



Palestine Economic Policy Research Institute (MAS)

# **Disengagement from the Israeli Economy: Concepts and Viability**

**Misyef Jamil  
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**2020**



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Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

### **Mission**

MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

### **Strategic Objectives**

- ♦ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ♦ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ♦ Disseminating up-to-date socio-economic information and research results.
- ♦ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ♦ Strengthening economic and social policy research capabilities and resources in Palestine.

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## **Foreword**

### **The dilemma of breaking free of economic colonial dependency after half a century of Israeli occupation**

The Palestine Economic Policy Research Institute (MAS) is concerned with examining pressing economic issues in line with policy-makers' orientations and public opinion. In recent years, the issue of reducing dependency on the Israeli economy has occupied an important place in policy-making circles and has come to be termed “disengagement” from this dependency. This has become more prominent due to the failure of negotiations and the unfulfilled promises of the international community to revise the Protocol on Economic Relations; and because Israeli policies have suffocated all aspects of economic life, undermining available opportunities for Palestinian economic development, and placing the Palestinian economy in a position of continuous confrontation with settlements and the Occupation.

Since the signing of the “interim” agreements (which are no longer interim) between the PLO and the Government of Israel in 1995, including the Protocol on Economic Relations, the Palestinian economy has been fighting a silent, discrete battle to break free from the grip of Israeli economic colonialism, through peaceful methods, through negotiations or confrontation. This has always been conducted with an eye on the target of building a productive, diversified, and sustainable economy, whose development path embodies the elements of sovereignty of an independent Palestinian state.

In the pre-Oslo period, the economy was one of the tools used to confront the occupation and was sometimes a victim of that conflict. The Oslo-Paris-Washington accords included explicit texts on “the joint interest in building a strong Palestinian economy.” Moreover, the principle Palestinian economic tenet became institution-building, in preparation for the establishment of the state (until 2000). Then, it returned once again to the arena of confrontation and resilience (until 2007). After this, a new phase of reform arrived (despite a state of political division), to achieve “readiness” for the establishment of the state's economic institutions (until 2012). During recent years, the focus has shifted to self-managed advancement and restructuring, in addition to other policy directions that “imagine” an independent national economy one day, even if political conditions have not yet matured to frame it within a sovereign system.

Despite all these efforts, the hegemony of the Israeli economy and colonial control over key aspects of Palestinian economic, financial, monetary, and

labor policies continues to be the primary obstacle, in fact, the only obstacle, to a sustainable development path for the Palestinian economy. Palestinian economic decision-makers, remain incapable of accessing the usual package of sovereign economic policies that could stimulate sustainable and independent growth.

However, the necessity of eliminating this dependency and liberating the Palestinian economy from colonial restrictions has never been far from the minds of experts and politicians. Therefore, efforts to reduce dependency - or to end it - have intensified. The potential success of this disengagement is uncertain, in the absence of a political will and an inability to harness appropriate smart tools. The debate has yet to be resolved for some economists and businessmen on the nature and feasibility of such a disengagement, and the potentially dangerous consequences of attempting economic “separation”, which is widely acknowledged to be an impossible, even erroneous, task.

Regardless of such opinions and political considerations (but without neglecting their pertinence to economic aspects), MAS took the initiative to engage in this theoretical and practical study, with the aim of clarifying the concept of decoupling (or disengagement), and how it can be achieved even under current circumstances. This is done through this comprehensive and thorough study of the structural economic relationship with the occupying power, which also clarifies alternatives to reducing the adverse path dependency that continues to undermine opportunities for Palestinian economic growth. It outlines new trends that can lead to the creation of a positive pathway for protecting national products, diversifying trade partners, and reshaping the sources of Palestinian consumption, departing from the dominance of Israeli products. Thus, it proposes the establishment of a new structure for a productive, and modern national economy.

MAS extends its gratitude to the research team led by Mr. Misyef Jamil; to Professor Fadle Naqib who reviewed the study and enriched it with numerous valuable observations; and to a group of experts whose contributions to consultations confirmed the soundness of the study’s vision and content. MAS also extends its deep appreciation to the Arab Fund for Economic and Social Development whose continuous support afforded us the opportunity to study this critical topic.

**Raja Khalidi**  
**Director General**

## Summary

This study examines the nature of economic relations resulting from the Israeli occupation's policies over numerous decades, in a deliberate, practical and theoretical manner. The document provides a coherent analysis of Israeli policies that hold the Palestinian economy hostage, binding it to the occupation's interests, despite peace treaties and economic agreements that should guarantee the freedom and development of the Palestinian economy. The lack of improvement in Palestinian economic indicators is due to restrictions imposed by Israel before the signing of treaties, and because of Israel's failure to comply with economic agreements. Moreover, Israel has committed numerous and varied violations which have increased such restrictions. Resultantly, a consensus has emerged among decision-makers and commentators that Palestinian economic development cannot occur given the continuation of these restrictions. Therefore, it is necessary to 'think outside the box' in order to free the Palestinian economy from these restrictions and the consequent dependence on the Israeli economy, by moving – to every extent possible - towards economic disengagement from the Israeli economy.

This study aims to establish practical and scientific foundations for reducing dependence (i.e. the process of disengagement) on the colonial grip of Israeli economy. It details historical economic trends following the occupation of 1967, in order to clarify and explain this dependency. This analysis allows us to understand the tools and policies that ought to be pursued, in order to achieve gradual disengagement from the Israeli economy. Therefore, the study focuses on theoretical and practical concepts of economic disengagement, while highlighting indicators that measure the degree of dependency. The trend of these indicators over the long-term is adverse, in terms of countering dependency.

While providing an analysis of economic relations within the framework of the Paris Economic Protocol, the study focuses on practical aspects and policies that must be followed in order to achieve gradual disengagement. As such, the study details interventions that can be applied in the Palestinian context, without violating signed agreements which could lead to economic confrontations that are best evaded, unless these are unavoidable. However, the main substance of this study is: how to reduce dependency; how to induce disengagement in a smart way that takes into account Palestinian interests, by implementing trade and industrial policies; as well as sectoral interventions related to agriculture, industry, energy, trade, revenues and guiding local

investment. The study also notes the significant role of both the private and popular sectors in promoting local production, and replacing Israeli goods with local Palestinian goods.

In conclusion, disengagement can be promoted through two tracks: the first is avoiding economic battles with Israel that could entail adverse punitive measures, by utilizing smart and thoughtful steps in line with Palestinians capabilities; and second, through economic confrontation in some cases, especially in relation to Israeli violations of agreements and international trade rules – a process that would require sustained political, diplomatic and economic efforts.