THE PARIS ECONOMIC PROTOCOL AND BEYOND – IN SEARCH OF AN OPTIMAL TRADE ARRANGEMENT

Samia Al-Botmeh* and Numan Kanafani**

I. Introduction ........................................................................................................... 76

II. The Paris Protocol ............................................................................................... 78
A. Background ..................................................................................................... 78
B. The Paris Economic Protocol ...................................................................... 79
C. Trade-Related Articles in the PEP ............................................................. 80

III. The “lack of implementation” school .............................................................. 82

IV. The “flawed protocol” school ............................................................................ 84

V. The “poor design, poor implementation” school .............................................. 86

VI. Alternatives to the PEP ....................................................................................... 92
A. Free Trade Area ............................................................................................. 93
B. Quasi-Free Trade Area (QFTA) .................................................................. 94
C. Non-Discriminatory Trade Policy (NDTP) .............................................. 95

VII. Summary ................................................................................................................ 97

* Samia Al-Botmeh is an economist and the Director of the Center for Development Studies at Birzeit University.
** Numan Kanafani is Associate Professor in Economics at the University of Copenhagen, Denmark and co-editor of The Economics of Palestine (Routledge, 2005).
I. Introduction

On September 13, 1993, Israel and the Palestine Liberation Organization (PLO) signed the Declaration of Principles (also known as Oslo I), in which they recognized each other and agreed to negotiate an end to their long-lasting conflict. The Declaration was followed, in May 1994, by the Cairo Agreement, which governed the limited transfer of power in Jericho and Gaza Strip to the Palestinian National Authority (PNA). A Protocol on Economic Relations between Israel and the West Bank and Gaza Strip (WBGS) was attached to this agreement. The Protocol on Economic Relations was negotiated between the two parties in France and became known as the Paris Economic Protocol (hereinafter the PEP or the Protocol). The Cairo Agreement, along with the PEP and two other agreements governing the transfer of power in the West Bank’s urban centres, were bundled together in what has come to be known as the Israeli-Palestinian Interim Agreement (Oslo II), signed on September 28, 1995.

The preamble of the PEP proclaimed an ambitious goal: to lay “the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision-making in accordance with its own development plan and priorities.”1 However, thirteen years after the signing of this agreement, few can claim that this rosy goal has been met. The WBGS’s economic performance since the signing of the PEP has been extremely disappointing – in spite of the overall optimism generated by the peace process, the considerable flow of foreign aid, and the very low starting point of the economy after the harsh years of the first intifada. The performance of the external trade sector was particularly disappointing. Between 1991 and 1999, the ratio of the WBGS’s exports to GDP declined from 9 to 6 percent. Imports, on the other hand, increased considerably during the same period, leading to a $2.6 billion deficit in the trade balance in 1999 – a little more than 42 percent of the GDP. What is worse is that the skewed structure of the WBGS’s foreign trade, which, presumably, the PEP intended to address, remained biased in favour of Israel. By 1999, Israel was still providing 60 percent and absorbing 94 percent of the WBGS’s total imports and exports.2

In addition to this gloomy picture on the trade front, the PEP did not lead to improvements in other areas. The unemployment rate increased substantially in the interim period, compared to the “pre Oslo” years (3.7 percent in 1992 compared to 18 percent in 1995 and 22 percent in 1997).3 This deterioration in the economic performance of the WBGS was reflected in standards of living – real per capita average expenditure in 1995–1996 was 15 percent lower than its rate in 1992–1993.4

---

2 See Table 1, below, and World Bank, Developing the Occupied Territories – An Investment in Peace 1, at 5 (1993).