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PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

The Economic Pathway to Independence and Peace
Volume II

**State-to-State Economic Permanent Status:
Palestinian Principles and Positions**

2025

The Palestine Economic Policy Research Institute (MAS)

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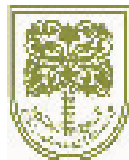
The Economic Pathway to Independence and Peace Volume II
State-to-State Economic Permanent Status: Palestinian Principles and Positions

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Foreword

This publication is one volume in a series of four being published simultaneously by MAS, addressing the strategic economic implications for the State of Palestine of the aftermath of the Israeli war against the Gaza Strip and, indeed, all of Palestine. The conceptual framework of the series was designed during the first stage of Israeli aggression in early 2024, in close consultation with the Palestine Liberation Organization (PLO) Department of Economic Affairs, as a necessary set of in-depth original economic policy research to prepare for addressing post-war challenges and future Israeli-Palestinian economic relations. The Institute was fortunate that a research grant from the Arab Fund for Economic and Social Development enabled it to take on the task systematically.

Certainly, these four studies are predicated on an assumption of a “pathway to statehood” emerging from the ashes of the war on Gaza, as promised by the international community early on in this long trek, and to which it is still committed. That, in turn, assumes an Israeli partner willing to engage in a process of enabling Palestinian self-determination and sovereign statehood, a prospect that today, 30 years after Oslo, appears more distant than ever. The studies were prepared in the course of 2024 by a versatile team of Palestinian economists, but MAS, following closely the genocidal war, withheld publication until a moment when their political pertinence may be as evident and urgent to policymakers as the subject appeared to the authors to be, even while writing above an unknown future during the darkest moment of the genocide.

As these studies are being published, the war has raged on brutally for two years amidst mass starvation, killing, and pressures that risk ethnic cleansing, while the extremist Israeli government remains firmly in power, with impunity in the face of anemic international pushback. However, there have been, in mid-2025, important political developments that render these studies urgent reading for all those committed to ensuring the establishment of a sovereign and independent State of Palestine. In particular, the NY Declaration of July 2025 on the two-state solution was followed by a wave of recognitions of the State

of Palestine by major world powers and countries, otherwise unable to stop Israel's war. These countries appear to hope that such recognition will consolidate unprecedented global popular and official solidarity with Palestinian rights, as well as send a message to Israel that its policies have a political cost that cements in a new international consensus and frame of reference for any future peace process that might yet emerge.

The four studies are intrinsically linked by a logical sequence premised on the ultimate goal of establishing a Palestinian state in all of the Palestinian territories occupied since 1967, not in part of the land, nor in a way that separates the Gaza Strip, governance or economy-wise, from the rest of the State of Palestine. They also confirm that designing Palestine's optimal economic relations with Israel, in their permanent shape, requires beginning with a 2-3 year "state inception phase" that brings partners back to some form of normal economic relations (Volume I). This would lead to an economic permanent status agreement that guarantees core Palestinian sovereign economic rights and the optimal economic relation with Israel, benefitting from previous experiences and numerous "day-after" economic plans since 1947 (Volume 2). These are followed by a comprehensive investigation of the economic (theoretical and empirical) underpinnings and political governance of the monumental task of reunifying the fragmented Palestinian national economy (Volume 3), and finally a study on principles, modalities, and comparative experiences in post-war reconstruction (Volume 4).

MAS is privileged to have been commissioned to deliver on this important task at such a crucial juncture in Palestinian history, which confirms that the economy of the State of Palestine is well conceived in Palestinians' visions of their future ahead- we know what we want. It is from that basis that any future negotiations on state-formation processes, the reconstruction and governance of the devastated Gaza Strip, and national economic development strategies that restore the unity of the national economy should emerge.

Raja Khalidi
Director General

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Summary

The four papers of this project, titled “The Economic Pathway to Independence and Peace”, of which this study is Volume II, are structured to focus on medium-term issues that need to be addressed as a PLO roadmap to the end-game, or permanent status, which entails a Palestinian agenda for the economy of an independent state. This study aims to present a comprehensive economic policy vision for issues examined in separate papers, especially the bases for geographic and functional reunification of the national economy (Volume III). Additionally, it discusses options and directions for Palestinian regional economic integration and relations regionally and internationally, which are equally pressing issues that call for focused attention.

The main difference between this approach and that of the Oslo Accords is that it assumes a clear vision of the parameters of the end game, which in turn defines the issues to be addressed to see concrete changes in Palestinian-Israeli economic relations during a pre-defined Statehood Inception Phase of limited duration. The Oslo Accords are structured as interim arrangements for a five-year transitional period during which a Palestinian Interim Self-Governing Authority is set to manage economic rehabilitation and institution building while the oPt continues to be under Israeli sovereignty and hegemony and the oPt economy continues to be within the Israeli customs envelop; as for the issues of independence and sovereignty, these were relegated to the negotiations on the ‘permanent status’ that were expected to begin at the end of the five-year transitional period.

This paper reviews the Palestinian EPS position and approaches in a post-conflict situation based on the realization of the two-state solution. The first section of the paper provides a stocktaking of eight decades of the economic “Day After” schemes, core issues, and visions, followed by outlining the structural challenges to economic development and Palestinian conceptualizations of the economic permanent status. Sovereignty issues and options for permanent Palestinian-Israeli economic relations are outlined, followed by an exposition of the Palestinian claims for reparations based on international law as an integral part of the process of conflict resolution that entails ending all claims.

The day after the war that Israel launched on the Gaza Strip in October 2023 may mark the beginning of an internationally sponsored process to end the military Israeli occupation and implement a process for the transition from the status quo to a permanent status based on the two-state platform. After over half a century of military occupation and after three decades of the Oslo Accords, the status quo is far from being conducive to the implementation of the two-state solution, due to the cumulative consequences of decades of colonial rule, land dispossession, the usurpation of natural resources, and the expansion of the Israeli settlements in the oPt.

The two-state paradigm aims to provide a resolution of the hundred-year conflict by limiting the parameters of conflict resolution to addressing the outcome of the war of 1967 and the occupation of the West Bank and the Gaza Strip.

In the past decades, multiple contributions by Palestinian, Israeli, and foreign scholars examined the economic viability of a sovereign Palestine state on the Palestinian territory occupied in 1967 (hence oPt). Following the PLO's Declaration of Independence in 1988 and the launching of the peace process at the Madrid Conference in 1991, and the establishment of the Palestinian National Authority, PNA, in 1994, multiple exercises were carried out to examine alternatives to the economic models and structures that would best serve the objectives of state-building in a post-conflict situation.

Some of these exercises extended for years, such as the Economic Policy Program (EPP) carried out by the London School of Economics (LSE) for the benefit of the PNA's Ministry of National Economy, and the Aix-en-Provence joint Palestinian Israeli program. These and other multiple endeavors studied multiple approaches and conceptualizations for such key issues as trade and labor relations, monetary and currency issues, fiscal regime, natural resources, and geographical contiguity, as detailed in the first part of this paper.

The second part outlines Palestinian approaches to sovereignty issues and requisites for a post-conflict independent Palestinian state. While it is recognized that the concept of sovereignty is a complex one in a

globalized world that is characterized by economic interdependency. Economic sovereignty denotes the freedom to exercise unilateral and exclusive control over policy instruments and the national priorities of the government's developmental agenda.

A Palestinian national conceptualization of EPS, as re-envisioned in 2024, will draw from the fundamental principles of the foundational national documents: the PLO Charter, the Declaration of Independence of 1988, the Palestinian Basic Law of 2005, and from the visions and formulations of an independent and sovereign economy as expressed in multiple studies and documents. In this context, the cumulative work produced by the Palestine Economic Policy Research Institute (MAS) provides a body of studies and research, of which the document titled: *Prospects for Development in Palestine: Weathering the Storm, Mobilizing Together*, 2022, represents the culmination of this body of work over three decades of economic research. These sources of knowledge provide a solid basis for the formulation of the fundamental parameters of an EPS for a free, independent, and sovereign State of Palestine.

A Palestinian national socio-economic macro vision is proposed to reclaim the physical, economic, policy, and polity space and to reunify its regions, comprising the general aims and objectives of the rehabilitation and development of productive sectors (agriculture, industry), the development of its infrastructure: transportation networks, energy (electricity production and distribution, and water desalination and networks). The reunification of the oPt's regions, the four shreds of institutional formations in the oPt, comprising the occupied east Jerusalem annexed to Israel, areas A and B in the West Bank, area C under full Israeli control, and the Gaza Strip under the full jurisdiction of Hamas, constitute the building blocks of the Palestinian entity that would evolve to constitute the prospective independent and sovereign State of Palestine.

A Palestinian national developmental vision will also need to address structural challenges to economic development: the structural and economic distortions that resulted from decades-long colonial rule and military occupation that implemented policies of dispossession and

pauperization; the challenge of building the capacity to absorb the returnees, building the capacity of the national economy to satisfy the basic human, economic, social, and cultural needs, addressing the cumulative decades-long structural distortion caused by the military occupation that led to the deterioration of the productive sectors in the oPt, prioritizing the expansion of export-based and export oriented activities in industry and agriculture, the diversification of the markets to which labor is exported, gender policies that aim to redress the distortions and gaps in the status quo, the formulation of equitable and inclusive policies for social welfare and health care, and addressing the distortions caused by decades of annexation to the Israeli economy by reconnecting economic trade and investment activities to the region and the outside world.

Within this context, future economic relations between an independent sovereign Palestine State and Israel will be determined by the representative elected body of the state that will deliberate upon the adoption of one of the models, such as an economic union, as outlined in the UN resolution 181, free trade area (FTA), most favored nation (MAFN), and an amended customs union (CU). Based on the national developmental agenda and priorities that the future representative elected body will set, the future economic relations with Israel will need to be amenable to the realization of the national developmental objectives.

1. Introduction: Defining the Economic Shape of Palestinian Statehood

This study has been prepared in full recognition of a long history of planning for the Palestinian economy after liberation and independence. These efforts engaged political leaders, academic experts, government officials, and others from Palestine, Israel, and around the world in studying the ‘prerequisites’ and necessary conditions for economic viability within an independent Palestinian state alongside Israel, and its future economic policies and relations. Each of these milestones over many decades was surely shaped by the assumptions and political conditions of their respective eras. However, cumulatively, they reached a range of proposals and schemes and draft legal texts that together offer a rich source for thought about the economic future in today’s new circumstances, even amidst a brutal and bloody war that threatens all possible desirable outcomes.

Studies on the economic feasibility and viability of a Palestinian independent and sovereign state within the territories occupied by Israel in the aftermath of the war of 1967 reflect the worldview of the specific historical era in which these writings were produced. In the broader context, these studies have indirectly rebuked the underlying Zionist skepticism of the legitimacy of Palestinian ‘statehood’ or a right to national self-determination, on the spurious argument that Palestine was no more than a province under Ottoman rule since the 15th century until the British Mandate in the first half of the twentieth century, bereft of national identity.

Palestinian scholars, such as Rashid Khalidi (1997) and Sari Nusseibeh (2011), have documented the evolution of a unifying Palestinian national consciousness as early as 1701. The Israeli historian Haim Gerber argued that Palestine was subdivided into three main districts or *Sanjaqs* earlier than that under Ottoman rule. According to Gerber (2008), the three dynasties ruling these three districts in the sixteenth century were related through intermarriages and joined forces to face invasions from the Levant, thus forming a rudimentary Palestinian state four centuries ago. The end of Ottoman rule was succeeded by the British Mandate that

lasted until the war of 1948, which disintegrated Mandatory Palestine into three subdivisions: Israel, west of the Armistice Line; the West Bank and east Jerusalem under Jordanian rule; and the Gaza Strip under Egyptian rule. These subdivisions were wholly inconsistent with the map of the partition of Palestine in the United Nations General Assembly (UNGA) resolution no.181, which constitutes the earliest adoption by the international community of the two-state political platform for Palestine.

The war of 1967 ‘re-unified’ the territory of Mandatory Palestine under Israeli hegemony from the River to the Sea, and beyond. In the decades that followed the end of Ottoman rule, the notion of Palestinian statehood went through different constructs (unitary/partition) until the formation of the Palestine Liberation Organization as the political entity that became internationally recognized as the sole and legitimate representative of the Palestinian people. By the 1970s, debates on the viability of a sovereign Palestinian state alongside Israel, rather than the single secular democratic state hitherto espoused by Fatah and the PLO, were pioneered by Walid Khalidi in his “Thinking the Unthinkable” (Khalidi, 1978) and by Elias Tuma (1978), who approached the issue of statehood from an economic perspective. Tuma’s study of the economic dimension of the Palestinian state in the 1970s was followed by dozens of studies throughout the past decades envisioning the economics of a two-state partition, such as Atif Kubrusi’s “The Economic Viability of an Independent Palestinian State” (Kubursi, 1983) and Yusif Sayigh’s landmark “The Economic Prerequisites of an Independent Palestinian State” (Sayigh, 1990/2022). The most recent contribution to these studies has been Raja Khalidi’s “A Palestinian-Israeli Parallel Economy by 2030” (Khalidi, 2015).¹

This overview is not intended to be a comprehensive survey of work on visions of the permanent status in the Palestinian economy. Rather, it highlights some key studies and initiatives to illustrate how research in this area has developed, as a background to identifying key issues and conceptualizations. Most of the studies on the economic viability of a Palestinian state on the areas occupied in 1967 fall into two broad

¹ See also: Khalidi, 2023.

categories: 1) Studies that explore the fundamental economic requisites for a sovereign Palestinian state, and 2) Studies on the options for economic and trade relations between a sovereign Palestinian state and Israel. Some of the approaches to the economic viability of a sovereign state reviewed in the following sections are products of joint Palestinian-Israeli teams of experts that reflect the lowest common denominator of what the joint teams could agree upon, such as the Economic Permanent Status (EPS) and the Aix-en-Provence models.

Irrespective of the questionable legitimacy of linking issues such as inalienable rights, self-determination, and sovereignty, this section of the paper first assesses the main efforts since the first such vision was proposed by the United Nations in 1947 as the economic component for a successful two-state partition of Palestine. The exercise was taken up by the PLO after 1990, though in totally transformed conditions, and has gone through many iterations up to the most recent concepts for a viable Palestinian national economy within the two-state solution. The first part of this study (Sections 2 and 3) reviews previous studies and projects' main motivations and premises in their historical setting, purposes, partners, and main proposals for the future Palestinian economy. The point will be to make clear that today there is no need to start from scratch in identifying Palestinian economic expectations and red lines for sovereignty, as well as the options for economic and trade relations with Israel, the Arab countries, and the rest of the world, rather than a careful reading of the past and drawing the conclusions appropriate today.

Based on a full understanding of the options available and the realities on the ground, but on the assumption that a Palestinian state may still emerge from the rubble of war, the subsequent sections of the study propose a set of contemporary and feasible goals for a permanent status economic development strategy that could underpin the sovereignty of an independent State of Palestine.

2. Stocktaking of Seventy-Five Years of the Economic “Day After” Schemes

This section aims to succinctly outline the myriad proposals, schemes, and legal drafts that have been suggested as the economic framework for a successful two-state solution since the United Nations put forth the first such proposal in 1947. Collectively, these propositions serve as a comprehensive resource for contemplating the future trajectory of a robust Palestinian national economy and identifying the red lines for sovereignty, viability, and sustainability. Given the inherent complexity of developing a Palestinian national economy with the two-state solution, most included frameworks generally incorporate the following elements: trade, labor, fiscal and monetary policies, natural resources, public utilities, and geographic continuity. Nonetheless, many proposals focus on trade policy as the main angle to address the many elements of building a national economy, especially in light of the high degree of trade interactions between the two economies, and the amenability of merchandise and service trade to economic integration processes.

This section provides an overview of the intellectual genealogy of various economic frameworks included in the stocktaking exercise. Understanding the specific time period, prevailing political reality, balance of power, expertise of the working group, and funding sources behind each framework helps in comprehending the overall set of demands and policy recommendations. Against the backdrop of the prolonged Israeli military occupation, a century of colonization, and multiple unsuccessful attempts to establish a viable Palestinian economy, each initiative reflects assumptions molded by prevailing conditions. Consequently, this section briefly reviews the primary motivations, underlying premises, historical contexts, and collaborators of each project, providing clarity and context to the inherent demands of each scheme.

2.1. United Nations General Assembly (UNGA): “Partition Plan with Economic Union”

In 1947, the question of Palestine was brought before the UNGA for the first time. The UNGA adopted Resolution 181, calling for the

termination of the Mandate for Palestine and the partition of Palestine into two states—one Arab and one Jewish. The economic annex of the resolution transformed the dual-economy model of the Arab-Jewish relations in Mandatory Palestine into an economic union based on the assumption that two sovereign states would be realized. This was seen as the only option by the UN technical experts, as a dual economy has already emerged between the Arab and Jewish communities, albeit an unequal and lopsided one (Khalidi, 2008).

The Economic Annex of UNGA Res. 181, unlike other schemes examined in this paper, presented a framework for a full economic union, trade, fiscal, and monetary. This framework technically advocates for a "Two-State" solution with one unified economy (in addition to the *corpus separatum* of Jerusalem). It was predicated on classical trade theory assumptions about economic integration, closeness, and comparative advantages, which also assumed a framework of state-to-state economic relations, not colony-to-metropole dependencies. However, its operation envisaged an entirely distinct, and perhaps unrealistic, political context that could not confront the challenges posed by later historical developments that included the military occupation following the 1967 war, the onset of the first intifada, the subsequent Oslo Peace Process and political agreements, or the repercussions of the Second Intifada, such as intensified mobility restrictions, settlement expansion, land confiscation, resource deprivation, and heightened violence. Such realities meant that the political conditions for a successful economic union could never take root.

2.2. Yusif Sayigh/ PLO: “Economic Foundations of an Independent Palestinian State”

Published in 1990, Yusif Sayigh’s “Economic Foundations of an Independent Palestinian State”² emerged during a pivotal time period in the development of the Palestinian national liberation movement, that is, following the declaration of Palestinian independence in 1988 and at the peak of the first Palestinian *Intifada*. At a period of optimism regarding the establishment of an independent and sovereign Palestinian state,

² The original book, published in Beirut in 1990 in Arabic, was republished by MAS in 2023.

Sayigh was commissioned by the Palestinian Liberation Organization (PLO) to conduct a study laying out the shape and elements necessary to develop a viable Palestinian national economy. The study provides a comprehensive economic model that did not envisage the Oslo agreements, Madrid Conference, etc. It outlines the fundamentals of a viable Palestinian national economy, irrespective of the constraints imposed by the subsequent peace processes. In other words, it offers an “unadulterated” economic framework firmly rooted in Palestinian *Thawabit*, the inviolable national fundamental principles.

Several other Palestinian scholars maintained this structuralist approach to the economic viability of a Palestinian sovereign state, such as George Abed (1990), Fadle Naqib (2003), and Leila Farsakh (2021). It is noteworthy that while Naqib and Farsakh upheld the economic viability of a Palestinian state that embodies the fundamental requisites that Sayigh had portrayed in his seminal work during the 1990s up to the second *intifada* (Farsakh, 2000; Naqib, 2003) they both recently joined a broad spectrum of scholars who shed doubts on the applicability of the two-state solution due to the negative developments in the two decades that followed the second *intifada*. (Farsakh, 2021; Naqib, 2022). This trend of concluding that there is no realistic applicability of the two-state solution has been growing steadily among Palestinian, Israeli, and international observers as the realities of settlement and deep Israeli hostility to Palestinian self-determination render utopian any vision of a unified Palestinian national economy.

2.3. World Bank: “Developing the Occupied Territories: An Investment in Peace”

In 1993, at the height of the Madrid/Oslo euphoria, the World Bank produced a report assessing the development needs and prospects of the economies in the West Bank and Gaza Strip. This report came at the request of the sponsors of the Middle East Peace Talks, specifically the Multilateral Working Group on Economic Development. It constitutes the outcome of the World Bank’s mission visit to the Occupied Palestinian Territories, which was composed of five teams focusing on: Agriculture, Human Resources, Infrastructure, Macroeconomics, and Private Sector Development. Palestinian, Israeli, Jordanian, and other

representatives of the key bilateral and multilateral donor organizations were also included in the mission.

The World Bank report is a technical proposal that does not take positions or recommend policies related to key issues of development, such as the allocation of land and resources, the disposition of Israeli settlements in the West Bank, the future state of refugees, or Jerusalem. Rather, it provides a priority agenda for policy reforms, institutional development, and investments needed to promote growth during the transitional period laid out in the Paris Protocol. Indeed, it was predicated on the assumption that pursuing economic development, however elusive it might be, bereft of sovereignty, is a precursor of peace, which has over time been manifestly repudiated by bitter experience, not to mention common sense. So, it hardly provides a context or reference, then or now, for establishing the foundations that the PLO had clearly stated were *pre-conditions* for development, not vice versa.

2.4. UNCTAD: “Prospects for Sustained Development of the Palestinian Economy in the West Bank and the Gaza Strip”

In 1996, the UNCTAD secretariat published a comprehensive study prepared by Fadle Naqib, emanating from the work of a team of Palestinian and international economists who had, since 1990, prepared a series of sectoral and intersectoral research and economic projection studies. After conducting a quantitative evaluation of various scenarios, this study presents a thorough analysis of the prospects, policies, and strategies essential for reconstruction and sustained development. Unlike other economic models explored in this paper, it was not intended as a framework for an EPS Agreement. Rather, this paper is primarily directed at Palestinian policymakers aiming to foster a sustainable economy during and after the 'transitional period,' as outlined in the 'Protocol of Economic Relations' or Paris Protocol, established by Palestine and Israel in 1994 as part of the Oslo Peace Process.

In the same intellectual tradition of Sayigh, UNCTAD's project and the Naqib study emphasize institution-building, addressing Palestinian unemployment, expanding infrastructure to support the productive sectors, and promoting regional integration with Arab markets to reduce

dependencies on Israel. During its inception, the transfer of control over the Gaza Strip and Jericho to the Palestinian Authority was perceived as a binding commitment to fulfilling the Oslo Accords, generating high hopes and future plans. These hopes were reflected in the policies and strategies proposed by the study, still premised on the peace dividend that never ensued from those arrangements.

2.5. Economic Permanent Status (EPS) Model

The EPS model for Israeli-Palestinian economic relations in Permanent Status emerged from the “Economic Permanent Status Project”, sponsored by the Government of Norway in 1998. The project was carried out by two groups of Palestinian and Israeli experts. The objective of the EPS project was to formulate a viable strategy for the future economic relationship between Israel and Palestine.

The key outcome of this project was the EPS model, a synthesis of the Customs Union and Free Trade Area models. Conceived at a juncture where the experts believed the interim period set out by the Oslo Agreements was nearing its end in the late 1990s, the EPS model was built on the experience and characteristics of the Israeli-Palestinian economic-political relations since 1993, based on elements laid out in the Paris Protocol. The synthetic model was intended to compensate for the weaknesses of the Protocol while maintaining the premise that integration was feasible and desirable to stimulate Palestinian growth and catch up with Israel. It was a reference for PLO negotiation proposals for a free-trade agreement at Camp David in 2000, when the same discussions took place in Paris in 1994 about optimal trade relations stumbled on the rock of how to treat free labour movement.

While the concept might still retain some interest as it reflected a rare Israeli-Palestinian consensus on optimal future economic relations, the conditions on the ground have changed so dramatically that they need to be reconsidered alongside the other models under review here.

2.6. The LSE Economic Policy Program (EPP I-III)

The EPP was an initiative as part of the European Community’s program of assistance to the Palestinian people over the period 1996-2004. The

project came at the request of the Ministry of National Economy (MNE) and was coordinated by the London School of Economics. The primary objective was to provide the Palestinian Authority with the international technical and legal support it needed in preparation for EPS negotiations with Israel, specifically as it relates to the establishment of an autonomous trade regime and eventual Palestinian accession to the WTO.

Considered by the contributors to this set of studies, mainly for the London School of Economics, to be the basis for the ‘economic constitution’ of the Palestinian state, the EPP constituted a monumental effort in shaping a future permanent status agreement, specifically as it relates to a WTO-compatible autonomous and liberal trade regime. Spanning the period from 1996 to 2004, the EPP project unfolded in three phases — EPP, EPPII, and EPPIII— each aligning with the specific Terms of References set by the MNE to address the dynamic political landscape of its time. It produced draft laws and policy positions, studies on trade facilitation, customs, and trade regime options, as well as road maps to implementation between two independent states, wavering between favoring a free-trade or MFN regime without clearly endorsing one or the other. But maximum trade liberalization underlaid all the EPP work, epitomized by proposing a low, uniform Palestinian tariff of 5%.

2.7. Palestinian-Israeli Aix-en-Provence Group

The Aix Group was a Joint Palestinian Israeli International Economic Working Group that worked on permanent status topics from 2003-2015. It was formed by Professor Gilbert Benayoun of Aix-en-Provence University and a team of Israelis and Palestinians, working in coordination with the Harry S. Truman Research Institute for the Advancement of Peace in Israel (The Hebrew University of Jerusalem) and the DATA Center for Research in Palestine (Bethlehem). The Aix Group serves as a model consortium of Palestinian, Israeli, and international technocrats, academics, and former policymakers, seeking to provide decision-makers with a common basis on which to assess alternatives for the EPS issues.

The Aix group published several studies over the years, each colored by the politics of the moment and increasingly distant from the hopeful idea of a peaceful two-state relation, by different Israeli and Palestinian authors including: “Economic Road Map” (2004), “Israel and Palestine: Between Disengagement and the Economic Road Map” (2005), “Economic Dimensions of a Two-State Agreement between Israel and Palestine” (2007; 2010), “The Arab Peace Initiative and Israeli-Palestinian Peace: The Political Economy of a New Period” (2012), and “Economics and Politics in the Israeli Palestinian Conflict” (2015).

In 2004, the Group published its main proposal entitled “The Economic Road Map (ERM)”, assessing future economic policy options in the context of the Quartet’s Road Map for Peace (2002). The ERM focuses on the final status agreement and establishing a Palestinian state. Employing a “Reverse engineering” approach and a non-gradual strategy in dealing with the security and the foundations for statehood, the economic framework assumes the emergence of a “Two-State” solution characterized by Palestinian economic sovereignty, clear borders, a new constitution, and economic cooperation between both sides. The political thrust of the Aix economic studies was echoed at the same period by the Israeli-Palestinian Geneva Initiative of 2003, which was a draft Permanent Status Agreement based on previous negotiations, namely the Taba negotiations of January 2001, the peace plan presented by President Clinton in December 2000, the vision of President Bush from June 2002, the Quartet Roadmap.

The Geneva Initiative is mostly concerned with security issues, including border crossings, settlements, roads, land swaps, the division of Jerusalem, territorial links, as well as the right of refugee return. Like the Aix work, it was an attempt to keep alive the flame of hope of the pre-2000 period that an irreversible process towards Israeli recognition of Palestinian statehood could still be envisaged, even as facts on the ground belied such false promises. Indeed, even today, such assumptions color scenario planning for the post-war era, all shaped by a power balance and asymmetry of three decades ago that in recent years has been skewed even more adversely against Palestinian rights.

2.8. Parallel State Economy (PSP)

A dead end has been reached amid the diminishing prospects for a conventional two-state solution. As an intellectual provocation against conventional thinking and an alternative to the reality of a political stalemate/deadlock, the “Parallel States Project” (PSP) of 2013 offers an unconventional model of Palestinian sovereignty and state and, hence, economy. The project stems from the belief that conventional notions of dividing sovereignty territorially cannot likely support the long-term viability of either an independent and autonomous Palestinian state and/or economy. Similar to the EPS, EPP, and Aix-en-Provence models, the PSP stem involved a group of Palestinian, Israeli, and international experts, academics, and leaders that was sponsored by Lund University in Sweden. It analyzes the possibility of establishing two parallel, overlapping states, Israel and Palestine, on the same territory, with separate and independent state structures and zones of separate or shared sovereignty. In a parallel states model, each of the two states responds primarily to its citizens and only secondarily to their territory. Policy decisions and broader functions are provided to the citizens of each state separately and independently. However, sovereignty over territory would be both divided and shared between the two governing authorities and their citizens.

A Parallel States economy, with its emphasis on common management of resources and “public goods” alongside separated economic policies and institutions, offers a real-life conceptualization of how to leverage the current Palestinian-Israeli demo-geographic configuration, including the Arab economy in Israel, to the benefit of a Palestinian Arab economy able to flourish alongside/within a Jewish/Israeli economic envelope, without threatening “sovereignty” of either people.

2.9. PLO/NAD

In 2022, MAS, in cooperation with the Negotiations Affairs Department (NAD) of the PLO, issued a series of papers outlining the Palestinian principles and required positions on EPS issues. Following years of political stalemate, and indeed assuming a prolonged period of no-war, no-peace, these papers sought to provide Palestinian negotiators with an

updated economic status report in several key areas and fundamental demands in light of decades of Israeli military occupation and de-development in the event that any interim or status negotiations are initiated. These are rooted in an assumption of state-to-state relations governed by international agreements, UN resolutions, and the economic prerequisites of the independent and sovereign Palestinian state. The papers focus on: sovereignty, trade, labor, the agricultural sector, natural resources, infrastructure, and the economy of east Jerusalem. Arguably, the MAS/NAD position paper represents the PLO's final attempt preceding the events of October 7th, 2023, to outline demands for any formal peace process negotiation, without significantly deviating from previous agreements between Palestine and Israel (Hardan, 2022; Khalidi, 2022; Khatib & Jaaouni, 2022; Jamil, 2022; Jamil & Hinn, 2022; Quzmar, 2022; Tamimi & Jamil, 2022).

Nevertheless, the Palestinian position on these issues, as outlined in these studies, remains close to those principles enunciated in 1990 by the PLO regarding requisite sovereignty over natural resources, borders, economic policy, people, and the imperative territorial integrity and contiguity of the national economy, following the end of Israeli occupation. Such an approach emphasizes that future economic relations with Israel should be based on the Palestinian development vision and not vice versa, as has effectively been the case for 30 years.

3. Evolution of Economic Permanent Status (EPS) Frameworks: Core Concerns

This section assesses the above-mentioned models and body of research under the main areas and concerns of economic relations that call for policy decisions and, eventually, international agreements.

3.1. Trade Regime and Policy

1947-1990s – hopeful integration or separation?

The experts who drafted the Annex to UNGA Res. 181 (1947) considered that the best option for trade upon the partition of territories was an economic union. Both states should agree on a common customs tariff with complete freedom of trade between the two states and between the states and the City of Jerusalem, hence an “economic union”. In this model, the Resolution proposes the establishment of a Joint Economic Board, consisting of three representatives of each of the two states and three foreign members to be nominated by the Economic and Social Council and the United Nations. In the case of which one of the two states does not adhere to the binding decisions of the Joint Economic Board, members of the board can decide —by a vote of six members— to withhold an appropriate portion of the customs revenue to which the state in question is entitled under the economic union. Under the justification of the Joint Economic Board, both states shall enter into international conventions and treaties affecting customs tariff rates jointly. Moreover, both states shall be bound to act in accordance with the majority vote taken by the board. The Board itself ought to secure fair and equal access to the world market of Palestine’s exports.

When, some 40 years later, the matter was again examined, amidst the persistent and profound structural distortions in the Palestinian economy under occupation, Yusif Sayigh (1990) categorically rejected the notion of a shared market with Israel, let alone considering an economic union as suggested by UNGA Res 181. He emphasized that achieving substantial economic development in Palestine, particularly in external trade, necessitates strengthened integration with neighboring Arab economies rather than with Israel. This is not to suggest that Sayigh

advocated for complete economic disengagement from Israel. Instead, he was cautious about any form of 'integration' with Israel, given its history in exploiting Palestinian land and resources, which resulted in the de-development, de-agriculturalization, and de-industrialization of the Palestinian economy. In many ways, Sayigh foresaw that heightened cooperation and interdependence between a Palestinian and Israeli state, whether through some version of a customs union or other means, would lead to an overly subordinate Palestinian economy. This would occur under the framework of a political settlement and a distorted vision of economic gains, fueled by inflated and misleading expectations. Such a scenario unfolded in the years following the Oslo Peace Process in 1993.

The World Bank assessment report of 1993, prepared during the height of the regional and bilateral peace processes, emphasized the risks of any major re-orientation in trade relations with Israel in the short-term period. It found that the priority for the oPt in the medium term should be to increase trade links to Arab markets, as the restrictions imposed on trade via Jordan have reduced trade with regional markets, decreasing production and exports, as well as critical imports such as fertilizers and construction material at significantly reduced prices. In the long term, the World Bank proposed two options: 1) a free trade Area, or 2) a full-fledged customs union with Israel.

A free trade area with Israel should be linked with a significant opening of trade to Israel, Jordan, and Egypt. Unlike a customs union, an FTA would allow the Palestinian entity to set tariffs different than those set by Israel, enabling it to avoid protectionist aspects of Israel's trade regime that may not be beneficial for the Palestinian economic structure. Opening trade to the rest of the Arab world would allow the oPt to diversify its export base, reducing its vulnerability to external shocks. An FTA option does risk "leakiness" linked to the establishment of customs borders and would require intervention to enable Palestinian infant enterprises to allow them to compete. An alternative option would be a 'full-fledged' customs union with Israel. This option offers the advantage of administrative simplicity. Nonetheless, it requires putting in mechanisms to guarantee opening the oPt to the traditional Arab market and non-traditional markets in Europe and North America.

The UNCTAD (1996) study found that in the long run, the optimal trade arrangement for an economy as small as the Palestinian one would be close to a free trade regime. A free trade arrangement enables the Palestinian economy to pursue an export-oriented growth strategy while building its productive domestic sectors and reducing its dependence on external aid. However, the study emphasizes that the transition into a free trade arrangement ought to be gradual to avoid locking in some of the negative aspects that the economy was then dealing with. Therefore, in the medium run, the goal should be a transition from the existing asymmetric customs union regime to free trade. This, in turn, requires gradual change by centering policies to enhance regional trade with Arab neighbors and endowing the Palestinian economy with the capacity to export to Israel some high-skilled products.

To enhance the capacity of the economy to export, the study highlights the need to shift towards intra-industry trade based on specialization and economies of scale. It emphasizes that the Palestinian economy should have enough time to recover from the negative impacts of a customs union, as it relates to the trade relations it lost with the neighboring markets. Bilateral and multilateral free trade agreements need to be aggressively pursued, especially as they relate to removing trade barriers. The Palestinian economy needs to secure the removal of non-tariff barriers with both Israel and the Arab countries.

In the near term, the study indicates that engaging in trade involving Palestinian services is more favorable than trading agricultural and industrial products. This preference stems from the structural economic challenges faced by Palestine, characterized by the production of low-skilled goods and limited regional competitive advantages. However, it underscores the crucial point that Palestine should not be regarded as a city-state, contrary to fantastical proposals circulating in other schemes advocating for its transformation into a regional center for finance, trade, and tourism. Instead, the study advocates for recognizing Palestine as an agricultural economy. It emphasizes that the sustainable development of a Palestinian economy hinges on the agricultural sector fulfilling its traditional role in the broader development process.

The EPS model of 1998 does not preclude either a customs union or a free trade area as the optimal trade regime/arrangement between the two states. Instead, it lays out a set of principles and arrangements that should be adhered to regardless of the overall trade regime adopted.³ Produced weeks before the Camp David negotiations in 2000, the EPS model envisages the Palestinian-Israeli economic and trade relations to reflect the overarching concept of ‘soft’ borders and an ‘open’ Jerusalem.

In essence, the EPS proposes adhering to and implementing the principles outlined in the WTO’s General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS), and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Simultaneously, it highlights the importance of preventing both states from imposing any measures (e.g., taxes, customs, duties, etc.) on the transfer of goods and services between them. Specifically, the trade regime should anchor the National Treatment Principle (NTP), demanding equal treatment for imported and locally produced goods and services. This includes not subjecting trade in goods to internal taxes or any other charges other than the ones imposed on products originating in the territory of the latter-mentioned side, as well as not treating goods less favorably than like products originating in the territory concerning laws, regulations, and requirements affecting their sale, purchase, transportation, and distribution.

Similarly, the EPS trade arrangement emphasizes the importance of applying the Most Favored Nation (MFN) status between the two states, ensuring trade without discrimination. In their trade arrangements, both states should limit restrictions on trade to be directly related to public health or security reasons and avoid the usage of non-tariff barriers (NTBs) and all measures having an equivalent effect.

Recognizing the possibility of utilizing the Rules of Origin (ROO) as a non-tariff barrier, the EPS proposes establishing a protocol of origin for determining the requirement for goods to be considered originating in Palestine or Israel. Mainly, the protocol should address and specify the following: 1) goods wholly obtained or produced in the respective

³ Subsequently, it was labeled FTA+ as the proposed trade policy was viewed as a combination of a Customs Union and a Free Trade Area.

territories; 2) usage of non-originating materials in the production of a good through an applicable change in tariff classification; 3) regional value content. Due to significant economic development disparities between the two economies, the EPS proposes providing preferential treatment to Palestinian goods. This entails permitting a lower valuation for local ingredients in a Palestinian product compared to those in an identical Israeli counterpart.

Concerning standardization, the EPS model advises that both sides should have complete freedom in terms of adopting technical regulations and conformity assessment procedures for locally produced and imported goods. Again, this should be within the bounds of the National Treatment principle. No new regulations should form an obstacle to the free flow of goods in the market of each of the two states. The Palestinian and Israeli sides shall reach an agreement regarding mutual recognition of standard verification and certificates.

2000s onwards: EPS postponed with the breakdown of Oslo/Paris

The first two phases of the subsequent EPP project assessed the viability and effectiveness of establishing a customs union as well as other trade policy options, ultimately recommending a trade policy centered around a Free Trade Agreement (FTA). A continuation of the *de facto* customs union under the Paris Protocol does not satisfy the historical goal and ambition of Palestine to have its independence and autonomy. However, a trade policy vis-à-vis the State of Israel on the basis of an FTA enables close bilateral cooperation between the two economies, while leaving both Palestine and Israel with autonomy in conducting trade relations as fit with the region and internationally. The FTA option, on the basis of the World Trade Organization (WTO) rules, opens possibilities for both partners to act according to their interests and needs, and in line with their level of social and economic development.

In phase two, the EPP produced a “Twenty Point Framework” policy roadmap to inform the Palestinian negotiating position in the context of a Permanent Status Agreement. Produced in 2000 as the Camp David negotiations were stumbling, the document assumes the foundation of an independent Palestinian state and a separate customs territory with East Jerusalem as the capital, defined political boundaries with territorial

continuity and one geographical unit, no settlements, and open economic relations with Israel and other neighbors based on and compatible with WTO rules with a view to membership, and economic relations with Israel based on an FTA. The Framework did not take into account the eruption of the Second Intifada.

Regarding trade in goods, the Twenty Point Framework states that goods originating from both territories shall move freely without any tariffs or any direct or indirect charges. Inspection of products should be on the basis of certificates of origin at borders or by means of customs clearing houses. No quantitative restrictions shall be applied to goods, including agricultural products, unless based on the principles of the WTO. Technical, health, and safety requirements shall be based on the relevant WTO agreements, operating under the principle of mutual recognition of trade-related conformity assessment. A comprehensive agreement on transit is also critical to secure access to goods from land, air, and sea, which also guarantees unencumbered movement of goods not originating from the territories but through the territory of one Party and destined to the others.

In terms of services, the parties shall seek to gradually liberalize market access in the field of services while taking into account the gap in economic and social development between both states. Both parties shall cooperate to harmonize professional qualifications and standards. The EPP proposes that Palestine and Israel shall grant each other national treatment and MFN with regard to services relating to trade in goods, including transportation, storage, and distribution. Importantly, rules prohibiting discrimination, double taxation, and expropriation of intellectual property rights.

As the Israeli separation policy and Wall was imposed during the second intifada, phase three of EPP, implemented in 2002-2004, built on the work it completed in the first two phases on an FTA with Israel under the new emerging realities, by examining Non-Discriminatory Trade Policy (NDTP) as an alternative policy option for the Permanent status agreement between the two states. This was done based on the assumption that NDTP (MFN) is adopted as a starting point and that full

membership of the WTO is sought once state borders are established. Additionally, it assumes that there is no formation of a customs union at this stage and no reliance on the structure laid out in the Paris Protocol. This phase of the project entailed some significant backtracking in terms of shifting from what had been conventional trade integration wisdom to what became a critical view of the real economic relations, which justified the separation of trade regimes. This was also reflected in research produced by UNCTAD (2004) for the PA on alternative maritime transport routes for Palestine (through Jordan/Egypt rather than Israeli ports), as well as an important World Bank reflection on the NDTP concept as an optimal choice for Palestine (World Bank, 2002). These mark attempts to adjust economic policy to the new conditions of the post-Oslo/Paris period, which then appeared open-ended and perhaps only finally expired in 2023.

Under the framework of NDTP, all trading partners, including Israel, are treated equally with MFN status. However, this treatment may be nuanced by existing preferential agreements, particularly those with the EU, US, EFTA countries, and the Greater Arab Free Trade Area. On the basis of pertinent domestic legislation, Palestine would grant Israel the same treatment granted to all other countries with whom Palestine has no particular treaty relations. It's essential to note that specific benefits or concessions granted to other countries through separate preferential agreements may not automatically extend to Israel under NDTP.

In the (short-term) preparation for the statehood phase, the EPPIII finds that policies related to trade are likely to be limited to addressing issues in the Paris Protocol, such as removal of de facto trade barriers, progress in back-to-back trade, and external border controls.

In the phase of establishing provisional borders (medium-term), as outlined by the Quartet's Road Map. Likely, improvements will also be limited to tackling pressing issues in the Protocol, given that borders are not fully settled. Palestine should also be working on finalizing domestic legislation, developing strong trade relations with third countries, and preparing for WTO membership (at the time it was estimated that this would require 2 years). It is during this period that Palestine could announce an NDTP based on the establishment of provisional borders.

This should only happen in the case that contours of the future final borders are agreed upon, and required adjustments are minor enough not to impact border control systems.

The EPPIII recommends that Palestine should continue to seek a free trade agreement based on the Twenty Points Framework mentioned above. Should free trade not be feasible given the post Second-Intifada outcomes, the PA should prioritize a de facto application of the WTO, which requires minimal negotiations, mainly in the field of tariffs and non-tariff barriers. This option is a better alternative to sectoral negotiations as it aids Palestinians in obtaining full membership in the WTO in the future, which was seen as critical to enhancing legal protection and also for settling disputes. A de facto application of the WTO is also more appropriate than a unilateral extension of MFN. The unilateral application of MFN provides equal market access to all foreign products, pre-empting the use of any leverage to obtain access rights to the benefits of domestic production and exports, since other countries automatically obtain access without being required to offer access in return. Any special tariff rates or benefits given to Arab countries, for example, in an effort to develop special relations, would need to be immediately granted to Israel, for free (see e.g., unilateral MFN imposed on Germany in the Treaty of Versailles post WWI).

Finally, during the full Palestinian statehood phase (long-term), a permanent status agreement should recognize Palestine's sovereign rights to conduct its own trade and economic policy within the final borders.

The Aix Group proposes a free trade model as the most efficient and feasible option between a Palestinian and Israeli state. A bilateral free trade agreement is of great benefit to the development of the Palestinian economy as it enhances access to the Israeli market while also allowing it to increase and diversify its trade relations with other key countries regionally and internationally. In addition to allowing the Palestinian state the critical ability to implement policies conducive to its own economic structure and future growth, an FTA regime enables a degree of asymmetry by which certain trade restrictions are imposed on imports from Israel on a Most Favored Nation (MFN) basis. Combined, these

measures would stimulate economic growth as demonstrated in the case of the 1975 agreement between Israel and the European Economic Community (EEC). Given the political reality in the oPt, the Group emphasizes the importance of linking an FTA with a ‘friendly’ system of ROO, ensuring efficiency and minimizing negative impacts on trade. Moreover, a Joint Israeli-Palestinian Economic Committee shall supervise the implementation of the agreement.

In the Parallel States framework, the full and balanced economic union that is attuned to the equitable vision of the Parallel States system would imply a joint Palestinian-Israeli management of the trade regime. Taking into account the underdeveloped nature of the Palestinian economy over years of economic dispossession and impoverishment under Israeli military occupation, there is a need to protect the Palestinian nascent enterprises and to support developing its productive sectors through a conducive trade policy and transfer of resources from the richer to poorer regions of the parallel economy.

The MAS/NAD 2022 paper proposes a free trade regime and non-discriminatory trade as the two most favorable options for the Palestinian economy. This is because a customs union has restricted Palestinian sovereignty over economic and foreign trade policy and increased the asymmetry between the two economies. Nonetheless, the study does not definitively recommend one option over the other and does not provide a detailed framework in terms of application of the framework, carefully recognizing that either option’s feasibility is dependent on the political conditions and relations needed to sustain any economic agreement (Jamil, 2022).

Interestingly, this discussion here is conducted without any reference to economic policy (e.g., industrialization), presenting the trade regime as a thing for itself rather than connecting it to the needs/plans of the economy (development). To put it somewhat crudely, the economy should determine the trade regime and not vice versa.

3.2. Labor

Considering the historical context of its conception, UNGA Res. 181 does not provide a detailed framework addressing labor issues. Aligned

with the broader economic union envisioned between the Arab and Jewish states, the resolution implies that workers from both states inherently possess the right to freely move across borders and pursue employment opportunities within each other's territories, akin to the structure of a common market, but structurally dual to accommodate the more advanced and industrializing Jewish economy with the poorer, agrarian Arab economy.

As the primary objective in establishing an independent and sovereign Palestinian state is the restoration of 'national dignity,' Sayigh (1990) underscores the importance of the economy being able to absorb Palestinian labor employed in the Israeli job market. While allowing a portion of that manpower (then approximately 109,000 workers) to continue working in the Israeli labor market, a significant risk arises of fostering dependency on the Israeli economy, posing a threat to the sustainability of an independent Palestinian economy.

Contrary to Sayigh's vision for a National Palestinian economy, the EPS set out a long-term goal of establishing a common market between Palestine and Israel. In line with the concept of soft borders and mutual cooperation between two sovereign states, the EPS model advocated for free, normal, and reciprocal cross-border movement of labor, allowing Palestinian and Israeli citizens to enter the territory of the other side, respectively in order to seek employment. The free movement of labor can only be restricted for public health or security reasons. Moreover, the EPS advocates for Israel to implement preferential treatment for imported Palestinian labor services vis-à-vis services imported from other countries. The EPS goes as far as to recommend that both sides should seek labor cooperation through joint human capital development programs in line with emerging market demands.

Similarly, the LSE-EPP framework advocates for free and unencumbered access to each Party's labor market with preferential terms compared to access granted to third countries. Such language is emphasized by the framework to ensure the elimination of barriers to movement and overly burdensome licensing, permitting, or other regimes. National treatment shall apply to all aspects of labor relations, such as freedom of association; collective bargaining and collective

representation; transfer of labor revenues; and all terms and conditions of employment, including wages, social security and pensions, health and safety, etc.

EPP studies have found that obliging Israel to treat providers of labor from Palestine no less favorably than nationals or residents would resolve the issues of discrimination against Palestinians prominent at the time. Specifically, both Parties shall agree that all persons have the right to join labor unions and professional associations in their respective territories to defend their rights/interests. Recognizing the importance of border control, the EPP also combines the security exemptions in the EC-Israel Euro-Mediterranean Association Agreement with principles of necessity and proportionality to exclude arbitrary recourse and abuse of security measures for other purposes.

In line with the ESP and EPP, the Aix Group also advocates for labor relations between both states to be guided by cooperation, as free labor flow is vital for the development of the Palestinian economy. Broadly, labor flows between Palestine and Israel should be free and regulated through taxes and/or permits. Taking into account the outcomes of the second Intifada to an extent, the Group proposes de-monopolizing the labor market through granting work permits to individual workers and allowing permit holders to seek jobs in Israel freely. It also suggests favoring Palestinian workers by imposing a surcharge on workers from third countries. As for Jerusalem, the Aix Group suggests that there should be an additional provision for Palestinians from East Jerusalem who have been working in the Israeli labor market prior to the agreement, stipulating that such persons can keep their jobs until retirement for ten more years.

In a Parallel States framework, free labor movement is implied. However, considering the structural disparities between the Palestinian and Israeli economies, unrestrained free market dynamics could lead to long-term market failures. To achieve an optimal balance between labor mobility benefits and economic equilibrium, some regulation of the flow of labor is necessary. Implementing a market intervention through taxed permits issued by the Palestinian government for work in Israel would reduce demand for employment in Israel and enable the distribution of

benefits to the Palestinian economy as a whole (through tax revenues). Additionally, Israel should apply its own labor laws to Palestinian workers in its markets (e.g., social security, retirement funds), and Palestinian social security systems should be no less generous or rigorous. This reduces distortions linked to unequal taxation, improves the social conditions for Palestinian workers, and Israeli employer demand due to higher costs of employment. Over time, this approach is likely to contribute to the accumulation of human capital and skilled labor, as well as develop a coherent social security system, fostering overall improvements in the Palestinian economy.

3.3. Currency and Monetary Regime

As part of the economic union between the two states, the UNGA Res. 181 proposed a joint currency board in which the currencies circulating in the two states as well as the *corpus separatum* of Jerusalem, are issued solely by the Joint Economic Board. The Board is also responsible for determining the reserves to be held against such currencies. In the proposed economic union model, both Palestine and Israel are able to operate their own central bank and control their credit and fiscal policy as well as their own foreign exchange receipts and expenditures.

While Sayigh (1990) does not put forth a specific currency system for the Palestinian economy, he does underscore the adverse effects associated with the expanded circulation of the Israeli Shekel in the West Bank and Gaza Strip since the onset of the Israeli occupation. He notes that the occupied territories were constantly exposed to high inflation rates due to the imposed integration with the Israeli economy, resulting in Palestinians experiencing high inflation in most years following 1967. More broadly, Sayigh (1990) emphasizes the financial sector as the most severely affected segment of the economy, given the harsh measures imposed by the occupation, including the closure of branches of Arab and international banks in the territory, subsequently replaced by Israeli banks. These measures have left the occupied territories without a national financing mechanism that would allow for adequate investment and growth.

The EPS Model (1998), on the other hand, offers a detailed framework for establishing monetary relations between the two states to avoid unilateral monetary actions that could result in negative economic effects on the other Party. The EPS proposes that Palestine shall have the power/authority to establish its own central bank that would be responsible for issuing a Palestinian currency, managing foreign currency reserves of the state and all public sectors, lending to the Palestinian banking system as a last resort, as well as regulating and supervising the banking system. While the legal tender shall be the Palestinian currency, the Israeli Shekel (NIS), US Dollar, and Jordanian Dinar (JOD) should continue to circulate.

The EPS recommends that the Palestinian central bank establish a currency board regime in which a Palestinian currency is pegged at a ratio of 1:1 of a base currency. This base currency shall be composed of 50% NIS and 50% JOD, with the number of units to be determined by the prevailing rates of exchange between the two currencies at the time of establishment.⁴ It is recommended that the printing of currency is limited by the foreign currency reserves in the central bank. Otherwise, issuing bills beyond this amount shall be jointly determined by the Jordanian, Israeli, and Palestinian central banks collectively. As an alternative to a currency board, the Palestinian central bank could opt for independently managing its monetary policy, including the scope of printing, liquidity requirements, and exchange rates. The central bank ought to ensure that its monetary policy is not a source of destabilization to neighboring economies.

Given the structures of the Israeli, Palestinian, and Jordanian economies, the potential for factor mobility between the three economies, and the macro-economic shocks they might face, the UNCTAD (1996) study advocates for a Palestinian currency that is linked to the Jordanian Dinar, that is, post the transitional period to a permanent status in which both the NIS and the JOD are used as legal tenders.

4 As feedback to the EPS draft, Radwan Shaaban points out this configuration is not an optimal one. Given that both the NIS and JD are not “hard” currencies and are both managed on the basis of their linkage to the USD, it would be more useful for the base currency to be linked to the USD directly to eliminate restrictions on the future monetary instruments of the state.

Similarly, the World Bank (1993) report suggested that a domestic currency would be necessary for the Palestinian economy to avoid imported nominal shocks and better deal with real shocks. Given the transitional and likely fragile nature of macroeconomic management, a domestic Palestinian currency should be restricted to a currency board that would gradually evolve into a fully-fledged currency. Once discipline and demand for currency are established, the 'currency board' should be phased out in a manner that does not affect the JOD.

The Aix group recommends the removal of restrictions outlined in the Paris Protocol, particularly those hindering the Palestinian Monetary Authority (PMA) from issuing its own currency. The Palestinian Authority should be empowered to decide whether to introduce its currency and determine which foreign currencies are acceptable as legal tender. However, the Group underscores the importance of coordinating with Israel on monetary and exchange rate policies for optimal development in both economies. This coordination should extend to the payment system, clearing houses, and supervision of central banks' branches and subsidiaries operating within each other's jurisdiction.

While devised to contend with the de facto lopsided economic union (e.g., customs union, currency union, etc.) that emerged through adapting to restrictions imposed under occupation, the Parallel States framework does not prescribe a specific currency regime for a Palestinian state. Should the Palestinian state choose the path of an independent currency, the framework does recommend that the state engage in proactive macroeconomic management to uphold monetary autonomy and ensure the effectiveness of its policies.

3.4. Fiscal Regime

The economic union framework outlined in UNGA Res. 181 envisions substantial coordination between Arab and Jewish states as it relates to a fiscal regime. This mutual coordination model is under the oversight of the Joint Economic Board, which possesses significant authority over shared revenues. Regarding the fiscal regime, the Board's authority primarily serves as a mechanism for resolving disputed areas and ensuring efficient revenue clearance within the confines of a customs

union. Nevertheless, the proposed framework permits each state to independently control its fiscal and credit policies.

In pursuit of the overarching goals of sovereignty and Palestinian economic independence, Sayigh (1990) addresses the fiscal losses, termed the 'tax of occupation,' incurred by Palestinians under Israeli control. He emphasizes the critical importance of the Palestinian state reclaiming all revenues, encompassing direct and indirect taxes through an independent fiscal policy. This retrieval would facilitate ample public spending and the establishment of a sustainable public budget for the economy. To achieve economic viability, it is crucial to include revenues from various sources, such as taxes and deductions imposed on the wages of Palestinians working in Israel, customs duties collected by Israeli authorities on imports through Israel and Jordan, any 'hidden' VAT, and taxes/fees paid at the border crossings. Sayigh (1990) highlights that in the initial 18 years of occupation (1967-1985), Palestinians in the West Bank alone paid an 'occupation tax' of approximately USD 700 million. At the time, the inclusion of such revenues in the government's budget could have potentially shifted the state from a deficit to a surplus.

The fiscal regime provision outlined in the EPS model (1998) primarily entails adjustments to existing fiscal policies rather than a radical departure from the current system. Concerning taxation, the model suggests that both parties sign the 'Convention for Avoidance of Double Taxation' and the 'Prevention of Tax Evasion,' according to the OECD model. This convention should be amended to obligate Israel to reimburse Palestine with no less than 75% of the income tax collected from Palestinian employees, independent contractors, and agreed-upon permanent establishments, such as building sites. Additionally, a tax-sparing clause should be incorporated to eliminate double taxation by Israel on tax benefits granted by Palestine to Israelis investing in Palestine.

Regarding clearance revenues, the EPS proposes employing a mechanism for transferring revenues on all import taxes and levies within a 24-hour period for goods destined for the other side. Revenues from goods directly imported from Third Parties, imported through

transit and bounded areas, should be collected directly by the importing side, either at bounded houses or at the importer's location (e.g., Entry station for Israel and Customs stations in the West Bank or Gaza Strip serving as Customs House for Palestinians).

Concerning Value Added Taxes (VAT), the EPS model advises both sides to utilize a reciprocal clearance arrangement based on the presentation of actual tax invoices. Specifically, commercial activities between Israel and Palestine should utilize special invoices, clearly marked, allowing each side to place funds in an escrow account for six months. Payments are then made to the other side upon presentation of the relevant special invoices.

The EPS underscores the importance of establishing entry stations as they are essential for gathering documentation to establish an administrative basis for bilateral revenue clearance, enforcing each side's domestic tax laws, and ensuring the implementation of import policies for goods originating from a Third Party and market regulations.

In line with its recommendation of establishing an FTA, in the economic framework proposed by the Aix Group, each of the two states would run an independent international customs policy, but without imposing duties on goods originating from Palestine or Israel. Autonomy in determining indirect taxation policy, for example, is an essential tool for the Palestinian Authority. This autonomy is crucial for safeguarding emerging industries and establishing a fiscal regime that aligns with the low-income conditions of its economy. Nonetheless, the Group recommends that VAT and other indirect tax rates (e.g., purchase taxes) should only diverge marginally and that tax policy shall be closely coordinated to minimize smuggling.

To encourage cross-border economic activity, double taxation should be avoided. Indeed, the framework proposes that Israel impose lower income tax rates to Palestinian workers in Israel as compared to Israelis and other foreign workers. If not, Israel should continue to reimburse Palestine with a large portion of the income tax it levies on Palestinians working in Israel, as well as any social security deductions. More broadly, Palestine and Israel would need to share information and

coordinate taxation policy to enhance efficiency and minimize fiscal leakages.

Reflecting the anticipated adverse outcomes of lacking an independent fiscal regime, as underscored by Sayigh in 1990, the MAS/NAD (2022) outlines that devastating fiscal implications arising due to signing the Paris Protocol (Jamil, 2022). In essence, the Protocol stripped the Palestinian Authority (PA) of any sovereign role in formulating appropriate financial, commercial, or tax policies, while granting Israel the authority to manage and control borders. For instance, it restricted the PA from reducing the Value Added Tax (VAT) by more than 2% compared to Israel's predetermined rate. The position paper underscores the imperative for the Palestinian side to assert sovereign decision-making in all matters related to fiscal, commercial, and tax policies. Specifically, Palestine should be empowered to establish its own direct and indirect tax rates and collect all revenues arising from indirect imports through Israel to minimize financial losses. It further advocates that Israel transfers all cash surplus (NIS) to the PA, without the authority to freeze or withhold revenue clearance revenues or violate fiscal transfer principles for political leverage.

The Parallel States project proposes a common taxation and revenue-sharing framework incorporating appropriate incentives for economically disadvantaged Palestinians across the territories. Recognizing potential variations in the tax base between states, there is an essential requirement for a unified policy on revenue redistribution. This approach is crucial to address income disparities and foster optimal economic development in both states. Regarding individual taxation, residency determines the taxation jurisdiction; individuals registered in Israel are taxed by the Israeli government, while those registered in Palestine are subject to taxation by the Palestinian government. To manage revenues generated from shared sources of income efficiently, the proposal suggests the establishment of a joint taxation authority as an optimal mechanism.

3.5.Natural Resources

Most of the economic frameworks and technical papers included in this stock-taking exercise assert the significance of natural resources in

establishing a viable Palestinian economy in particular, and as a corollary of the sovereignty of the Palestinian State. A common assumption across these documents is that Palestine will assert sovereignty over natural resources as part of establishing its recognized borders along the 1967 lines. Consequently, discussions on natural resources often revolve around regionalization and macro-infrastructure projects that could benefit both Israel and Palestine through enhanced exploration and exploitation in their respective territories. Notably, the EPS model (1998) and, to a greater extent, the MAS/NAD (2022) position paper stand out as the only two frameworks offering a detailed framework or list of demands essential for building a viable Palestinian economy. In its demands, MAS/NAD (2022) specifically takes into account the decreasing feasibility of mutually cooperating with Israel on this issue and the limited prospects for resource sharing (Tamimi & Jamil, 2022).

The EPS model highlights that Palestinian and Israeli exploration and exploitation of natural resources should be based on reciprocal recognition of each state's rights to resources in their respective territories. The model identifies specific areas for coordinated development between both parties, including the preservation of natural resources, border regions, 'bridging areas' characterized by shared interest (such as a Palestinian platform in the Ashdod Port), and trilateral cooperation involving Israel, Palestine, and Jordan in the development of the Dead Sea and Jordan Valley region. Additionally, both sides should collaborate on projects that may have externalities, particularly those with adverse effects on the other side. Regarding the border region, the emphasis should be on formulating a comprehensive Trans-Frontier Development Strategy (TFDS), with a priority on sustainable development and facilitating the smooth movement of people, goods, and vehicles across borders.

The position paper crafted by MAS/NAD (2022) presents the most relevant comprehensive framework regarding natural resources and essential elements to secure during negotiations for establishing a viable Palestinian state, taking into account years of Israeli exploitation of Palestinian resources. To ensure Palestine's sovereignty, a Palestinian negotiator must secure complete control over water resources, enabling the utilization and development of natural gas resources. Palestine

should be an equal partner in the Mediterranean Gas Forum, participating in actions involving the extraction, transportation, and export of natural gases from sovereign waters. Seeking financial compensation, through an international committee, is essential, commensurate with the benefits Israel gained from exploiting Palestinian natural gas sources over time (Tamimi & Jamil, 2022).

Regarding natural stone, MAS/NAD (2022) proposes the transfer of all quarry equipment and rock crushers owned by private Israeli companies or the so-called 'civil administration' in the West Bank, even before the gradual withdrawal process, as a good-faith initiative for future negotiations. Compensation should be sought from Israeli private/public companies based on the benefits derived from natural stone in the West Bank during the period of occupation (Tamimi & Jamil, 2022).

Concerning the Dead Sea and its abundant resources, the position paper emphasizes recognizing Palestinian rights as a sovereign riparian party. Collaboration between both sides is crucial to mutually benefit from the waters' wealth, coordinating with the Jordanian government for future development. Israel must acknowledge Palestine's right to the river as a neighboring state under international law, and compensation should be demanded for the stolen water during the occupation period (Tamimi & Jamil, 2022).

Finally, Palestine should assert full sovereignty over current and future explored land and sea mineral resources (Tamimi & Jamil, 2022).

3.6. Public Utilities (Water, Energy, and Infrastructure)

In the context of sovereignty, Sayigh (1990/2022) highlighted the imperative of "liberating" public utilities to furnish the Palestinian economy with essential services such as electricity, water, sewage, and other vital infrastructure for economic development. He specifically emphasized the precarious nature of a potential energy/electricity deficit, given that neighboring countries like Jordan, Egypt, Syria, and Lebanon also lack an energy surplus to contribute to Palestinian needs. Despite these challenges, Sayigh pointed out the even greater risks associated with continued dependence on the Israeli electric grid. This dependency

could result in vulnerability to arbitrary cuts as a political leverage tactic from the Israeli side, emphasizing the need for a more self-sufficient and secure energy infrastructure for Palestine. An independent and sovereign state, according to Sayigh, cannot survive such levels of vulnerability to another country. Said differently, mutual cooperation with Israel was seen as a grave risk and not a viable option from Sayigh's point of view.

In addressing water concerns, Sayigh emphasized the need to restructure water networks in the West Bank. This restructuring aims to enhance water absorption, with the ultimate goal of reclaiming in full the water quantities seized by Israel during its occupation. Additionally, it envisions extending the network to adequately meet the needs of residents in Gaza and returning refugees.

Regarding roads, Sayigh anticipated minimal efforts required for road construction post-independence. This expectation stemmed from the extensive roads and infrastructure that Israel has already developed for settlers throughout the occupied territories, and which of course, has since expanded exponentially.

The EPS model (1998) proposes a 'coordinated development' approach to issues of public utility development and investment between Palestine and Israel without specifying particular demands. It proposes that both sides cooperate to promote regional macro-infrastructure (solar, electrical, environment, and regional banking) and enhance the activity of regional frameworks such as the Regional Economic Development Working Group, REDWG. It also pushes for the implementation of the Copenhagen Action Plan (1993) in the fields of transportation, energy (linking electricity grids of Israel, Palestine, Egypt, and Jordan), tourism, agriculture, communication, finance, and trade. The model recommends that a Joint Israeli-Palestinian Economic Committee (JEC) should monitor the implementation of the Copenhagen Action Plan, encourage free movement, and reduce regional economic disparities.

Like the EPS model, the EPP, albeit to a lesser extent, does not specify particular demands concerning public utilities. This is because it is assumed that Palestine has control over all resources within its territories. Hence, the assumption of establishing two independent states willing to

mutually coordinate development matters, addressed issues related to the division of resources. The significant challenges associated with public utilities, arising from the expansion of illegal Israeli settlements and ongoing military occupation in the West Bank and Gaza, have not been adequately considered in these economic frameworks, aligning with the prevailing optimistic sentiment during the Oslo years.

Similarly, though to a lesser extent than the EPS model, the Aix Group considers public utilities as an area for coordinated development. For example, it proposes establishing an Israeli-Palestinian Development Fund to finance collaborative public and private infrastructure projects. Moreover, the Group suggests that Israel can stop using the mountain water aquifer to enable the West Bank to increase its water consumption since it has developed a system of water desalination and water shortages are no longer a challenge for the state.

Nonetheless, the Group does recognize the real impediments to cooperation. It underscores the impact of settlements on the essential development of critical infrastructure for achieving an independent economy, encompassing electric grids, water, transportation, and telecommunications networks. Significantly, the Aix Group suggests that initiatives connecting the West Bank and Gaza should include an infrastructure corridor accommodating transportation, railways, electricity, water, natural gas, etc. The Group envisions the reactivated Joint Economic Committee (JEC) playing a vital role in assisting the Palestinian state in lowering fuel, electricity, and water prices, as well as eliminating the complex set of restrictions imposed by Israel on Palestinian control over physical resources such as water, roads, and infrastructure.

Compared to frameworks developed before the outcomes of the Second *Intifada*, the MAS/NAD (2022) presents the most comprehensive approach to addressing public utility issues while considering decades of de-development. The paper strongly emphasizes the urgent need to eliminate all restrictions imposed by the Israeli occupation in Area "C," which currently obstruct Palestinians from investing, developing, and providing essential public utilities to residents.

Regarding electricity and energy, the paper underscores the paramount importance of transferring sovereignty in the energy sector to the Palestinian Authority. In the short term, Israel must adhere to and actively implement the 2016 agreement signed by Israel and the Palestinian Energy Authority, facilitating the establishment of electrical substations and allowing the purchase of electricity from Israel at reduced prices. The Palestinian side must gain the authority and sovereignty to establish renewable energy generation plants in Area C and develop more efficient electricity lines within the West Bank and Gaza Strip. Additionally, the paper advocates for the creation of a central transmission line in Gaza. To enhance energy generation in Palestine, the paper recommends securing demands such as developing offshore gas fields in Gaza, establishing electricity connections with Egypt and Jordan, and removing restrictions on imports related to the establishment of electricity generation plants. These measures are deemed crucial for improving the overall energy landscape in Palestine (Jamil & Hinn, 2022).

As for water and sewage networks, a Palestinian negotiator's key priorities, as outlined by MAS/NAD (2022), include increasing water quantity through both 'national' resources and cross-border transfers. Additionally, securing the right to develop and manage water supply and sanitation infrastructure within Area C is crucial. Palestine should press Israel to adhere to the recognized water rights in previous agreements to ensure a fair water share. Importantly, Palestine should have authority over water desalination and treatment projects, with the necessary energy provided, along with the ability to develop water infrastructure, drill and rehabilitate groundwater wells, and construct dams, water barriers, and tanks. The right to protect water resources from pollution and prevent Israel from dumping wastewater into Palestinian waters should also be demanded (Jamil & Hinn, 2022).

In terms of transportation infrastructure, Palestine should assert the right to control, build, and maintain roads throughout its territories, aiming for the establishment of airports, railways, and seaports crucial for economic development. Eliminating mobility restrictions, which have caused significant Palestinian suffering and economic losses since the Second Intifada, is necessary. The position paper endorses building a corridor

between the West Bank and Gaza, expanding and improving the Karama Crossing with Jordan for efficient movement of goods and services, expanding main roads to include 3-4 lanes in each direction, and constructing a new highway linking Ramallah to Hebron, expanding to the East of Jerusalem, Bethlehem, and Jericho. In line with the International Court of Justice's 2004 findings, the illegal apartheid wall should be dismantled, and the Gaza siege lifted, allowing Palestinians to move freely across territories. Activating the Transports Internationaux Routiers (TIR) agreement between Palestine and Israel is also recommended to facilitate transit trade (Jamil & Hinn, 2022).

Palestine should assert its right to develop ICT infrastructure to international standards, demanding the removal of existing restrictions on necessary equipment and permitting 4G and 5G frequencies in Palestinian territory. MAS/NAD (2022) suggests reforming and reactivating the Joint Technical Committee between Palestine and Israel to address bilateral issues hindering ICT infrastructure development (Jamil & Hinn, 2022).

Finally, Palestine should have the right to establish sanitary waste dumps for solid waste in Area C, situated away from population centers and agricultural lands to prevent health hazards. Established landfills must consider an annual 4% growth in solid waste.

Under a Parallel States economic framework, water and energy resources are considered 'common good' areas. Shared sovereign functions are restricted to those common good areas. The framework highlights that the division of water sources should be in line with international law, stipulating that both parties are entitled to equitable and reasonable allocation of shared water sources. Although complete data is essential to plan for a long-term water strategy, the framework does suggest that Jordan could organize a multinational water forum to coordinate the establishment of regional hydrological networks and increase the capacity for cooperative planning and management of the supply and demand of water resources. Similarly, the framework suggests seeking interregional solutions, specifically with Turkey, Syria, and Egypt, in terms of renewable energy development and investment. It strongly proposes a "triangle approach" in which an extra-regional partner is

involved to strengthen regional participants and reduce concerns over unequal partnerships. As for roads, since all roads are within shared territory, the PSP proposes that both parties have joint authority to make decisions related to development and maintenance.

3.7. Geographic Contiguity

Geographic contiguity, within the West Bank including east Jerusalem and connecting the West Bank and Gaza Strip, was generally presumed in all economic frameworks and permanent status agreement models. However, the Geneva Initiative (2003) and the Aix Group (2004) went beyond assumptions and outlined the specifics of establishing a corridor. This distinction arises from the fact that both frameworks were conceived post the Second Intifada, during a time when the feasibility of such a corridor became increasingly challenging to envision.

The Geneva Initiative (2003) is almost entirely concerned with security and border issues. Adhering to borders based on 1967, it emphasizes that a critical element of reaching a Permanent Status agreement is establishing a corridor that links the West Bank and the Gaza Strip. Within the bounds of the permanent and secure borders based on the 1967 lines, the established corridor that links the West Bank and the Gaza Strip shall be under Israeli sovereignty, be permanently open, and be under Palestinian administration. Palestinian law applies to all procedures pertaining to the corridor and people using it. Defensive barriers ought to be established to prevent Palestinians from entering Israel through this corridor, and the infrastructure should not disrupt Israeli transport. At the same time, Israelis are not allowed to use the corridor, and Palestinians are allowed all necessary infrastructural facilities to create this link, including pipelines and electrical and communication cables. The corridor shall be financed through the international community.

The Aix Group finds that, outside of a territorial link between the Palestinian territories, it would be impossible to set a safe passage or a “transit” system between the West Bank and Gaza. The link shall be well guarded and constructed with isolation in mind, i.e., fences, and military presence both inside the link (Palestinian) and outside of it (Israeli). The

best option of a link, according to The Group, is a surface road combined with a railroad that is characterized by physical isolation, different heights when meeting existing and planned roads, emergency entrance and exit ramps, and a central command and control system. Additionally, a bridge or a tunnel bypass of limited strength may be implemented if there is friction with Israeli needs. The framework suggests Erez, Karni, and Kerem Shalom as possible connection points in Gaza. For the West Bank, possible connection points include Tarkumiya, El Majed, Kramim Crossings, or Latroon (Beit Sira). The Aix Group suggests that limited swaps of land along the “green line” could be permitted to facilitate geographic continuity for both states.

The underlying assumption of all approaches and conceptualizations of the economic feasibility is the capacity of the independent Palestine State to invoke its sovereignty on its territory, and international borders, and the freedom to formulate and implement socio-economic policies that reflect the national developmental vision and priorities. Needless to say, all of these approaches present arguments for the viability and feasibility of confronting the negative practices of the Israeli occupation and the expansion of the Israeli settlement project in Area C in the West Bank. A jump-started peace process that follows the October War of 2023 and leads to the end of the occupation and the realization of the two-state solution may be the final opportunity to avoid crossing the point of no return and sliding into the apartheid regime between the Jordan River and the Mediterranean.

4. Sovereignty Issues

The papers in this project, of which this study is Volume II, are structured to focus on the medium-term issues that need to be raised as a PLO road map to the end-game, or permanent status, which entails a Palestinian agenda for the economy of an independent state. This study aims to present a comprehensive economic policy vision for issues examined in separate papers, especially the bases for geographic and functional reunification of the national economy (Paper III), as well as options and directions for Palestinian regional economic integration and relations regionally and internationally, which are equally pressing issues that call for focused attention.

The main difference between this approach and that of the Oslo Accords is that it assumes a clear vision of the parameters of the end game, which in turn defines the issues to be addressed to see concrete changes in Palestinian-Israeli economic relations during a pre-defined Statehood Inception Phase of limited duration. International law and successive UNGA resolutions uphold and confirm the right of the Palestinian people to self-determination and sovereignty in the national homeland and the establishment of an independent sovereign State of Palestine. The Oslo Accords are structured as interim arrangements for a five-year transitional period during which a Palestinian Interim Self-Governing Authority is set to manage the economic rehabilitation and institution building while the oPt continues to be under Israeli sovereignty and hegemony and the oPt economy continues to be within the Israeli customs envelop; as for the issues of independence and sovereignty, these were relegated to the negotiations on the 'permanent status' that were expected to begin at the end of the five-year transitional period.

The State Inception phase program of action reviewed in Paper I of this project leads to the realization of a permanent status that ends the Israeli military occupation of the West Bank, including east Jerusalem, and the Gaza Strip. The independent State of Palestine is understood to be a political sovereign entity that enjoys clearly identifiable and effective elements: defined territory, permanent population, a central government with complete and exclusive control over its population and territory,

and the capacity to enter into relations with other states based on sovereign equality between them (Besson, 2011; Jackson, 2007).

It is recognized that the concept of sovereignty is a complex one in a globalized world that is characterized by economic interdependency. Economic sovereignty denotes the freedom to exercise unilateral and exclusive control over policy instruments and the national priorities of the government's developmental agenda (Bagwell & Staiger, 2004). It also denotes the freedom of territorial-jurisdictional entities with independent powers of making and administering laws, including the freedom to be emancipated from constraints by the forced consideration of another party's welfare and interests, as the case has been in the oPt subjugating it to the lopsided *quasi* custom union that was imposed by Israel on the oPt since the 1967 military occupation, confining the oPt within the Israeli customs envelop, and the freedom to 'exit' from such skewed and unequal economic and trade relationship.⁵

Based on the assessment of past experiences, concepts, and research, this section of the Paper will assume an explicit focus on a path toward sovereign economic functions and institutions at the center of planning for the economy of an independent state. Papers I and II in this project made several references to the requisites and main issues of sovereignty for a fully independent Palestine State, such as sovereign control of international borders of the oPt, regaining its territorial and political unity, preserving its sovereignty over water and other natural resources including Palestinian rights as riparian on the Jordan River and the coast of the Dead Sea, and Palestinian rights as a partner in the Levant oil and gas basin.

Within this framework, a Palestinian national socio-economic macro vision is proposed to reclaim the physical, economic, policy, and polity space and to reunify its regions, comprising the general aims and objectives of the rehabilitation and development of productive sectors (agriculture, industry), the development of its infrastructure: transportation networks, energy (electricity production and distribution,

⁵ The 'Brexit', whereby the UK opted to 'exit' the EU, is an example of a sovereign policy option based on the consideration the UK's membership in the EU and its subsequent undertakings represented a loss in economic sovereignty (Richardson & Staehler, 2019).

and water desalination and networks. The reunification of the oPt's regions, the four shreds of formations in the oPt, comprising the occupied east Jerusalem annexed to Israel, areas A&B in the West Bank, area C under full Israeli control, and the Gaza Strip under the full jurisdiction of Hamas, constitute the building blocks of the Palestinian entity that would evolve to constitute the prospective independent and sovereign State of Palestine.

The foundations of Palestinian claims to statehood originate in the principle of self-determination, to which there was substantial commitment internationally. Article 1 of the United Nations Charter affirms the principle of self-determination of peoples. The principle is reiterated in two significant conventions -the International Convention on Civil and Political Rights (ICCPR) and the International Convention on Economic, Social and Cultural Rights (ICESCR)- which includes the affirmation that "[a]ll people have the right of self-determination. By virtue of that right, they freely determine their political status and freely pursue their economic, social, and cultural development." The U.N. Declaration on Friendly Relations also affirms the principle of self-determination (Nagan & Haddad, 2012). This is an inalienable right of all peoples, including that of Palestine.

Two foundational UN Security Council Resolutions, 242 and 338, similarly affirm the principle of "...the inadmissibility of the acquisition of territory by war and the need to work for a just and lasting peace in which every State in the area can live in security." As early as 1969, the UN began adopting resolutions that recognized the right of the Palestinian people to self-determination, and since 1974, the recognition of the PLO as the representative of the Palestinian people. At present, more than 120 countries recognize the State of Palestine, while more than 60 countries maintain full diplomatic relations with it.

The UNGA has been consistent throughout the past five decades of the Israeli military occupation in confirming the right of the Palestinian people to self-determination on their national homeland. Its most recent resolution, adopted overwhelmingly by 156 countries on December 1, 2023, included the following:

- “1. Reaffirms the inalienable rights of the Palestinian people and the population of the occupied Syrian Golan over their natural resources, including land, water, and energy resources;
2. Demands that Israel, the occupying Power, cease the exploitation, damage, cause of loss or depletion, and endangerment of the natural resources in the Occupied Palestinian Territory, including East Jerusalem, and in the occupied Syrian Golan;
3. Recognizes the right of the Palestinian people to claim restitution as a result of any exploitation, damage, loss depletion, or endangerment of their natural resources resulting from illegal measures taken by Israel, the occupying Power, and Israeli settlers in the Occupied Palestinian Territory, including East Jerusalem, and expresses the hope that this issue will be dealt with within the framework of the final status negotiations between the Palestinian and Israeli sides” (UNGA, 2023).

The international recognition of the applicability of the right of the Palestinian people to self-determination was enshrined in successive UN resolutions, such as UN GA resolution 3236 (1974), which linked the right to self-determination to the right of return of the Palestinian refugees, considering that the refugee cause arises from the denial and dispossession of their inalienable rights as established in the Charter of the UN and the Universal Declaration of Human Rights. UNGA resolution 35/169 (a980) demanded setting a timetable for the Israeli withdrawal from the territories occupied in 1967, with the necessity of restoring and safeguarding Arab property. Similarly, UNGA resolution 41/128 (1986) affirmed the inalienable right of the Palestinian people to practice sovereignty over their natural resources and wealth and emphasized the pursuit of the two-state solution to enable the Palestinian people to exercise their right to self-determination in their sovereign state. These and other resolutions lay the foundation in international law for the right of the Palestinian people to determine the path of their economic development as one of the components of the right to self-determination and affirmed the illegality of Israeli changes and distortions to the territories, properties, and main facilities that resulted from the military occupation.

Within this context, EPS that follows the State Inception phase is predicated on the realization of a sovereign independent State of Palestine that is fully empowered to formulate and implement its socio-economic policies serving its national agenda and developmental priorities, and enjoying exclusive sovereignty over its territory and natural resources. Economic building and rehabilitation of a decades-long war-torn economy will require, in an initial period, a distinctive role by the government in building institutions, restructuring the economy, and mobilizing national and international investments in the infrastructural and productive sector development activities and projects.

Serving a society that is newly emancipated from successive oppressive and exploitative economic policies of pauperization and dispossession since the era of the British Mandate to date, a social welfare and protection framework will be needed as a healing and recuperation process to ameliorate the impoverishment and distortions of the past century. A policy framework for the mobilization of national human capital, natural resources, and full engagement of the Palestinian diaspora in national construction would include elaborating key policy direction and permanent status arrangements on the following, which constitute the baseline of the PLO negotiating position in the coming period.

A corollary of the right to self-determination is the right to maintain all aspects of sovereignty, including economic sovereignty, which denotes the right of a nation to make its own economic decisions without interference from other nations, including the right to control its natural resources, regulate foreign trade, set tariffs, and formulate regional and international economic relations. In a globalized economy, emerging countries that have been at a disadvantage can benefit from preferential treatment to redress past injustices and stimulate economic growth. In the case of the occupied Palestinian territory, the transition from the status quo to the realization of the sovereign and independent State of Palestine will entail the capacity of the State to practice its political and economic sovereignty while exercising the freedom to enter into regional and international treaties and agreements.

5. The Two-State Paradigm and Palestinian Conceptualization of the Economic Permanent Status

The establishment of the sovereign and independent State of Palestine is based on the two-state paradigm that was enshrined in the UN Resolution 181 on the partition of Palestine. The realization of the two-state solution serves fundamental Palestinian national interests expressed in the PLO's Declaration of Independence of 1988. In addition to the Palestinian national interests, the establishment of the State of Palestine serves Israeli, regional, and international interests.

The day after the war that Israel launched on the Gaza Strip in October 2023 may mark the beginning of an internationally-sponsored process to end the military Israeli occupation and implement a process for the transition from the status quo to a permanent status based on the two-state platform. After over half a century of military occupation and after three decades of the Oslo Accords, the status quo is far from being conducive to the implementation of the two-state solution, due to the cumulative consequences of decades of colonial rule, land dispossession, the usurpation of natural resources, and the expansion of the Israeli settlements in the oPt. In the past years, several Palestinian and international scholars have been warning that the two-state paradigm has become obsolete and that the time for the implementation of the two-state solution has come and gone and crossed the point of no return, paving the way for a one-state reality of an apartheid regime in the area between the Jordan River and the Mediterranean Sea (Farsakh, 2021; Lustick, 2019).

The Oslo Accords were designed in the early 1990s to regulate the transition from the status quo to a permanent status based on the two-state solution within a five-year interim period that ought to have ended by 1999. This interim period has been prolonged to 30 years and counting.

This thirty-year interim period has gone through three phases. In phase I throughout the 1990s, the Palestinian National Authority successfully built most of the new socio-economic institutions and established a

governance based on representative democracy through an elected legislative council. The 1990s, however, were characterized by security instability and Israeli imposition of comprehensive closures on the oPt that amounted to 443 days of closure in the period from 1995 to 2000 (UNCTAD, 2021). The contribution of the international donor community to the budgets of the PNA partially mitigated the huge economic losses resulting from the closures. The second phase of the interim period, the second *intifada* years between 2000 and 2005, was a period of cycles of violence and disproportionate Israeli military action and the imposition of comprehensive closures, causing the reduction of the Palestinian GDP in real terms by 35% in the year 2005 in comparison with its 1999 level (UNCTAD, 2021). In the third phase of the ongoing interim period that followed the 2006 elections and the Palestinian political division between the PNA in the West Bank and the security control of Hamas in the Gaza Strip, Israel imposed a blockade on the Gaza Strip since 2007, while the expansion of Israeli settlements in the West Bank expanded at an accelerated rate, and the contribution of the donor countries diminished by 2022 to about 3% of its contribution in 2008 (UNCTAD, 2023).

The political process that may be launched by the international community in the day after the October 2023 war represents the last opportunity to salvage the two-state political platform. Palestinian interests in the implementation of the two-state solution have been highlighted in the 1988 Declaration of Independence and the 2005 Basic Law. The Israeli interests in the realization of the two-state solution are served by the security dimension as well as by ending the process of delegitimization of the Israeli entity in the long run and ending the ethnic-religious fanaticism and extremism. The regional interests are served by the stability that the realization of the two-state solution should provide to the region as a whole, opening up multiple potential capabilities for regional developmental cooperation. The US, the EU, and the global community have been consistent in calling for the implementation of the two-state solution as the only viable platform for the resolution of the conflict in the Middle East. Without such a post-war political process, the area between the Jordan River and the Mediterranean will inevitably continue to slip into a long-drawn-out struggle against apartheid.

Pursuant to the Declaration of Independence in 1988, the PLO launched multiple policy formulations for the state-building process that would result from the end of the Israeli military occupation of the occupied Palestinian territory, oPt, in the West Bank, east Jerusalem, and the Gaza Strip, in its political, economic, and social dimensions. Within this context, the Economic Department of the PLO commissioned the production of *The General Program for Economic Development*, edited by Yousef Sayigh (1994), comprising dozens of studies that presented the conceptualization, parameters, and elements of the economic aspects of the prospective State of Palestine. Since these economic policy formulations were aimed at drawing the framework for the Palestinian economy in a sovereign, independent state, they were incompatible with the substance and objectives of the Oslo Accords and the Paris Economic Protocol that were specifically meant for a five-year interim transitional period of non-sovereign autonomy under Israeli hegemony that was meant to elapse by 1999 at the end of that interim period that ought to have ended up with an agreement on the permanent status. Thus, the economic policies that were followed since the conclusion of the Oslo Accords and the establishment of the PNA were constrained by these limitations in the Accords as well as by the influential role and policy preferences of the donor countries.

While the various approaches and conceptualizations of the ‘economic permanent status’ that were reviewed in the first section of this Paper were, in most cases, reflective of the outcomes of joint, Palestinian-Israeli teams of experts that presented the lowest common denominator of what the two teams could agree upon, the two PLO documents Of 1990 (*Economic Foundations*) and 1994 (*The General Program*) referred to above were the outcome of Palestinian and Arab teams of experts, reflecting Palestinian national developmental priorities and objectives.

A Palestinian national conceptualization of EPS, as re-envisioned in 2024, will draw from the fundamental principles of the foundational national documents: the PLO Charter, the Declaration of Independence of 1988, the Palestinian Basic Law of 2005, and from the visions and formulations of an independent and sovereign economy as expressed in multiple studies and documents. In this context, the cumulative work

produced by MAS provides a body of studies and research, of which the document titled: ***Prospects for Development in Palestine: Weathering the Storm, Mobilizing Together***, 2022, represents the culmination of this body of work over three decades of economic research. These sources of knowledge provide a solid basis for the formulation of the fundamental parameters of an EPS for a free, independent, and sovereign State of Palestine.

These indigenous conceptualizations have in common the axioms of the State of Palestine that comprise the establishment of a functioning government that is explicitly based on international law criteria, promoting good governance, and establishing a constituent assembly to draft a sovereign constitution based on the 1988 Declaration of Independence, and securing bilateral recognition of the new State and government worldwide.

The 1988 Declaration of Independence and the 2005 Basic Law provide the premises for these conceptualizations, including the political premise of the inalienable rights of the Palestinian people to self-determination, including economic self-determination as expressed in the UN International Covenant on Economic, Social, and Cultural Rights, the spatial premise of the integral geographic unity of the West Bank, east Jerusalem, and the Gaza Strip, and the demographic premise of the unity of the Palestinian people including the displaced persons of 1967 and the refugees of 1948.

These indigenous conceptualizations highlight the specificities of the State of Palestine, comprising the fact that the establishment of a new entity in the form of the State of Palestine entails the creation of new structures, institutions, policy frameworks, and laws and regulations. Another important specificity is the fact that the new State will be built over and above the structures of the status quo that is the outcome of decades-long colonial rule and military occupation.

6. Structural Challenges to and Policies for Economic Development

The main considerations of state-building and developmental programs serving national priorities will have to contend with directly tackling the range of structural distortions and development gaps that have accumulated under occupation, especially:

- a) Addressing the structural and economic distortions that resulted from decades-long colonial rule and military occupation that implemented economic policies of dispossession and pauperization and forced dependency on the Israeli economy, especially in the labor market and in exports. Addressing poverty and unemployment represents the first priority objective of this vision. In addition to the dangerously high level of poverty and unemployment in the status quo, the expectation of the absorption of natural expansion in the domestic supply of labor, as well as the absorption of the repatriation of the returnees of the 1967 displaced persons and the 1948 refugees, present additional challenges to the objective of the creation of employment opportunities.
- b) This challenge of building the capacity to absorb the returnees will require, in addition to the creation of additional employment opportunities, mass programs in social housing and infrastructure development and expansion, including physical as well as soft infrastructure (See: Arnon & Kanafani, 2004).
- c) Building the capacity of the national economy to satisfy the basic human economic, social, and cultural needs in an equitable and inclusive socio-economic policy framework. Meeting the challenge of satisfying basic human needs is a dynamic process that evolves and expands in tandem with the achievement of progress in state-building and economic development efforts.
- d) Addressing the cumulative decades-long structural distortions caused by military occupation that led to the deterioration of the productive sectors in the oPt by prioritizing expansions and restructuring of agricultural and industrial activities.
- e) Prioritizing the expansion of export-based and export-oriented activities in industry and agriculture based on the identification and leveraging of areas of comparative advantage.

- f) The diversification of the markets to which labor is exported, and opening up external labor markets for Palestinian skilled and qualified labor in various professions and specializations, in order to redress the distortion created by the Israeli labor market that, over the past decades, limited its demand for Palestinian labor to unqualified and unskilled manual labor, with detrimental consequences on the Palestinian domestic labor market.
- g) Gender policies that aim to redress the distortion in the status quo, whereby the Palestinian female participation in the labor market remains to be the lowest in the MENA region at less than 17%.
- h) Social equitable and inclusive policies that provide social welfare and health care to the needy segments of society within the framework of broader policies aiming at the reduction of poverty and marginalization.
- i) Addressing the distortions caused by decades of annexation to the Israeli economy by reconnecting economic trade and investment activities to the region and the outside world.

Over the past decade, Palestinian conceptualizations of EPS highlighted key national developmental strategies that are relevant to meeting the development challenges cited above and effecting long-term structural transformation, including:

- a) Regaining national sovereignty over the territory and natural resources will represent a fundamental change to the status quo of Israeli control of land, water, and other natural resources, including the Dead Sea and the Jordan River. Specific national policies for the optimal utilization of these national resources and their mobilization in the implementation of developmental policies will represent the first new crucial inputs in developmental policy formulations beyond those possible under current conditions.
- b) The reactivation, restructuring, and expansion of productive activities, including export-oriented sub-sectors. This strategy comprises the need to develop balance and complementarity between industrial and agricultural activities, as well as the balance between the expansion of exportation on the one hand and the expansion of import-substitution activities on the other hand. This reactivation and expansion strategy requires the formulation and implementation of a

national policy for technology transfer and indigenization, as well as the creation and setting up of auxiliary structures and institutions that contribute to the expansion of productive activities, including the legal and regulatory frameworks, financial services, and research and scientific bodies.

- c) Spatial planning prioritizes the regained free access to area C in the West Bank and the implementation of geographic and infrastructure connections between the West Bank, the Gaza Strip, and the outside world, as well as the urban expansion in area C can meet the accumulated demand for domestic housing and the absorption of the repatriated citizens.
- d) Gaining national sovereignty at international borders will open up new capabilities for the formulation of national trade and customs policy serving developmental priorities and objectives as well as for regional reconnection.
- e) Mobilizing the professional, technical, and financial capabilities and resources of the millions of Palestinians in the diaspora to enhance national unity and to expand national inputs in developmental efforts.
- f) The integration of the domestic economy in the regional sphere and the facilitation of regional cooperation through Palestinian-regional joint ventures and investments in the new economy of the State.
- g) The adoption of policies of self-reliance and import-substitution, benefiting from international conventions and institutions that provide special preferential treatments and arrangements for emerging economies.
- h) The formulation of social policies of inclusivity, equitability, respect of human rights, and free political participation will facilitate and accelerate social and economic development. The emancipation from the occupation and colonial rule that lasted decades will release and activate the long-suppressed moral and normative positive outlook in the society as a whole and contribute to the acceleration of the state-building and developmental efforts in the new entity.

Genuine socio-economic development cannot be implemented by an autonomous entity that is deprived of sovereignty and that falls under the hegemony of military occupation or that lacks domestic legitimacy. The end of the Israeli colonial rule and the ability of the Palestinian people to regain sovereignty over the territory, natural resources, and international

borders and relations will represent a paradigm shift from the status quo of prolonged military occupation to emancipation within the independent State of Palestine and avoid slipping into a prolonged struggle against apartheid in the area between the Jordan River and the Mediterranean. It is only with this paradigm shift and structural change that a Palestinian concerted socio-economic developmental effort can be launched. A range of developmental strategies and related new economic institutions constitute the framework of an indigenous Palestinian understanding of the parameters of statehood in their socio-economic dimensions.

An early priority for the newly established State will be the formulation of the independent national legal framework that will follow the creation of the national constitution that will abrogate all Israeli regulations and military orders that have continued to govern the oPt in the status quo. Moreover, all laws, regulations, and decrees that were produced in the past decades by the Palestinian Legislative Council until 2007 and by the PNA in the years that followed the suspension of the Legislative Council, will need to be reviewed and amended according to the stipulations of the Constitution that will be the foundational legal basis for the newly established state.

The newly established entity will extend its sovereignty through the formulation and implementation of national economic policies that are governed solely by the nationally approved developmental priorities as set by an elected representative body. This will require legal, regulatory, financial, and procedural mechanisms to enable the new government to administer these policies. These include the vast requirements in these dimensions for industry, agriculture, trade, production, and distribution of energy and water, spatial and urban-rural planning, as well as the creation and regulation of the monetary and financial instruments and mechanisms that will be at the disposal of the new government. In particular, the creation of a national currency, central bank, and the regulatory framework related to the administration and operation of monetary and financial policies and activities constitute indispensable instruments and mechanisms to enable the newly formed State to build its institutions and developmental policies. The negotiation and conclusion of regional and international economic cooperation and trade agreements serving national developmental priorities are among the most important priority objectives of the new government to enable it to carry out and manage its regional and international relations.

7. Options for Permanent Palestinian-Israeli Economic Relations

Since the Israeli occupation in 1967, the oPt has been subjected to a colonial economic policy that Sayigh (1988) identified as a policy of ‘dispossession and pauperization’. Israel controlled all international borders, thus inserting the oPt within the Israeli customs envelope and imposing Israeli economic and foreign trade policies. The Oslo Accords of 1993/1995 and the Paris Economic Protocol of 1994 preserved the Israeli economic hegemony throughout the five-year interim period and created a ‘lopsided customs union’ that served Israeli economic and trade interests (Khalidi & Taghdisi-Rad, 2009).

As examined in Paper I of this project, the PLO concluded several economic and trade agreements that Israel continues to refuse to recognize during the ongoing interim period. While their reactivation during the State Inception phase will help prepare for a smooth transition to new, permanent arrangements, whereby the State of Palestine will formulate its economic and trade regional and international relations within the framework of national developmental policies and priorities. In this context, the reformulation and restructuring of the Palestinian-Israeli economic and trade relations will be of particular importance, due to the fact that the decades-long Israeli hegemony over the West Bank, east Jerusalem, and the Gaza Strip has created complex linkages between the two economies, not all of which are adverse. Two areas of distortion in this bilateral relationship are of particular significance: the labor market and the destination of Palestinian exports, given the high dependence on the Israeli labor market and the Israeli economy as the destination of the bulk of Palestinian exports and imports. The restructuring of the Palestinian-Israeli economic and trade relations in the permanent status will need to reorient Palestinian trade flows dramatically to address these considerations.

The formulation of Palestinian-Israeli relations in the context of a peace process that culminates in the implementation of the two-state solution and the establishment of the State of Palestine should result in a peaceful, amicable, and cooperative approach to the formulation of such bilateral

relations. The parameters and orientation of this bilateral relationship will be determined in a public discourse within the Palestinian body politic that involves and reflects the interests and preferences of all stakeholders and is adopted by the elected representative body.

The first sections of this study took stock of the range of previous formulations of Palestinian-Israeli economic and trade relations in the permanent status. Several of these were the outcome of joint Palestinian-Israeli teams of experts that produced documents representing the lowest common denominator that the two sides could agree upon, given the colonial disposition of the Israeli party. On the other hand, some of these documents were produced before the second *intifada* and reflected the positive outlook of the relatively optimistic and forward-looking Oslo years of the 1990s that were supposed to end in 1999 at the end of the five-year interim period. The cycle of violence during the years of the second *intifada*, the years of blockade and successive Israeli military offensives on the Gaza Strip since 2008, and the waves of aggressions carried out by Israeli settlers on Palestinian communities in the West Bank have cumulatively undermined the overarching approaches and good-faith assumptions of these optimistic approaches, which today appear perhaps even more “unrealistic” than they proved to be 25 years ago.

Alternative models of the future formulation of bilateral Palestinian-Israeli economic and trade relations between two sovereign and independent states have as a common denominator the alleviation of the structural consequences of the decades-long Israeli hegemony on the oPt and the economic, social, and physical distortions caused by the prolonged colonial rule. The contributions reviewed in this study constitute part of a significant body of research on trade policy options that has accumulated over the years, reviewed by MAS in a comprehensive study in 2016 (Samour, 2016). These alternatives for Israeli-Palestinian bilateral economic and trade relations include multiple formulations of the three essential models, which are the key options to be examined by policymakers going forward.

These three models are all premised on the possibility of achieving growth, development, and mutually beneficial economic relations.

However, each offers the new State of Palestine a different set of challenges and opportunities, and above all, each assumes more or less of a feasible and peaceful common Israeli-Palestinian future, which ultimately will determine the closeness or separateness of those relations. Furthermore, they are not mutually exclusive, strategically speaking: while separation might be required for a period of time to rebuild and restructure the economy and its international relations, this would not preclude moving towards economic union at a later developmental stage. While an improved customs union could also be a pathway towards full economic union, the latter option is perhaps the least feasible expectation politically in the short run and hence could be difficult for Israel to accept as the next stage of its economic relations with Palestine.

7.1. Economic and Trade Disengagement and the Structuring of a Separate and Fully Independent Trade and Monetary Regime

This model purports to present the antithesis of the dependency that decades of colonial economic policy have imposed by Israel in the oPt. This dependency is represented by two indices: the rate of Palestinian employment in the Israeli economy, and the rate of imports from and exports to Israel (Jamil, 2020). This approach opts for the adoption of a non-discriminatory trade policy, NDTP, and the application of the terms and regulations of the ‘most favored nation’, MFN (Srinivasan, 2005), adopted by the World Trade Organization. These WTO regulations allow for special arrangements and preferential treatment for emerging and least-developed economies, which would apply to the needs of the nascent economy of the State that will face the challenge of redressing the consequences of decades of Israeli exploitation and economic distortions.

Research has already established the case for a Palestinian tariff book that would nurture and incentivize nascent Palestinian industries, even within the confines of the Protocol, hence reinforcing the economic rationale for a separate Palestinian trade regime. Preferential arrangements for emerging and least developed economies granted by international trade and financial institutions will be indispensable for the State of Palestine, whereby the overall economic performance and the economic institutions of the embryonic and fledgling economy will

require that it enter into relations with external economies that are much more developed. On the other hand, the success of an MFN model in a small developing economy is highly dependent on good governance, as the weakness of economic and governmental institutions in the early stages of state-building will expose them to the influences of economic and commercial pressure and special interest groups at the expense of the public good in the medium and longer run (UNCTAD, 2010).

7.2. Enhanced Customs Union or Free Trade Area

This approach aims at redressing the shortcomings of the lopsided customs union imposed through the 1994 Paris Economic Protocol of Palestinian-Israeli economic relations by designing a more equitable customs union that provides the two parties entering into the union equal and equitable participation in policy formulation and decision-making, and balanced sharing of resources.⁶ Such amendments, including Lists and quotas and other Protocol arrangements, have been proposed in several drafts by PA and international experts, with the aim of redressing Israeli practices in the implementation of the Economic Protocol, whereby Israel unilaterally sets trade and customs policies. Despite the fact that the Protocol included the institutionalization of the bilateral relationship through the ‘Joint Economic Committee’ that was envisaged as the venue of coordination, this institutional arrangement was ignored by Israel since the 2000s.

The proposed amendments to the quasi-customs union of the Paris Economic Protocol also aim to address the fact that this ongoing arrangement continues to provide free access of Israeli products and services to the captive markets of the oPt while imposing limitations and restrictions on the access of Palestinian products and services to the Israeli market. One example of this aspect of the lopsided customs union in the Paris Protocol is the fact that, throughout the past three decades, Israeli providers of telecommunication and wireless services enjoyed

⁶ “An important question is whether the PA will be strong enough, and whether WBG will have sufficiently developed supporting public institutions with the right kind of incentive structure, in order to make decisions for the long-term benefit of the entire population rather than for the short-term benefit of particular groups”, Maurice Schiff, “Trade Policy and Labor Services”, IZA Discussion Paper No. 1029, p. 15

free access to Palestinian consumers while Israeli authorities continued to reject all calls for bilateral arrangements to regulate this market, causing huge financial losses to the PNA's public revenues. This example highlights the importance of equitable decision-making arrangements in the amended customs union.

An important additional amendment to the arrangements of the quasi-customs union of the Paris Economic Protocol deals with changing the mechanism of revenue-sharing and clearance from the ongoing inefficient and bureaucratically burdensome micro approach that is based on the documentation of all transactions causing considerable leakages and replacing it with the macro approach that follows the model and historical experience of the Southern African Customs Union, SACU, which is the oldest such union since the early twentieth century. Moreover, the SACU model provides for an additional 'developmental component to the less developed parties in the customs union in order to compensate for losses incurred in past years (SACU, 2022).

7.3. Convergence Through Economic Union

This model is drawn from UNGA Resolution 181, which created three entities, the two states for the two peoples and Jerusalem as a *corpus separatum* under international control. The resolution prescribes an economic union and a set of institutions and arrangements that would join the three entities. More recently, this model echoes the historical experience of the evolution of the European Union to the present, from the early stages of the common market for coal and steel through the customs union reaching the full monetary and economic union over two decades ago. Another relevant example of a successful economic union is the reunification of Germany in the 1990s, which was imposed overnight by political circumstances but took many years to achieve regional balance and integration, through a massive transfer of resources from west to east. The model can include arrangements that enable the weaker and less developed economy to benefit from accelerated rates of growth and the reduction of poverty and unemployment, while the stronger and more developed economy would benefit from the less costly resources of the other side (Gancia et al., 2020).

Equitable arrangements in an economic union will protect against potential negative consequences in such a union joining a strong and developed economy with a weaker and less developed one, resulting in unfair distribution of wealth and income and the rise of the Gini coefficient. Some Israeli think tanks propose a phased process leading to an economic union that can precede a comprehensive peace agreement (Naghi, 2017). Economic union arrangements do not impact the political sovereignty and independence of each country that enters into such a union, nor do they impact the national sovereignty over territory and national resources.⁷

The issue of national sovereignty within the framework of an economic union was affirmed in multiple instances in the European Union, as exemplified in the opinion of the German Federal Constitutional Court, which affirmed and settled the issue of national sovereignty within the framework of an economic union: “The Federal Constitutional Court of Germany argued in the so-called Lisbon judgment that the Treaty of Lisbon neither transfers constituent power, which cannot be affected by the constitutional bodies, nor does it abandon state sovereignty of the Federal Republic of Germany... the sovereign state is neither a myth nor an end in itself but the historically grown and globally recognized form of organization of a viable political community” (Volk, 2019).

Future economic relations between Palestine and Israel need to be cast within a framework that mixes coordination in some fields with separation in others. This approach is inherent to the process of achieving independent Palestinian economic management. It also befits a small and poor economy seeking to maximize its benefits from relations with an adjacent, large, and advanced economy. In this context, the priority of Palestinian-Arab economic, trade, and investment relations emphasizes the importance of enhancing and expanding Palestinian economic relations with Arab neighbors as a natural first step towards regional economic cooperation and integration. Some of the important infrastructural projects needed by the Palestinian economy could be carried out in collaboration with Arab neighbors, especially as the State regains full access to Area C in the West Bank and embarks on the

⁷ It is argued that economic unions augment democratic institutions in states that are parties to an economic union (Pavel, 2022).

rebuilding and development of the Gaza Strip. There are multiple areas in which the Palestinian and Arab economies could rationalize production and trade regionally, with each one developing a new comparative advantage. As UNCTAD (1998) stressed: “The potential benefits obtainable from both internal and external dynamic economies of scale are stressed as the primary benefit to be derived from regional rationalization of production. Intra-industry trade could assume increasing importance both for expanding intra-regional trade and for adding to the region's competitive edge in world markets”.

Within the framework of the two-state solution, and irrespective of the economic and trade model that will be adopted for future relations with Israel, the vital and permanent Palestinian national economic security interests will be firmly based on the full emancipation from Israeli hegemony and the free practice of self-determination and sovereignty on the territory, borders, natural resources, and space of the State of Palestine. In the ‘State Inception’ phase that was reviewed in Paper I of this project, the PLO will face limited options requiring the development of programs aimed at identifying the economic components that are indispensable for establishing ‘creeping sovereignty’ in the face of the Israeli long-term occupation and colonial project over the oPt. The basic premise of the state’s economic sovereignty lies in the freedom and ability to determine options and choices that serve national interests and priorities.

8. Israeli Responsibility for Reparations

The vast financing requirements to address Palestinian development challenges and needs, for the reconstruction and rebuilding of the Gaza Strip, as well as for the development of physical and economic infrastructure in the West Bank, are not the outcome of natural causes or indigenous shortcomings and misfortunes. These vast needs are the outcome of foreign colonial rule, military offensives, economic exploitation, and decades-long usurpation of natural resources and wealth.

The international community, represented by the League of Nations in the 1920s and the UN in its formation in the 1940s, violated the right of the Palestinian people to self-determination and created the foundations of the conflict in the Middle East through successive interventions beginning with the imposition of the British Mandate in 1923 with the main objective of establishing a national home for the European Jewish migrants and with the imposition of resolution 181 for the partition of Palestine. The political and economic developments throughout the past century or so and the evolution of the conflict and successive wars in the Middle East were the outcomes of these interventions by the international community.⁸

The ongoing conflict in the Middle East is the outcome of direct actions and interventions of the international community, through the League of Nations and the United Nations. When the Palestinian people call upon the international community to intervene and assist, these calls are based on the fact that the present situation is the creation of these international bodies that encroached on the fundamental and inalienable rights of the Palestinian people.

The direct responsibility for compensations and reparations to the Palestinian people in accordance with International Law and International Humanitarian law lies with the Israeli state that caused, through its actions and policies, the ethnic cleansing of 1948 and displacement of 1967, implemented colonial policies of pillage and

⁸ The recipe for conflict and wars was the outcome of the international political arrangements that followed the end of the First World War (Fromkin, 1989).

dispossession in the oPt since 1967, and carried out successive military offensives on the Gaza Strip. In this context, it is necessary to recall that the admission of the state of Israel to the United Nations was predicated on several conditions, including Israel's acceptance and implementation of Resolutions 181 and 194 and its compliance with the United Nations Charter.

The political platform of the two-state solution represents the international community's consensus on the peace process in the Middle East that aims at the resolution of the conflict and the establishment of the State of Palestine alongside Israel. This process entails putting an end to all claims by all parties to the conflict in order to achieve long-term stability. In the context of 'ending all claims', the issue of reparations and restitutions is an indispensable component of the process of peacebuilding and conflict resolution. The implementation of the two-state solution cannot guarantee long-term stability without addressing the requirements for ending all claims in accordance with international law. The failure to address these claims will be a recipe for the prolongation of the conflict in the Middle East. It is one of the supreme and foremost responsibilities and obligations of the international community to ensure that the parties to the conflict address and settle the process and modalities through which the Palestinian people end all claims as a prerequisite for building lasting peace on firm and stable grounds.

International Law and the main documents of International Humanitarian Law, the Hague Convention of 1907 and the Geneva Protocol of 1949, set the parameters and criteria according to which the conduct of the military during warfare and occupation, and the rights of civilians in the time of war and under military occupation, can be identified, ascertained, and judged.⁹ Within this context, the settlement of the claims of the Palestinians in a hundred-year conflict in accordance with International Law and International Humanitarian Law presents the obligation *sine qua non* for the full resolution of the conflict and the building of a just and lasting peace in the Middle East must be addressed by Israel, the region, and the international community.

⁹ "Israel is one of the few Occupying Powers that have formally recognized application of the norms of belligerent occupation in the territory that it occupies" (Kretzmer, 2012).

Successive UN resolutions throughout the past decades, up to the recent UN GA resolution of December 1st, 2023, affirmed the right of the Palestinian people to restitution. These Palestinian claims include the following four fundamental files, which need to be put at the forefront in any Israeli-Palestinian agreement on the end of claims.

8.1. The Palestinian Refugees of 1948

The ethnic cleansing committed against the Palestinian people in the war of 1948, documented by multiple historical records and international bodies is embodied in the text of resolution 194 (III), stating that “...{Palestinian} refugees wishing to return to their homes and live at peace with their neighbors should be permitted to do so at the earliest practicable date, and that compensation should be paid for the property of those choosing not to return and for loss of or property damage which, under principles of international law or equity, should be made good by the Governments or authorities responsible”.

The war of 1948 resulted in the first wave of ethnic cleansing that led about a million Palestinians, or more than two-thirds of the population, to become destitute refugees who lost all their fixed properties and most of their movable properties. The United Nations Conciliation Commission had documented real estate properties, representing part of the properties seized by Israel, in addition to the looting that was carried out by Zionist terrorist organizations. This was accompanied by atrocities and massacres, details of which are still unfolding after eight decades (Flanders, 2022).

Fischback (2003), relying on the estimates of UNCC, estimated the area of the land individually owned by those who were expelled at about 6 million dunums; Sayigh's study (1966) gave an estimation of more than 6.5 million dunums comprising 173,000 buildings; while the study by Hadawi and Kubursi (1988) concluded a more comprehensive review including private, public, and communal lands and infrastructure facilities and installations, putting the total value of Palestinian property expropriated by the State of Israel at \$130 bn (in 1980 prices, today

equivalent to much more).¹⁰ These estimates and studies need to be updated and detailed in light of new information and documents so as to prepare for the settlement of this claim.

8.2. The Palestinian Displaced Refugees of 1967

The Israeli operations and practices in the West Bank and the Gaza Strip in the June 1967 war and in the months that followed were, in essence, a continuation of the ethnic cleansing practices carried out by Israel in 1948, causing the displacement and prevention of the return of about 430,000 Palestinians (370,000 from the WB & GS and 60,00 residents who were outside the oPt and were prevented to return). The UN formed a special commission to study the events of the 1967 war (Res. 2727 – XXV), which affirmed in its October 5, 1971 (A/8389) that the practices of the Israeli army and authorities during the 1967 war were consistent with the war practices of 1948. This UN report monitored the multiple war crimes that, in addition to reducing the population by one-third, witnessed also the destruction of several villages (such as Beit Mirsem, Beit Awwa, Habla, Beit Nuba, Yalo, ... etc.), several neighborhoods in Qalqilia, Tulkarem, Jericho, and in east Jerusalem. The war crimes of the 1967 war form the substance of a separate claim for restitution and reparation. Unlike the 1948 war, these war crimes require meticulous documentation and updating based on the aforementioned report of the United Nations Special Commission referred to above and UNRWA data on registered 1967 refugees in Jordan.

8.3. Israeli Exploitation, Depletion, and Pillage of the oPt Since 1967

International Humanitarian Law sets out what can and cannot be done during warfare and military occupation, including practices that are related to the preservation of buildings, property, and economic practices such as levying taxes and imposing excises. Since 1967, Israel, the occupying power, has dispossessed and confiscated lands, carried out systemic usurpation of water and other natural resources, destroyed public and private property, and settled Israelis in the oPt, in

¹⁰ See especially part V: “An Economic Assessment of Total Palestinian Losses”.

contravention of the rules of war and the IHL. Over and above these practices, Israel levied taxes, imposed excises, and collected customs duties from the Palestinian population under military occupation in contravention of specific articles in the Hague Convention of 1967 and the Geneva Protocol of 1949. Although the Oslo Accords diminished some of these illegal practices in Areas A and B in the oPt, comprising less than 40% of the total area, Israel continues to carry out this pillage and exploitation in Area C as well as in occupied east Jerusalem, where close to 20% of the population of the West Bank resides.

In the early 1990s, the Economic Department of the PLO commissioned a team of experts led by Yousif Sayigh to prepare an estimate of the economic and financial costs of these policies and practices since 1967 in order to pursue the efforts for claiming compensations and restitution. Three decades later, with the additional research provided in recent years by UNCTAD on estimates of different categories of the “cost of occupation”, this dimension of the exploitation and pillage should be the subject of a concerted effort to be carried out by a team of Palestinian and international experts as one of the claims that need to be settled within the framework of the implementation of the two-state solution.

8.4. Israeli Military Offensives on the Gaza Strip

Since 2007, Israel has imposed a harsh blockade on the Gaza Strip and carried out successive military offensives that caused the destruction of buildings installations, and infrastructure, culminating in the war that Israel declared on the GS since October 7, 2023, causing a human tragedy in the loss of life and extensive destruction. By the sixth month of the Israeli war, between 60-70% of all homes in the Gaza Strip and up to 84% of homes in the northern Gaza Strip were either fully destroyed or partly damaged, rendering them uninhabitable. Over 1.7-2m or 75% of the Gaza Strip residents are displaced. This is more than tenfold the direct damage to housing reported in the 2014 and 2021 aggressions combined, for which reconstruction was never completed (Palestine Economic Policy Research Institute (MAS, 2024). On 15 March, UNRWA reported that around 23m tons of debris were produced across the Gaza Strip over four months of the war, while on 25 April, a senior UN Mine Action Service (UNMAS) officer updated these estimates to

37m tons of debris, stating that it could take 14 years to clear debris (MAS, 2024). The World Bank estimates that 80% of commercial buildings were destroyed or damaged, while the Israeli military offensive caused an almost complete halt in productive activities, pushing most of the population below the poverty line. Estimates of the reconstruction cost after seven months of the war have surpassed \$20 bn, and some estimates suggest the final cost of the war to be double that.

Irrespective of the Israeli unjustified claim to ‘self-defence’ in carrying out these war crimes and atrocities, international law is clear in rejecting such claims to reciprocity: “It is important to say that the rules of law are non-reciprocal, meaning that they apply irrespective of what the other side has done. Violations – such as deliberately targeting civilians or imposing collective punishment – can never be justified by claiming that the other party has committed violations, or that there are power imbalances or other injustices” (Baldwin, 2023).

Israeli violations of multiple articles in the Hague Convention and the Fourth Geneva Protocol, comprising collective punishment and the forced displacement of 90% of the population of the Gaza Strip, over and above the mass killing of civilians and the destruction of buildings and infrastructure, are subject to reparations and compensation to which Israel is fully responsible. In accordance with Article 3 of the Hague Convention of 1907: “A belligerent party which violates the provisions of the said Regulations shall, if the case demands, be liable to pay compensation. It shall be responsible for all acts committed by persons forming part of its armed forces”.

The needs for the reconstruction of the Gaza Strip and the restitution of its population, who lost most of their fixed and movable property and sources of income, are vast. The provision of the financial requirements for restitution and compensation should come mainly from Israel in accordance with the stipulations and articles of the Hague Conventions of 1907 and the Fourth Geneva Convention. The international community is striving to preserve a ‘rules-based’ world while addressing the challenges facing the resolution of the Middle East conflict on the basis of the two-state solution and the end of all claims, leading to the establishment of a just and lasting peace in the Middle East. The

settlement of all claims requires addressing with equal seriousness the four issues of the refugees of 1948, the displaced of 1967, the economic pillage of the oPt since 1967, and the economic consequences of the successive Israeli military offensives on the Gaza Strip since 2007.

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