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Policy Brief

Palestinian Interaction with the Geography of Colonialism
Circumventing Israel's System of Control
over Trade within the West Bank



The Palestine Economic Policy Research Institute (MAS) regularly publishes applied and scientific studies, in addition to summary research papers, as part of an annual series of roundtable meetings on important economic topics of interest to the public and decision-makers. The policy briefs outline the most prominent recommendations of selected scholastic activities, in order to disseminate this information and maximize the benefits derived from these series. This Brief is based on the background paper prepared for the second MAS 2021 roundtable session and subsequent discussion by experts.
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Palestinian Interaction with the Geography of Colonialism
How to Circumvent Israel's System of Control over Trade within the West Bank

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Palestinian Interaction with the Geography of Colonialism ⁽¹⁾

1. Background

While preparing for the Oslo peace process, the Israeli government appointed a team of specialists to propose a specific formula for economic relations with the Palestinians. This team was headed by Professor Haim Ben Shahr, which recommended the continuation of economic integration and trade dependency, a state of affairs that had been imposed forcibly by Israel on the West Bank and the Gaza Strip since 1967. This effectively meant that any future agreements “should not include any economic borders” between Israel and the Palestinian territories. In 1994, the signing of the Paris Protocol on Economic Relations regulated economic relations between the autonomous Palestinian areas and Israel. The Palestinian delegation suggested the formation of a customs’ system similar to that of a free trade area, allowing Palestine to pursue its own trade system with countries across the globe, as well as delineating economic borders. However, Israel strongly opposed this proposition. Based on the recommendations of Ben Shahr, Israel insisted on the application of a customs’ union system, without demarcating boundaries between the two parties.

Since 1994, significant changes have occurred ‘on the ground’, leading to the emergence of a gap between the provisions of the Paris Economic Protocols (de jure) and its application in practice (de facto). Israel has created borders and constructed a separation wall, leading to the imposition of an Israeli spatial system of control. This increases transportation and logistical costs, which contributed to great losses for many Palestinian merchants. However, this colonial geography, which stifled the Palestinian economy and harmed trade routes and freedom of movement was, at the same time, a source of income and profit for other merchants. This profit is not unilateral as such activities also result in profits for Israeli merchants in the settlements. Indeed, if there were no gains for the Israeli side of the transactions, the profitability of these dynamics would not have been in this form, or on this scale.

2. Basic Challenge

The Oslo Accords (1993-1999) delineated administrative borders within the territory of the West Bank, separating it into Areas A, B and C, in addition to Jerusalem. Previous reports and studies focused on the existence of a gap between the provisions of the Protocol and realities on the ground, presenting numerous opportunities for economic players from both parties to circumvent regulations and applicable laws. Of particular importance are issues of tax evasion, financial leakages and commodity smuggling. In other words, restrictive occupation policies, combined with the imposition of the Israeli tax system under the remit of the Paris Economic Protocol, force the Palestinian private sector to constantly search for solutions to conduct trade and manage their business interests, operating in a distorted environment unlike that governing the private sector in other countries. This, in turn, has resulted in distorted economic and trade relations within the Palestinian economy, that are harmful to its markets and the public Treasury. These practices have negatively influenced the overall income of the Treasury, reducing the volume of clearance revenues that the PNA collects from Israel.

On the other hand, since the second Palestinian Intifada (2000-2004), Israel imposed a segregated border regime, characterized by a “colonial geography” encompassing Israeli urban planning and confining Palestinian population centers to specific, and scattered, geographical areas. Israel has established settlements deep in Palestinian areas, creating an enabling spatial environment for illegal trade relations between Palestinian and Israeli merchants that constitute an unregulated

(1) A summary of the session discussing Roundtable (6) and the discussion <https://www.mas.ps/files/server/2021/Press/20Release/RT/206/20PR/20ar.pdf>

and uncontrolled economy. Settlements have been designed to provide an infrastructure for these relations, encouraging unregulated border trade. In other words, there are Palestinian economic players who have adapted to this complex geographic system and have developed practical skills on to how to circumvent and take advantage of its loopholes

The apartheid and segregation regime and commercial passages imposed by Israel have not only damaged the Palestinian economy, but have also had other serious consequences, like:

1. The emergence of beneficiaries, brokers and smugglers who engage in illegal activities. This has exacerbated the damage inflicted by the Israeli occupation on the Palestinian economy and multiplied the negative effects resulting from the Israeli-imposed regime of isolation. In other words, the colonial geography underlying the apartheid regime of Israeli occupation contributed to the establishment of networks of economic interests, made up of Palestinians and Israelis (including settlers). This means that, at the grassroots level, there are close relations between Palestinians and Israelis, and that these relations exist discretely or openly. Without doubt, these relations are illegal from an economic and political point of view. They result in great benefits for the participants, but they also harm the PNA Treasury.
2. These Israeli-Palestinian relations, which are out of the control of the two authorities (the PNA and the Government of Israel), are expected to have high- impact on the nature of the political-economic relations between the two sides. These relations should be taken into consideration when considering economic national strategies such as economic “disengagement” and “sovereignty”. Part of the segment benefiting from these illegal economic relations rely on the infrastructure of the Israeli occupation which is fertile ground for fraud and illegal profiting.

3. Required Policies and Interventions

Based on the outcomes of the background paper and the discussion during the round table session, the following set of policies and interventions were proposed to control this growing phenomenon which is posing economic and political threats and ramifications that cannot be overlooked. The most prominent and actionable of these include:

- A careful review of the Palestinian Penal Code. In the current code, the fine for smuggling goods does not exceed a few Jordanian dinars which does not constitute a deterrent measure to combat illegal trade. Reviewing the law, expanding its powers and developing legal litigation mechanisms to takes into account the possible means for safeguarding the national economy from tempering, will help end these phenomena.
- Capacity building of the Customs’ Police and expanding its powers. Currently, the forces of the custom’s police include 1000 officers, a large part of whom are in administrative posts. Also, it has limited budget, resources and technologies, which do not allow full assumption of its responsibilities in terms of protecting the national economy and controlling the smuggling of goods.
- The new Electronic Clearing Mechanism replacing the paper clearing mechanism, might help reduce smuggling activities. However, it can’t cut this phenomenon off the roots. However, the background paper showed clearly that the main causes of the spread of these Palestinian-Israeli networks (including settlers) are not the clearing system, but rather the geography of colonialism, which both Palestinian and Israeli merchants know how to circumvent and adapt to, allowing them to develop new ways of work for benefiting. Therefore, there is no alternative but combating these activities in the field. So, it is necessary to activate and empower the role of the General Administration of Crossings and Borders, the Customs Police and other competent authorities, especially local councils in Area C. No less important is to launch an awareness public media campaign to highlight the illegal nature and adverse impacts of these activities.

