526.2	65.9	49.3
2021	2,663,0	165.34	4,224.7	63.03	

**Sources: Palestine Monetary Authority**

**[https://www.pma.ps/Portals/0/Users/002/02/2/Time%20Series%20Data%20New/Public\\_Finance/revenues\\_expenditures\\_and%20financing\\_sources\\_of\\_pna\\_fiscal\\_operations.xlsx](https://www.pma.ps/Portals/0/Users/002/02/2/Time%20Series%20Data%20New/Public_Finance/revenues_expenditures_and%20financing_sources_of_pna_fiscal_operations.xlsx)**

**Table 4: Instances of Israel suspending the transfer of Palestinian revenues from 1996 to 2020**

Suspension/delay period	Israeli lame excuses
August-September 1997	Security unrest
December 2000-December 2002	Second Intifada
March 2006-July 2007	Hamas win of elections
May 2011	Palestinian bid for statehood
November 2011	Palestine's access to UNESCO
December 2012-January 2013	Accepting Palestine as a non-member observer in the UN
April 2014	Palestine request to join UN agencies
December 2014-March 2015	Palestine's access to the ICC

**Source: IMF (2011); UNCTAD (several years)**

## الملخص

تبحث هذه الدراسة في النهج الإسرائيلي للسلام الاقتصادي ومدى توافقه مع نظرية السلام الاقتصادي. ويحلل السياسات الإسرائيلية التي تم تنفيذها خلال تنفيذ بروتوكول باريس الاقتصادي ويستكشف أثر هذه السياسات على التنمية الاقتصادية الفلسطينية.

ومن خلال الجمع بين الأدلة من الأدبيات والدراسات المتعلقة بالموضوع، والبيانات الإحصائية حول الاقتصاد الفلسطيني، والمقابلات الشخصية مع العديد من الأكاديميين والباحثين والمشاركين في المفاوضات الفلسطينية الإسرائيلية، تكشف هذه الدراسة أن نهج السلام الاقتصادي الإسرائيلي يتناقض مع نظرية السلام الاقتصادي. وترتكز هذه النظرية على تحقيق التنمية الاقتصادية كوسيلة وهدف أساسي لمواصلة عملية بناء السلام.

ويخلص البحث أيضًا إلى أن التدابير الاقتصادية الليبرالية لا يمكن أن تكون فعالة دون النظر في التوصل إلى حل سياسي مع الفلسطينيين. ويشير إلى أن هناك عوامل مختلفة داخل إسرائيل تعيق تحقيق السلام الاقتصادي، بما في ذلك عدم التماثل في العلاقة بين الجانبين، وطبيعة الاقتصاد الإسرائيلي، وغياب مشاركة القطاع الخاص الإسرائيلي في عملية السلام.

وتعيد الدراسة تعريف نهج السلام الاقتصادي الإسرائيلي باعتباره تسهيلات اقتصادية يومية تقدم للفلسطينيين، وليس سياسات شاملة تساهم في التنمية الاقتصادية الفلسطينية. هذا النهج هو بمثابة أداة مشروطة تستخدمها إسرائيل لخدمة مصالحها الأمنية. الهدف الرئيسي هو تهدئة الفلسطينيين ومحاولة فرض حل اقتصادي بدلا من الحل السياسي.