Introduction: Development under Occupation

Dwight Haase
University of Toledo

The first half of this issue features Palestinian scholars. Their embattled home, Palestine, is a place of unrivaled historic and geopolitical significance. The Obama administration, as well as several administrations before it in the US, have tried to establish peace between Palestinians and Israelis, but history shows that long-lasting peace is unlikely without just and sustainable development. And such development has been elusive under occupation. While this is not exhaustive coverage, the authors featured here give us some idea of the social, legal, economic, and political dimensions of the occupation, and how Palestinians view these phenomena.

Before delving into their works, this introduction attempts to provide a brief overview of some of the main challenges to development for a society under occupation, which have become increasingly apparent since the signing of the Oslo Accords, and especially since about the year 2000. It was around that time that Israel opened certain sectors of its economy, thus also making Palestine one of the most open economies in the world; small, family-owned Palestinian producers now had to compete with international giants. Palestine’s textile and shoe industries suffered from Asian competitors now selling to Israel (World Bank 2007b).

But also during that time, Israel tightened restrictions. Soon the Palestinian economy went from being driven by investment and private sector productivity to being sustained by government spending and donor aid. By 2007, per capita GDP had fallen to 60% of its level in 1999 (World Bank 2008b). The World Bank (2008a) claims: “Between 1995 and 2000, the Palestinian economy was growing at an average rate of 6% per year. If that trend had continued after 2000, when restrictions intensified, real GDP may have been more than double its current value at over $8 billion.”

Today, the size of the average industrial enterprise is no larger than it was in 1927. A survey conducted in 2007 finds “capacity utilization for manufacturing enterprises is only about 50%. Few firms invest. Most machinery is over
10 years old, less than 26% of the surveyed enterprises did any worker training and only a small share had international quality standards” (World Bank 2007b). Gaza was especially hard hit after 2005. Its industrial sector declined from 3,900 businesses employing 35,000 people in 2005 to only 130 businesses employing 1,300 people in 2008 (World Bank 2008a).

More recently, the local economy in the Gaza Strip grew by 23% and 29%, and that of the West Bank grew by 5.2% and 4.4%, in 2011 and 2010 respectively. This largely was due to reconstruction in Gaza (after the 2008 conflict), and a low base of comparison in 2009, as well as some easing of Israeli restrictions (UNCTAD 2012).

This growth seemed to help reduce Palestine’s trade deficit, which was 36% of GDP in 2011-down from 50% in 2009 (UNCTAD 2012). But Palestine’s dependency on Israel’s economy remains severe; in 2011 Israel represented 84% of Palestinian total trade—the highest level in over 15 years. Meanwhile, Palestine represented less that 3% of Israeli total trade—the lowest level in 10 years (UNCTAD 2012).

The growth did not help unemployment dramatically. In 2011 unemployment was 26% in the West Bank and 33% in Gaza. Those are slight improvements, but at the same time workers’ real wages had declined by 8.4% over the last five years, leaving 33% of Palestinian households food-insecure. The problem is much worse in Gaza, where 52% of households are food-insecure (UNCTAD 2012).

Of the 837,000 Palestinians who do have jobs, 181,000 (22%) work in the public sector (UNCTAD 2012). The fact that the government is the largest employer helps to understand why observers have been deeply concerned about budget shortfalls in recent years. The PA has resorted to commercial borrowing to make ends meet, and its debt to domestic banks increased by $140 million to reach $1.1 billion—50% of public revenue—by the end of 2011. Thus little money is left for investment in development. In fact, Palestinian Authority (PA) spending on development in 2011 was $368 million—only 4% of GDP (UNCTAD 2012).

There is a strong consensus in the literature about the causes of these economic problems. UNCTAD (2012) offers perhaps the most concise assessment:

> The key long-term constraints blocking the emergence of a strong economy are the loss of Palestinian natural resources, land and water to occupation and settlements, and the isolation of Palestinian producers from regional and global markets leading to their inability to procure production inputs and to export their goods and services.

UNCTAD adds that the “economic cost of occupation (in terms of lost potential output) to the Palestinian economy in 2010 is $6.9 billion or about 82 per cent of GDP.”