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The Political Economy Challenges to Palestinian Development Before and After Genocide

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Foreword

The Palestine Economic Policy Research Institute (MAS) presents this study as the most recent in a series of research papers it produced during 2025 as part of its original research program funded with generous support from the Arab Fund for Economic and Social Development (AFESD). Thanks to this support, MAS was able to conduct four exploratory studies on the prospects of the post-genocidal-war period under the title “The Political Economy of Palestinian Nationhood, Independence and Development in the Wake of War”, in addition to four studies on the policies that need to be pursued to advance productive sectors, published separately.

MAS continues to conduct policy research amid the severe economic and social conditions created by the war, both at the level of households in the Gaza Strip and at the level of the labour force in the West Bank (to be published in 2026). This diverse range of research outcomes reflects an integrated Palestinian vision from the heart of the events, highlighting the incalculable catastrophic consequences of Israel's genocidal war since 2023. Such consequences have shattered previous assumptions and positions, creating an unprecedented development landscape that is still taking shape.

In this context, this study presents a synthesis of the preliminary lessons that must be drawn regarding Palestinian political economy and the prospects of development amidst the threat of genocide. Drawing on numerous research publications by MAS over recent years, new concepts, knowledge-based approaches, and empirical evidence have emerged in the aftermath of two years of war—issues that Palestinian political economy analysis had not addressed before 2023. These issues have come to shape the trajectory of economic thought and development policies in the critical phase ahead.

The study concludes that even if a ceasefire holds, the Palestinian economy in both parts of the occupied territory will continue to fight a socioeconomic war—one that becomes ever more deeply entrenched with each new piece of Israeli legislation enacted and every colonial administrative measure taken within the reality of the single “apartheid” state. If this represents the impending shape of the conflict in the coming years, it does not imply the elimination of the presence of 7 million Palestinians in their homeland. Rather, such a trajectory, if not averted, will impose an economic, social, and political rights-based agenda that is completely different from that which has been dominant over the past 35 years.

There is still a long way to go towards national liberation and socio-economic emancipation, especially given the inability of the Palestinian political system to make tangible internal change or to bring about a shift in the depth of the Arab and international support for the Palestinian people's rights as opposed to Israeli policies. Without such transformation, it is difficult to envisage how to overcome this ordeal, or how to address the strategies of an Israeli political economy grounded in a doctrine of genocidal settler colonialism.

I hope that the work I have completed during my tenure as the Director General of MAS, particularly this study, which I had the pleasure of co-developing with a brilliant team of researchers, will serve as a scientific and practical reference, underpinned by sound analysis and a dedicated national vision.

In conclusion, MAS highly appreciates the generous support provided by the AFESD, which has enabled us to make this contribution.

Raja Khalidi
Director General
(October 2025)

Executive Summary

With the onset of Israel's genocidal war in the Gaza Strip, the Palestinian economy has arrived at a critical juncture in terms of its political economy and experienced a radical change in terms of economic policies. Israel has intensified the policies of collective punishment in an unprecedented manner, deploying its destructive war machine in the Gaza Strip and carrying out forced displacement and starvation. This has led to profound demographic shifts, extending beyond material and human losses to include the reconfiguration of the demographic structure through genocidal measures, the strangulation of the economy, and rendering the Gaza Strip uninhabitable. In parallel, Israel has pursued the policies of segregation and infrastructure destruction in the West Bank. Apart from all this, Palestinians in the West Bank suffer from fierce and organized settler attacks, backed by a colonial Zionist legacy that justifies land takeover. This has plunged increasing numbers of Palestinians into poverty and unemployment, at a time when there have been growing calls to adopt an economic approach aligned with the concepts of resilience and survival economy.

In the midst of shifting understanding and perceptions of the changes on the ground, and in keeping pace with the genocidal war in its various economic and social dimensions, it became imperative to examine the material conditions that will determine the direction of the Palestinian people's political course in the new period. This is precisely what this study seeks to accomplish across its three chapters. The study, particularly in the first chapter, shows that the Palestinians' economic and political conditions before the war were not better than those prevailing in the post-war period. Rather, the bleak landscape has dominated the greater part of the picture for many years now.

Entitled “**The Conceptual Framework and the Economic Context in the Pre-October-7 Period**”, the first chapter of the study seeks to offer an updated understanding of the Palestinian development dilemma. Not only does it focus on the conceptual framework of political economy, but also on the nature of Palestinian–Israeli economic relations, and the main pillars underpinning the approach of Israel's economic policies toward the Palestinian economy during the decades preceding the genocidal war on the Gaza Strip. This chapter is deemed important since it lays the necessary underpinnings for understanding the economic and social repercussions of the war and paves the way for the formulation of novel approaches to Palestinian development policies in subsequent chapters.

This chapter concludes that the structural weakness of the Palestinian Authority's public finances is attributable to profound structural causes. The Paris Protocol on Economic Relations has failed to bring about a positive transformation in the Palestinian economy or to rectify the historical distortion resulting from the legacy of occupation. This is because the economic relationship has not been governed by normal market forces, but rather by successive Israeli governments' policies that have steered market mechanisms in favor of Israeli interests at the expense of Palestinian ones. Such Israeli policies include the pillage of resources, blocking development, restricting economic activity and the movement of people and goods, and the distortion of the Palestinian labor market through the absorption of labor in the Israeli economy.

This situation has been further exacerbated by the distortion of the Palestinian economic structure, particularly with the upsurge of violence in the West Bank following the formation of the extremist Israeli government in 2022. This has pushed the Palestinian economy towards

a state of an “economy of war, resilience, and confrontation,” leading to a sharp economic downturn and the erosion of the foundations of Palestinian statehood, sovereignty, and development.

The second chapter, entitled “**The Economic and Social Impacts of the War in the Palestinian Territory,**” summarizes the magnitude of the profound shocks sustained by the fragile Palestinian economy and steadfast society as a result of two years of a devastating genocidal war waged by the State of Israel across the Gaza Strip and the West Bank, including East Jerusalem, albeit with varying intensity and methods. It captures the economic and social transformations in the Palestinian Territory in the course of the war, drawing on the latest reports and statistics issued by relevant local and international official bodies. It tracks the condition of basic services in the Gaza Strip, along with demographic changes, and the strategies of survival and steadfastness.

The war against the Gaza Strip has destroyed the vast majority of economic activities, causing significant damage, at both the livelihood and social levels. It has also triggered an internal displacement catastrophe, forcing large numbers of displaced persons to seek shelter under dire conditions. Such a catastrophe has been accompanied by severe shortages of basic services, food, water, and fuel, further exacerbating the already appalling conditions and laying bare the fragility of the health and service systems, as well as the absence of contingency plans. This underscores the urgent need for immediate international intervention to restructure relief and ensure human dignity.

Although the spectacle appears less appalling in the West Bank, occupation authorities have further tightened the already severe restrictions on movement and mobility, blocked access to the Israeli labor market, and made unfair deductions from Palestinian clearance revenues. These measures have led to a contraction of trade, an increase in unemployment, and a decline in domestic demand. They have exacerbated the Palestinian Authority’s fiscal deficit, paralyzing its ability to fulfill its obligations—particularly in terms of the payment of public servants’ salaries—thereby aggravating structural distortions of the local economy. The chapter also highlights the economic and social changes in East Jerusalem resulting from the siege and economic pressure following the aggression.

The third and final chapter, entitled “**The Palestinian Economy Between Resilience Under Occupation and Survival in the Face of Genocide,**” seeks to unpack some lessons of the new Palestinian political economy, providing an accurate and appropriate understanding of the changes that have occurred since 2023, particularly in the political landscape and in terms of the assumptions about what is realistic versus what is possible. It provides an assessment of the scale and nature of upcoming economic and social challenges, distinguishing between what is important and what is considered the most important.

The chapter concludes that, throughout decades of occupation, the path of Palestinian development has been disrupted and undermined by occupation policies that have distorted the structure of the Palestinian economy, rendering it subservient to the Israeli economy. Such a state of subservience of the Palestinian economy has been maintained through Israel’s complete control over Palestinian resources in all their forms. This has been the consistent approach of Israeli policies for decades, both on the eve of the genocidal war and after it—an approach rooted in destruction and displacement from the perspective of the political-economic doctrine according to the Israeli ideology.

Before the outbreak of war, Israel had pursued an unequal containment policy, encompassing practices that hampered Palestinian development, as a sustainable strategy for dealing with the Palestinian economy over the past decades. This included the separation of the West Bank from the Gaza Strip, the fragmentation of the West Bank into non-contiguous enclaves, and breaking the geographic connectivity between Palestinian cities, all aimed at stifling any potential Palestinian economic development. But since 2023, Israel has abandoned that policy, opting instead for a zero-sum strategy aimed at ethnic cleansing, preventing Palestinian statehood, and subordination of its people to the sovereignty of the State of Israel. Palestine is thus waging a socio-economic struggle within a one-state reality of “apartheid,” imposing a completely different human rights, economic, and political agenda than what had prevailed before, and confirming that the road towards both national and socio-economic liberation is still long and complex.