

# Post-Oslo State-Building Strategies and their Limitations

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# Rights, State-Building and the Economy

- › Rights are *politically enforceable* entitlements to claims over assets, incomes or to treatment
- › All economies require well-defined rights over assets, labour and natural resources: social transactions are based on exchanging or cooperating on the basis of rights
- › The precise rights required are debated by economists: but everyone agrees that states are required that can enforce, protect and renegotiate the appropriate rights
- › This is why **sovereignty** is important: A sovereign state is a state that can protect, change and enforce rights, and therefore the state has to be an agency that has 'legitimacy' and a **monopoly of violence within specified borders**

# Liberation Struggles

- › A liberation struggle is also a 'negotiation' about rights: the difference here is that there is no state that is yet enforcing the rights of the weaker party
- › The 'negotiation' here is about imposing pain or costs on the dominant side to the extent that it becomes reasonable for it to accept new claims *that will be enforced by a different state*
- › In these 'negotiations' or conflicts, establishing a credible capacity to fight is vital as is signalling to the other side that there is sufficient holding power to make some claims non-negotiable
- › Holding power can be based on violence potential (which usually requires a signalling of 'irrationality' to make it credible) or on organizing mass mobilizations around legitimate claims: a democratic and secular struggle has to identify sources of bargaining power that are legitimate, credible and mass-based

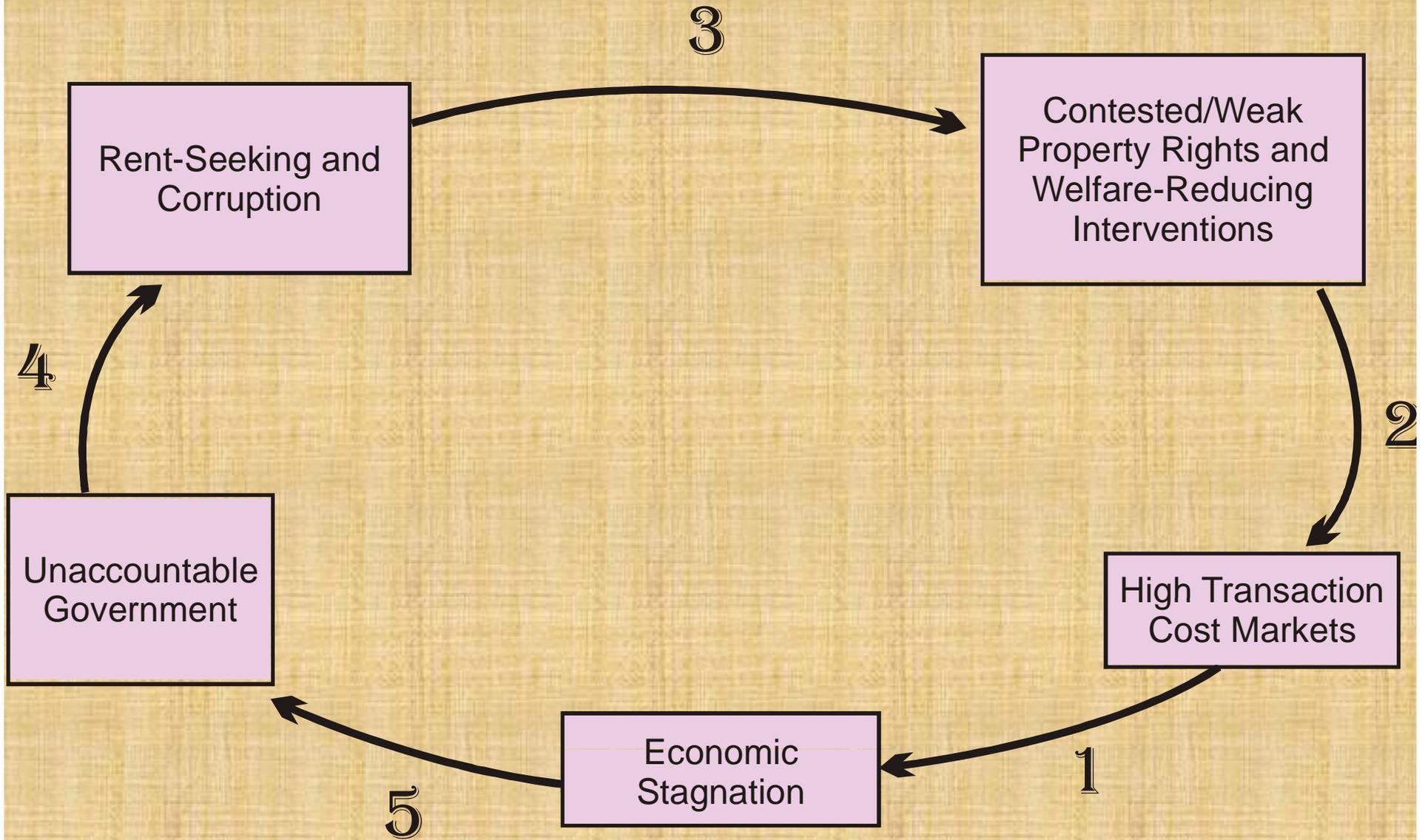
## Development, Rights and Governance Challenges in the OPT

- › What types of rights and governance capabilities are likely to sustain economic development in the OPT?
- › Where do 'good governance' reforms fit into the achievement of Palestinian developmental goals?
- › How do Palestinians in the OPT achieve the *bargaining power* to establish the creation of these sovereign capabilities?

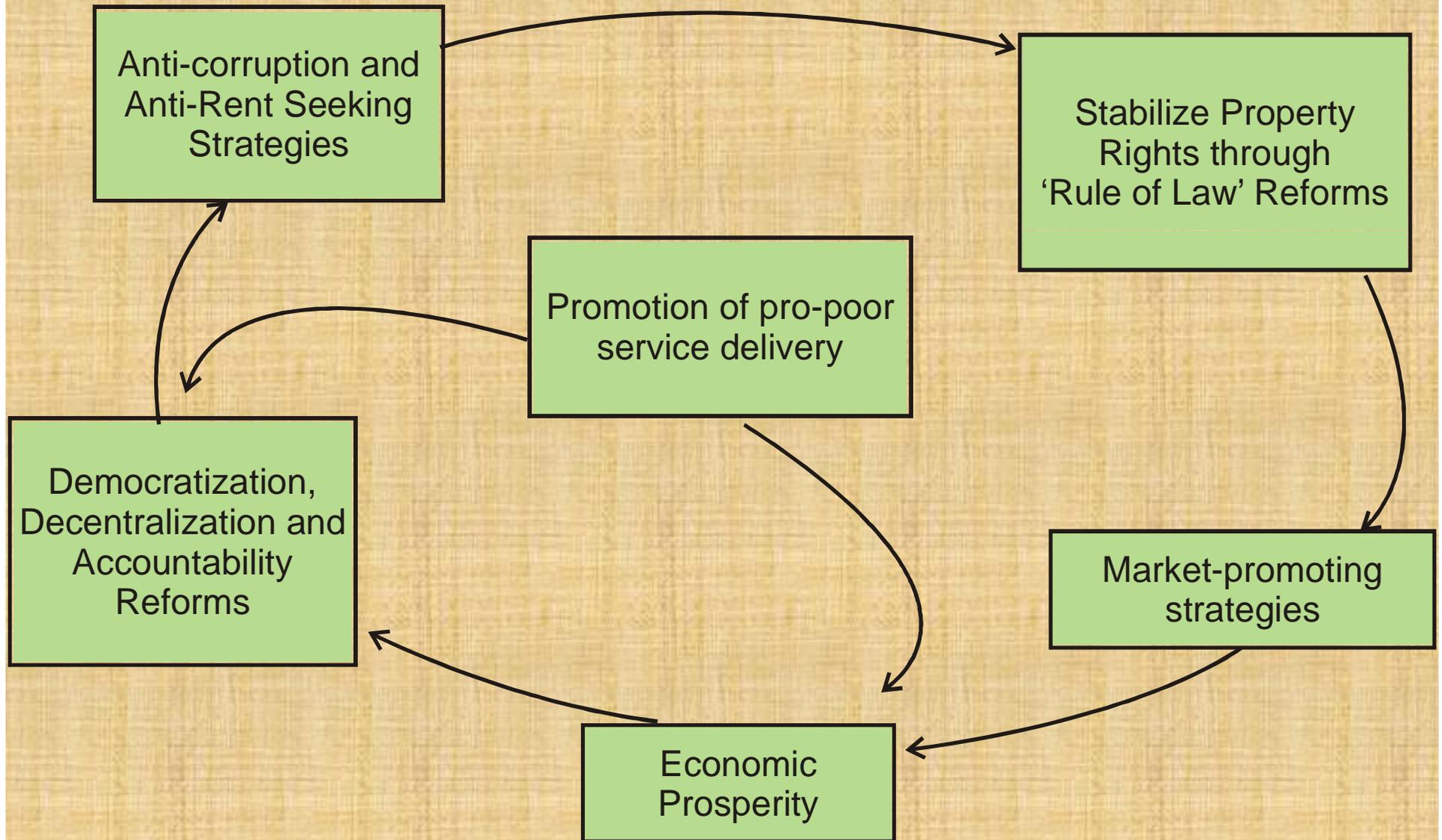
## Liberal Economic Theory and the Focus on Good Governance

- › The policy support for the focus on the rights protected by 'good governance' capabilities is based on a particular reading of economic theory which argues
  - › a) Prosperity is driven by efficient markets
  - › b) Efficient markets are defined by low transaction costs (costs of making and enforcing contracts)
  - › c) Good governance reforms lower transaction costs and are therefore necessary for market efficiency

# Theoretical linkages in the good governance consensus



# The New Policy Agenda



## The Governance-Growth Debate

If some critical aspects of good governance like protecting property rights cannot be fully achieved under occupation or partial sovereignty what are the implications?

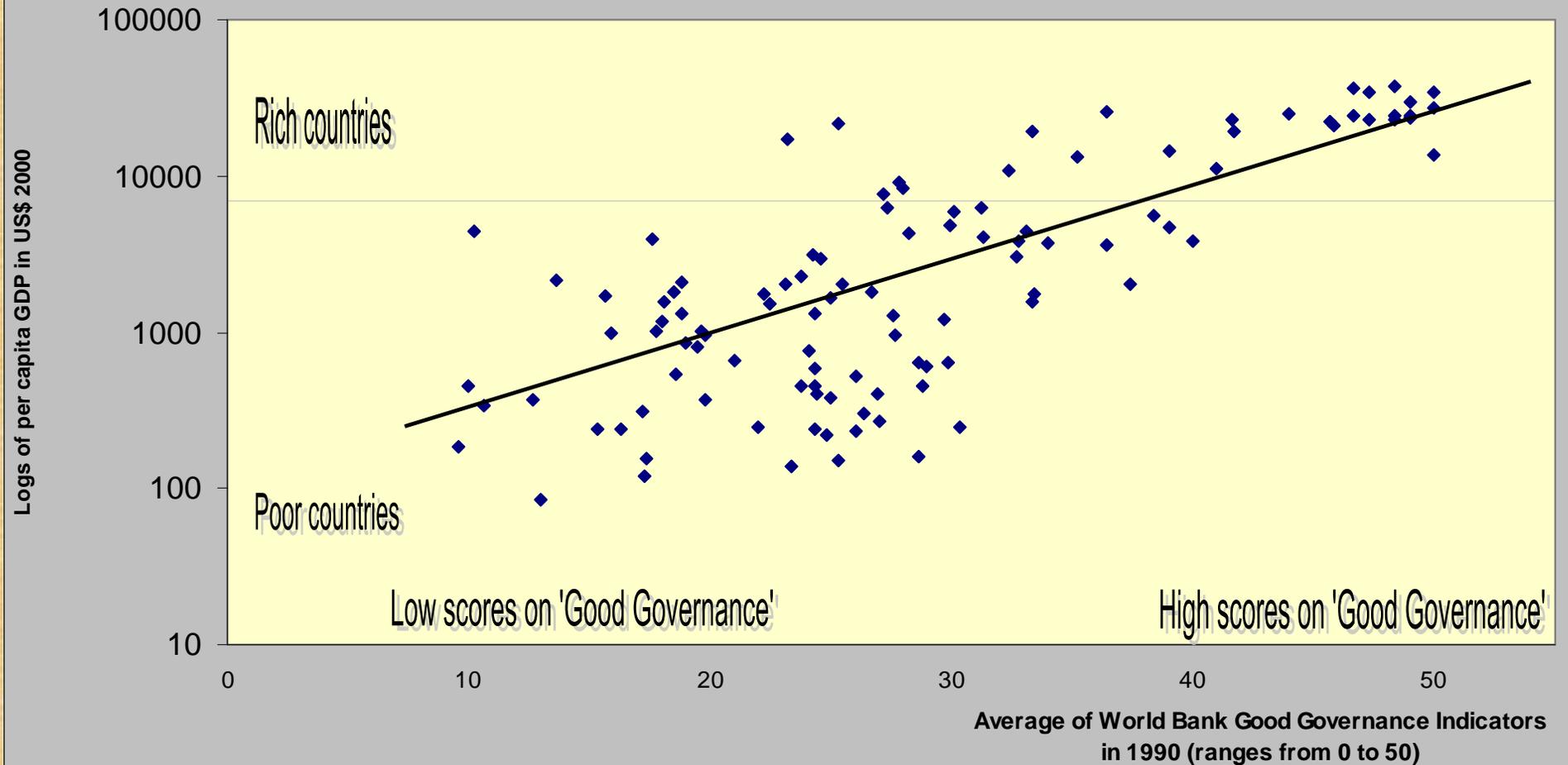
Clearly, the full range of investments even according to market incentives will be unlikely

However, improvements in 'good governance' *can* improve the efficiency of aid delivery in aid dependent countries, but is this sufficient for ensuring sustained development?

In fact, case studies of high growth countries show that they did not make improvements in good governance *before* their development takeoffs

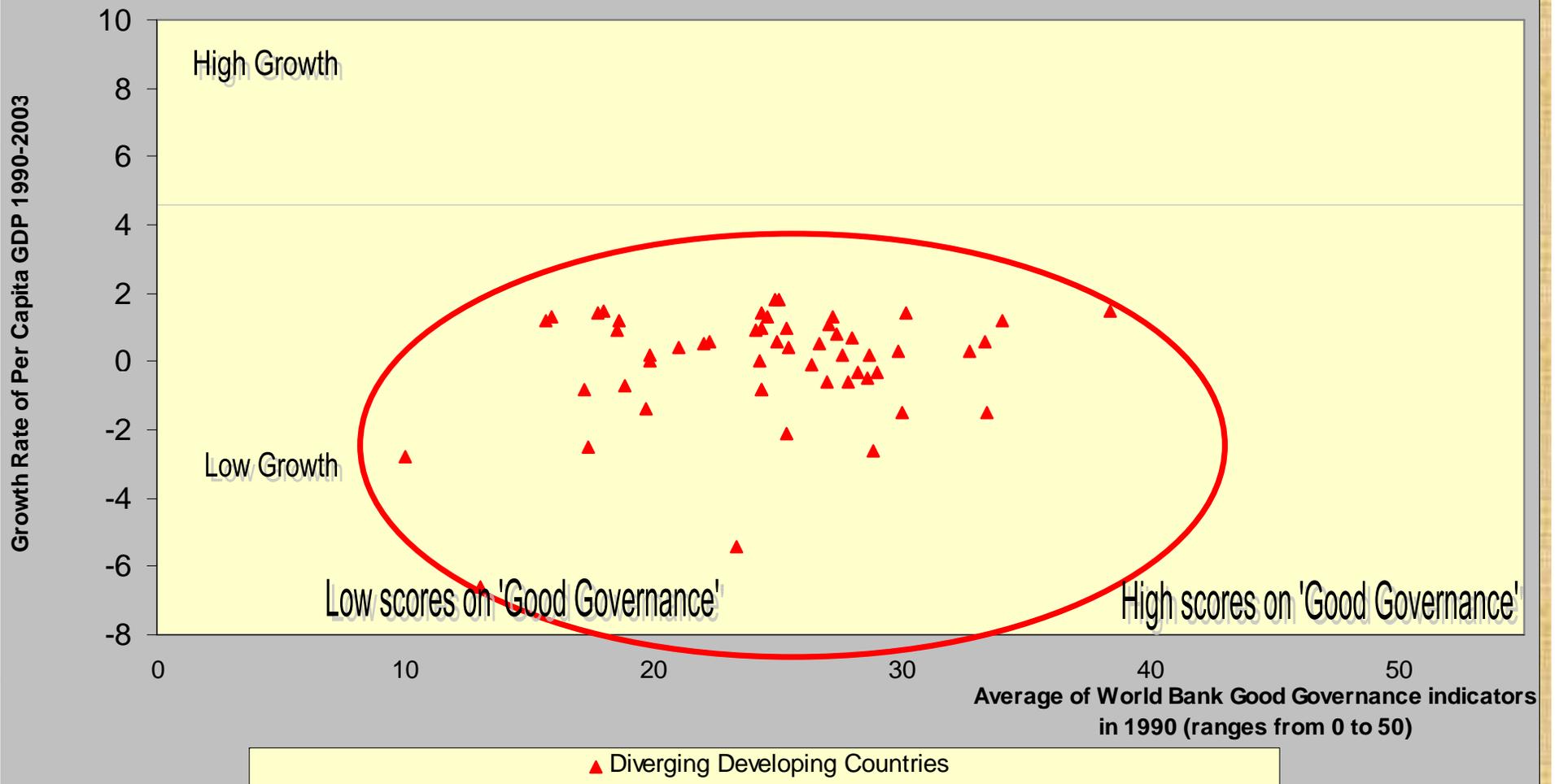
# Cross-Country Evidence

**Composite Good Governance Indicators and Per Capita GDP  
1990/2000**



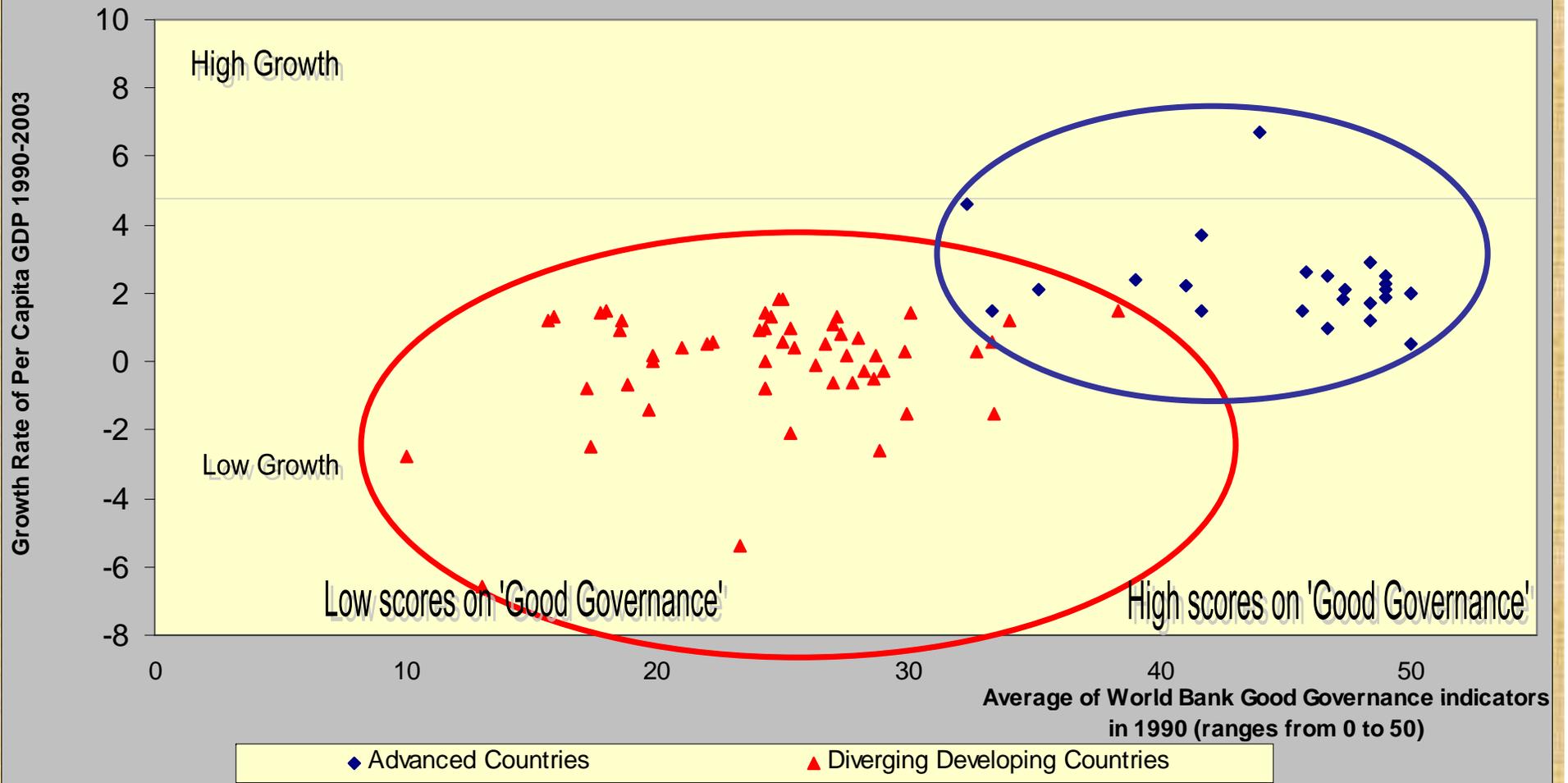
# Cross-Country Evidence

Composite Good Governance Indicators and Growth Rates  
1990-2003



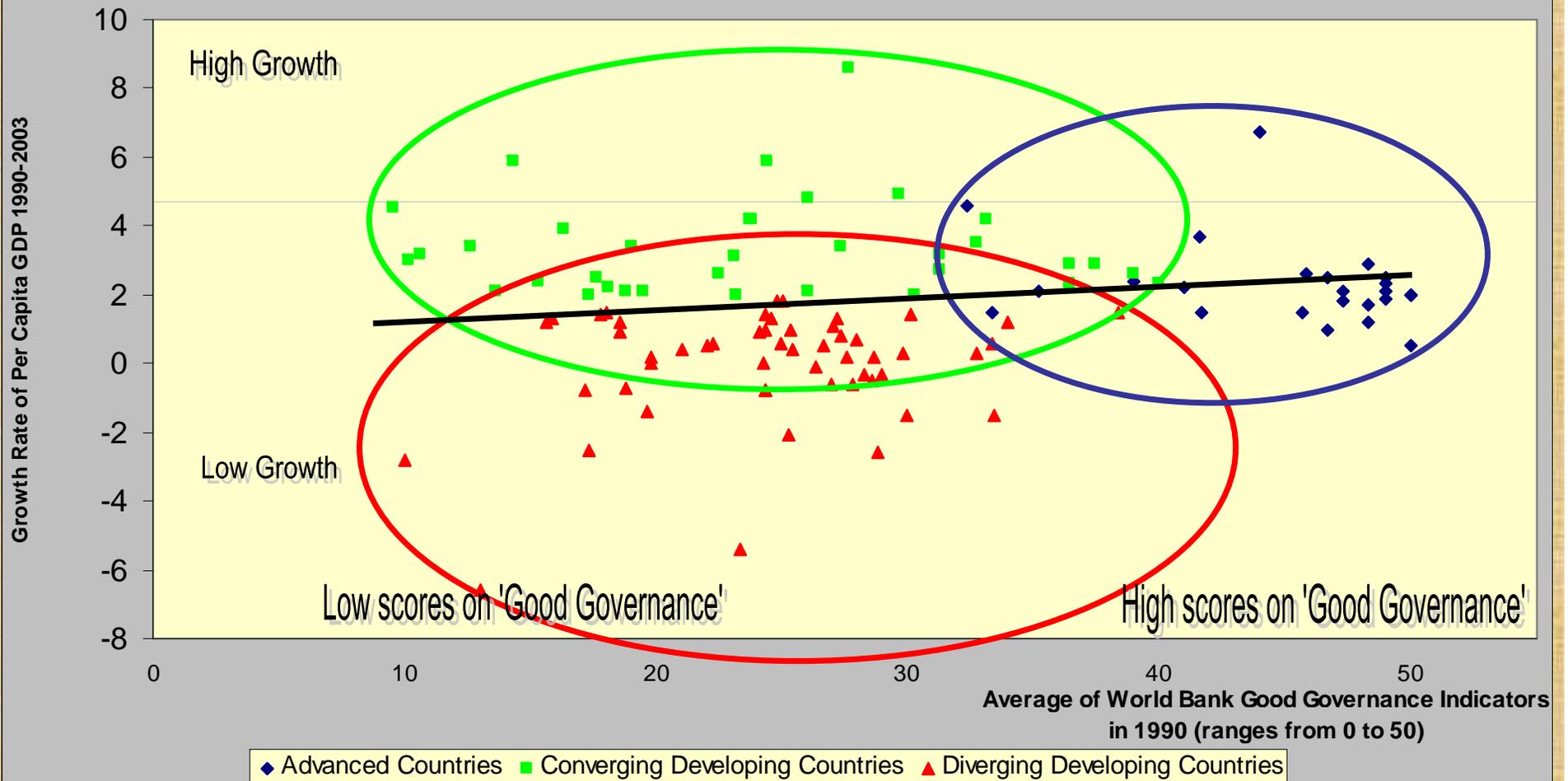
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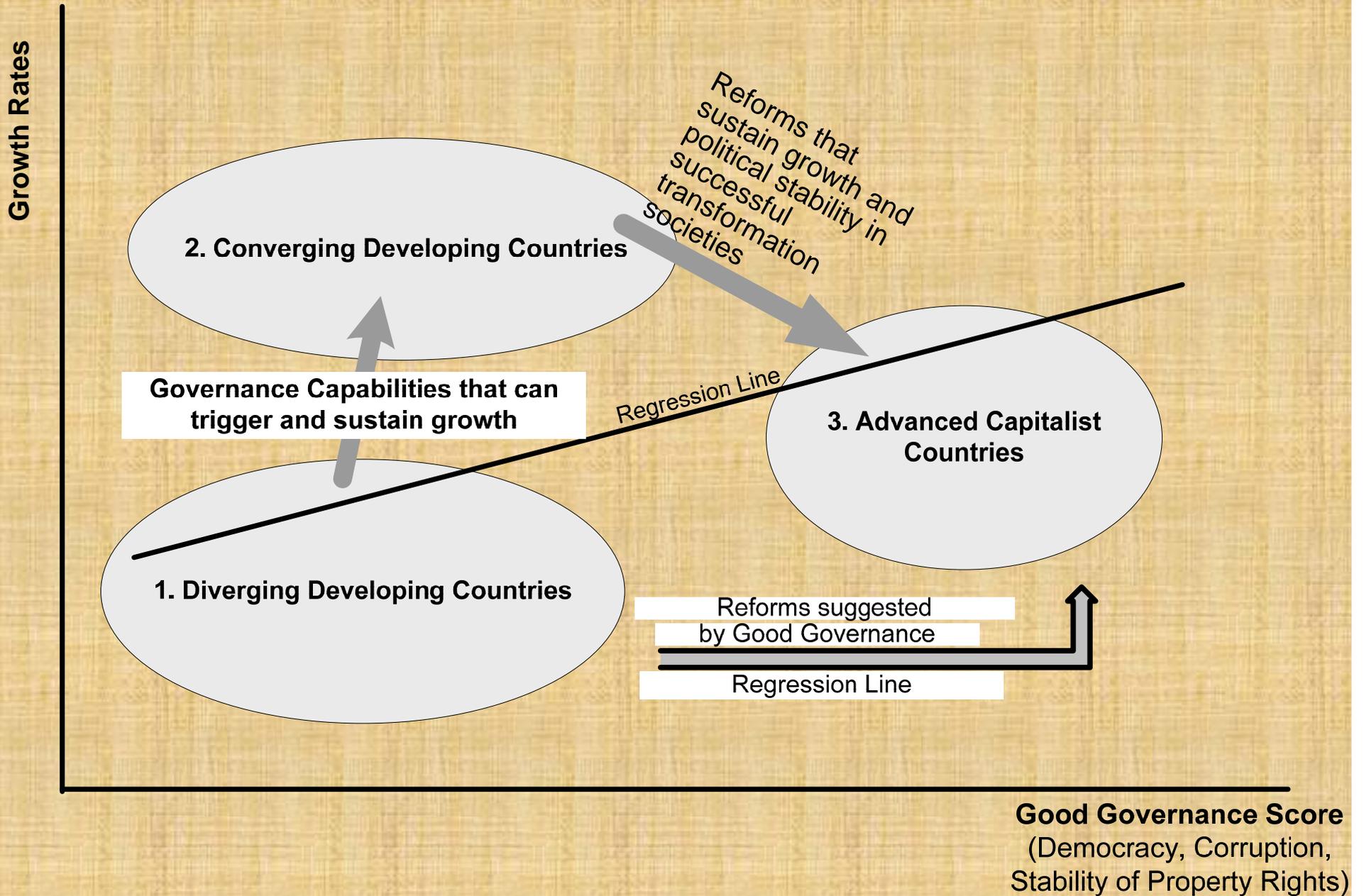


# Cross-Country Evidence

Composite Good Governance Indicators and Growth Rates  
1990-2003



# Growth-Enhancing Governance versus Good Governance



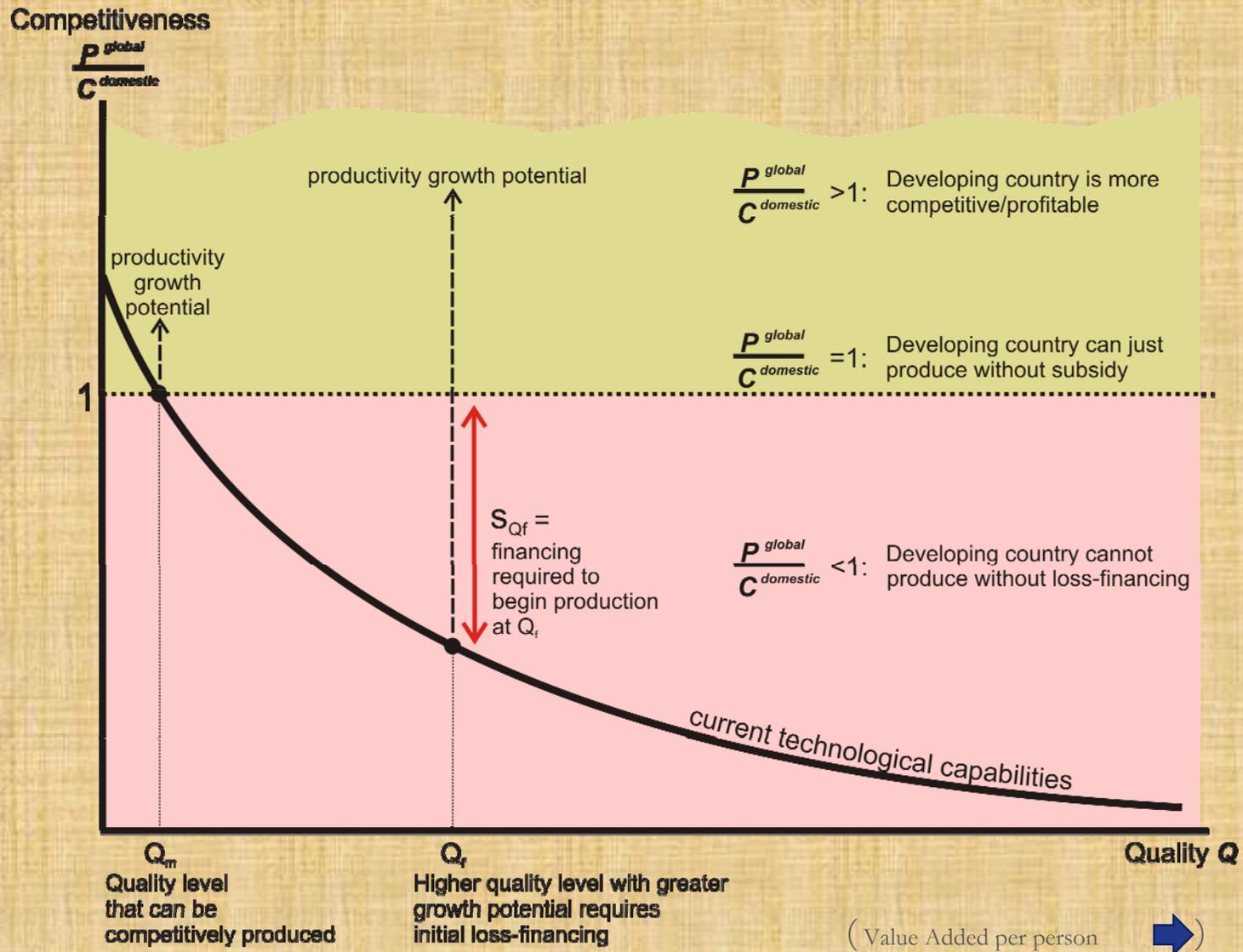
# Why Other Governance Capabilities are Necessary

- › Developing countries find it difficult to produce anything *despite* low wages because they lack the knowledge of production methods, factory and machine layouts, marketing, supply chains, quality control etc
- › Learning these techniques requires acquiring *tacit knowledge* through learning-by-doing
- › This requires investment and technology policy to finance periods of learning and to impose discipline on beneficiaries so that the support is not wasted: this requires specific governance capabilities that are not part of 'good governance'

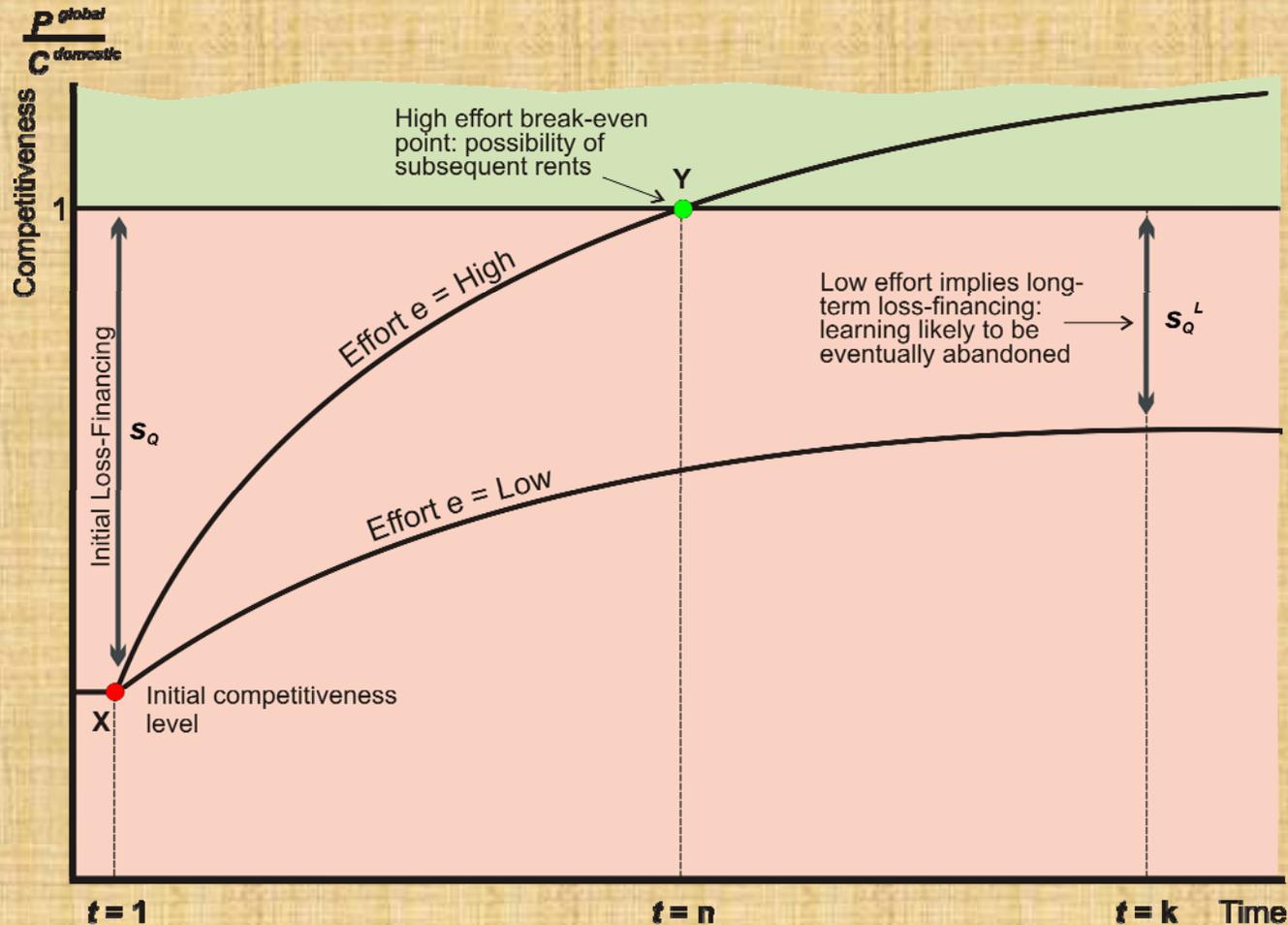
# Why Growth-Enhancing Governance is Necessary

- › If  $P$  is the world price of a product of quality  $Q$ , and  $C$  is the domestic cost of production, a developing country can only produce the product if  $C$  is less than or equal to  $P$ , in other words if  $P/C$  is more than 1
- › It turns out that most developing countries can only produce low technology and low quality products where the value-added is low, wages are low and technological progress is slow
- › Post-Oslo development strategies have probably not given sufficient attention to how a sovereign market economy in Palestine would create jobs given the problems with industrial employment growth in Syria, Jordan, Lebanon etc.

# The catching up problem



## Credibility of 'support withdrawal' and effort



Investments in learning are only viable if high levels of effort can be assured. The effort refers mostly to the effort of the management in experimenting with factory layouts, management systems, incentive schemes etc to accelerate learning

# What is Palestinian bargaining power based on?

- › Whether market or 'market-plus' governance capabilities are required, both require Palestinian sovereignty: but where does Palestinian bargaining power come from to achieve sovereignty?
- › The bargaining game in the Oslo process was not based on 'land for peace'
- › Oslo was based on a remarkable but initially plausible claim that Palestinians did not need bargaining power to gain sovereignty: Israel would give Palestinians their state *in its own self-interest*
- › *One of weaknesses of the post-Oslo negotiations is that this assumption has not been challenged even though facts on the ground prove the assumption wrong*

# Oslo Assumptions

- › Assumption 1: The two-state solution was in the interest of the dominant party, Israel, as the only feasible way to maintain a Jewish demographic base for Zionism
- › Assumption 2: On the Palestinian side, 1967 borders (with minor modifications) were the minimum that the leadership could “sell”
- › If these assumptions were true, the interim agreements would not really matter because the end-game was clear: the emphasis was on ‘confidence-building’ and delivering security to Israel
- › In fact Oslo led nowhere because Assumption 1 was false and this is significant for subsequent Palestinian strategies and prospects

# Outcomes contradict assumptions from the outset

- › Israel did not detach itself from the OPT leaving Palestinians alone
- › Israel expected the Palestinian Authority to be a “client state” with Israel retaining control over key economic powers, including foreign trade, taxation, currency, labour movements
- › At the same time ‘integration’ with Israel was only to achieve ‘asymmetric containment’: new settlements, new roads but also new road blocks and checkpoints deep inside OPT
- › Despite this, and though human development was badly affected, some aspects of Palestinian state-building during Arafat’s period were commendable in terms of building quasi-sovereign enforcement capacities (Documented in our book *State Formation in Palestine*)

# What does Israel want?

Israel's argument: Palestinians did not offer enough security to enable an Israeli withdrawal

But there can be no credible commitment by Palestinians that they will never attack in the future, not even a total cessation of violence now establishes future commitment

In fact settlers and settlements increased dramatically *after Oslo in strategic locations that appeared to be planned to limit future Palestinian sovereignty*

All this only made sense if containment is a Long-term Israeli "Management Strategy": Asymmetric Containment or Matrix of Control

The problem was that the continued participation of the Palestinian leadership (with limited bargaining power) in negotiations that led nowhere had predictable effects: it weakened Palestinian unity and further reduced their bargaining power

## Why containment? The 'Problem' of Maintaining Zionism

- › Around 15-20% of Israel's population will remain Palestinian *after* the implementation of a 2-state solution (Unless Israel's borders shrink or Israeli Palestinians are expelled)
- › Maintaining Zionism (the Basic Laws) imply differential rights for Israeli Palestinians (rights to land, jobs, subsidies, international travel, marriage to non-residents etc)
- › The two-state coalition in Israel supporting a state on 1967 borders collapses for this reason: If differential rights have to exist for 20% of the population, why not 30-50% and keep part/all of the WBG?
- › It seems that the logic of maintaining Zionism is at the heart of Israel's strategy in the OPT: not only in terms of the territory which will be handed over but also in terms of Israel's strategy of management of its overall Palestinian problem

# A Palestinian state does not help to protect Zionism

- › At best a two-state solution can create a Jewish majority state but Israeli coalitions for “land for peace” always break down because it does not guarantee differential rights for ‘Israeli Arabs’ (indeed Israel is making this explicit now)
- › In fact a sovereign Palestinian state makes future population transfers difficult: easier to move people into Bantustans than across internationally accepted borders
- › Israel relies on the quiescence of ‘Israeli Arabs’ about their rights but this may disappear once borders are clearly defined
- › Easier to resettle returning Palestinian refugees in WBG if the Palestinian “state” is an unviable client with unclear borders

# A Palestinian state does not help to protect Zionism

- › The implications of this analysis are significant
- › The expectation that Israel will create a sovereign Palestinian state in OPT is wrong
- › It will take significant Palestinian *bargaining power* to achieve the recognition of equality of rights: and the rights of Israeli Palestinians and OPT Palestinians and refugee Palestinians are not separate because Israel does not treat them as separate
- › The demographic balance makes it unlikely that Israel will be able to fight a rights-based conflict for long but in the absence of mass Palestinian mobilizations around rights issues, Palestinian bargaining power is low

## Three questions for post-Oslo strategies

- › Are we sure that creating a liberal market economy is sufficient for sustaining growth in a developing economy? The evidence from China, Malaysia, South Korea, India, Thailand does not tell us this.
- › Even in terms of a liberal market economy and the good governance reforms required for it, are we sure that the full requirements for a market economy can be achieved in OPT given the constrained sovereignty particularly over land, water, and freedom of movement?
- › Most critically, it is now clear that Israel is not going to give Palestinians full sovereignty in any territory because it is not in their interest: how do Palestinians build credible bargaining power for any type of sovereignty?