

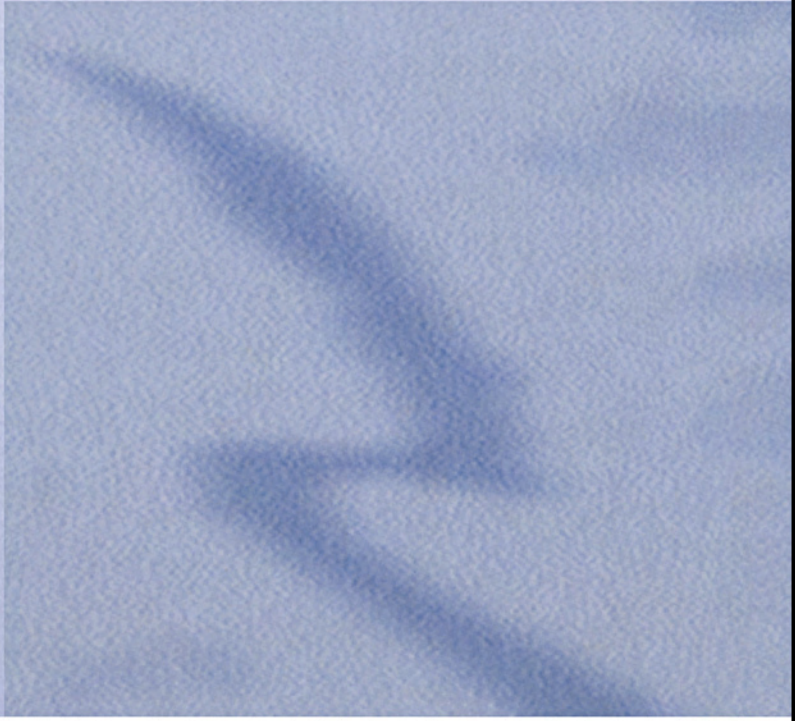
# **Palestinian Labour Migration to Israel**

Labour, land and occupation

Leila Farsakh

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# Palestinian Labour Migration to Israel

Ever since Israel occupied the West Bank and Gaza Strip in 1967, Palestinian commuting labour migration has played a key role in binding the Palestinian economy to Israel. It absorbed over one-third of the employed workforce and shaped the nature of Palestinian economic development. However, since the Oslo Peace Accords in 1993, migrant flows have become erratic, leading to a fall in Palestinian per-capita income and predictions that the era of migration has come to an end.

This book provides the first comprehensive analysis of the rise and fall of Palestinian labour flows to Israel. It highlights the interdependence between Israel's confiscation of Palestinian land and the use of Palestinian labour, showing how labour migration has been the result of the evolving dynamics of Israeli occupation and Palestinian labour force growth. This study analyses the pattern of Palestinian labour supply, the role of Israel's territorial and economic policies in the Occupied Territories in releasing Palestinian labour from the land, and the nature of Israeli demand for Palestinian workers, especially in the construction sector, where the majority of commuting labourers are concentrated. The book is also original in its exploration of the way changing patterns in labour flows reflect a process of redefinition of the 1967 borders. The analysis of the contrasting forces of separation and integration between Israel and the Palestinian territories shows how the Gaza Strip is being separated from Israel while the West Bank continues to be incorporated into the Jewish state.

This book will be of interest to development specialists as well as to economists, scholars and policy makers concerned with the Palestinian-Israeli conflict.

**Leila Farsakh** is Assistant Professor at the University of Massachusetts-Boston and a research affiliate at the Massachusetts Institute of Technology. She received her doctorate from the University of London and has worked with the Organisation for Economic Co-operation and Development in Paris and the Palestine Economic Policy Research Institute in Ramallah.

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## Foreword

Since the year 2000, when Ariel Sharon took his provocative stroll on the Temple Mount and the Al-Aqsa Intifada erupted, much of the world has been newly frustrated and once more mystified as to how a conflict that appeared to be moving finally towards resolution through the ‘peace process’ came to explode again with such unprecedented violence on both sides. In an integrated, self-conscious world that is struggling to bring global, pan-human problems under control before total disaster befalls the earth—global warming and other environmental stresses, global economic integration with its uneven costs and benefits, the inability of well-meaning international peacekeepers to contain local conflicts—Israel/Palestine looms as one of the most virulent and intractable of conflicts, an iconic and ironic representation of our species’ unique ability to create problems for itself that it cannot solve.

Leila Farsakh’s book makes a singularly valuable contribution to demystifying the Israel/Palestine conflict overall and, in particular, the period since the Oslo Interim Accords in 1993. In the cool, objective language of the economist, the author brings together the story of the Zionist dream and practice of creating a Jewish state in a land supposedly ‘without people’, with the story of the Palestinian people, the non-Jewish inhabitants of that land, resisting occupation under what they experience as a form of European settler colonialism. She shows that even after the historic compromise of ‘two states for two peoples’ in the land of Palestine was formally codified in 1993, the Zionist project continued apace, unhindered and with greater legitimacy, in the territories of East Jerusalem, the West Bank and, to a lesser extent, Gaza. At the same time, Palestinians in those territories continued to experience Israel’s superior military and economic privileges and its ongoing land confiscation, settlement expansion, road building and appropriation of water as an occupation with a gloss more acceptable to the outside world but with the same injustice and discrimination as always.

Farsakh approaches this understanding as a political economist, through a systematic, comprehensive explanation of the structural context in which workers make their decisions about labour force participation and place of work, and the economic outcomes that result for them and their families. Key to this explanation is the pattern of migration, forged in response to the opportunities and constraints created by the neighbouring, perhaps enveloping, ‘host’ economy. The author offers a masterful exposition of theories of labour migration, from the neoclassical individual worker making rational choices based on market signals, through the new-institutionalist family strategy of assigning some members to work outside and send home remittances, to political economy explanations delineating the structural and historical factors shaping the constrained opportunities available to migrant workers and their families. As she explores the case of Palestinian workers migrating into the Israeli economy, her work throws the uses and limitations of these theories into high relief. This work captures the dynamic tensions between the unique Zionist forces pressing for separation between the two communities—taking more and more of the land, but excluding the people as much as

possible—and those standard economic forces pressing for integration between the two communities as Palestinian labour comes to play a crucial role in the Israeli and the Palestinian economies.

Any theory of migration, Farsakh argues, must explain three processes: release, transfer and absorption of labour from one economy to the other. In the Palestinian case, the ‘release’ is caused by the loss of land, both agricultural and more generally, to the expanding Jewish state and its settler colonies, and by the dearth of alternative opportunities as the remaining Palestinian areas are systematically starved of the capital, infrastructure and natural resources required for modern economic development. Transfer of Palestinian labour is effected through the relatively open-borders policy of the 1967–1990 occupation era, whereby mostly poor, rural Palestinian workers were shifted out of traditional agriculture in the territories into more plentiful jobs in a growing Israeli economy. The ‘absorption’ of Palestinian labour into Israel took place, for economic reasons, into segmented labour markets in which the relatively low wages of Palestinians facilitated capital accumulation in modern Israeli agriculture and, especially, in construction. Ironically, from the Palestinians’ point of view, their labour contribution enabled the Zionist state to enhance the material basis of its claims to larger and larger portions of the Occupied Territories to the exclusion of the Palestinians.

The Oslo Interim Accords and accompanying Economic Protocol served to legitimise Israel’s continued practice of these discriminatory policies, with the simultaneous deepening of territorial integration and formalising of societal separation. The Accords were not between two equal partners, but left the advantage in Israel’s hands in all decisions, whether ‘interim’ or ‘final status’. One important change was Israel’s decision to reverse the ‘open-borders’ policy in order to further societal separation, reducing and restricting the ability of Palestinian workers to migrate to jobs inside Israel, as well as within the various parts of the West Bank and Gaza Strip. A second important change was Israel’s ability to create more facts on the ground, especially expansion of Jewish settlement and the connection by roadway of the West Bank and East Jerusalem settlements to Israel proper, through the continuous use of mostly West Bank labour. These two changes, Farsakh argues, created the ‘bantustanisation’ of the Occupied Territories that had so clearly appeared by 2000, namely ‘the fragmentation of the West Bank into population enclaves’, enclaves not only separated from each other and from East Jerusalem and Gaza, but also dependent on the Israeli economy, yet not able to access it easily.

Farsakh leads us to ponder how this situation compares to that in apartheid-era South Africa, and what it implies for the future viability of a potential Palestinian state alongside Israel. The answers to these questions will tell us something, in turn, about how all we human neighbours will manage to get along in the future. While Israel/Palestine itself is tiny geographically, its moral importance is incalculable, as its fate will help define our general human condition, for good or for ill, and the fate of the world as we determine it in the twenty-first century.

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## Acknowledgements

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# Abbreviations

ARIJ	Applied Research Institute of Jerusalem
CAC	Joint Civil Affairs Co-ordination and Co-operation Committee
CAP	Protocol on Civil Affairs
COLA	cost-of-living allowance
DOP	Declaration of Principles
DUNUM	1,000 sq. m/0.1 hectares/0.25 acres
EP	Protocol on Economic Relations (or Paris Protocol)
EU	European Union
FAFO	Norwegian Institute for Applied Social Science
FMEP	Foundation for Middle East Peace
GATT	General Agreement on Trade and Tariffs
GDP	gross domestic product
GNI	gross national income
GNP	gross national product
GS	Gaza Strip
ICBS	Israeli Central Bureau of Statistics
ICP	international comparison of products
ILO	International Labour Organization
IMF	International Monetary Fund
IMOL	Israeli Ministry of Labour
JD	Jordanian dinar
JEC	Joint Economic Committee
JLC	Joint Labour Committee
JPJC	Jordan-Palestinian Joint Committee
JSGAS	Judea, Samaria and Gaza Area Statistics
LDC	less developed country
LFPR	labour force participation rate
LFS	Labour Force Survey (conducted by PCBS)
MAS	Palestine Economic Policy Research Institute
mcm	million cubic metres
MENA	Middle East and North Africa

NEM	New Economies of Migration
NGO	non-governmental organisation
NIS	new Israeli shekel
OECD	Organisation for Economic Co-operation and Development
PASSIA	Palestinian Academic Society for the Study of International Affairs
PCBS	Palestinian Central Bureau of Statistics
PHRIC	Palestine Human Rights Information Center
PLO	Palestine Liberation Organisation
PNA	Palestinian National Authority
PRS	Protocol on Redeployment and Security
SAI	Statistical Abstract of Israel
TLFS	Territories Labour Force Survey (conducted by ICBS)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNGA	United Nations General Assembly
UNRWA	United Nations Relief and Works Agency
UNSC	United Nations Security Council
UNSCO	United Nations Special Coordinator in the Occupied Territories
WB	West Bank
WBGD	West Bank and Gaza Strip
WTO	World Trade Organization
WZO	World Zionist Organization

# Introduction

Ever since Israel occupied the West Bank and Gaza Strip in 1967, Palestinian commuting labour migrants have played a key role in shaping Palestinian economic growth patterns and in binding the Occupied Territories to Israel. Between 1974 and 1992, labour migrants going to Israel represented over a third of the Palestinian employed workforce, and generated more than a quarter of the West Bank and Gaza Strip (WBGS) GNP. They anchored the WBGS's economic growth to Israeli demand for Palestinian goods and services, and at the same time helped finance the Palestinian trade deficit with the Jewish state. Wages earned in Israel allowed income per capita in the WBGS to more than double between 1970 and 1993. Since the Oslo peace process in 1993, though, Palestinian migrant flows to Israel have become increasingly volatile, causing large falls in income per capita and leading some to argue that the era of migration has come to an end.

The aim of this book is to explain the determinants and dynamics of Palestinian labour migration to Israel between 1967 and 2000. No study to date has carefully documented the rise and fall of Palestinian labour flows to Israel, or explained their economic and political underpinnings and implications. Among the central questions that this book seeks to answer is why and how the WBGS relied so heavily on an occupier's economy to absorb its labour force. This question acquires a special importance in view of the rapid growth of the Palestinian labour force and the challenge it poses in terms of demand for new jobs. Since 1995, the Palestinian labour force has been growing by more than 4.1 per cent per annum, one of the highest growth rates in the world (IMF 2001). Meanwhile, employment has grown by less than 3.9 per cent per annum.

The study of Palestinian labour migration acquires an additional importance today in view of the ongoing debate about the prospects for Palestinian independence from Israel. The Quartet's Road Map published on 30 April 2003 provided the latest international endorsement of the project of an independent Palestinian state in the WBGS. Accepted by Israel<sup>1</sup> as well as the Palestinian authority, the Road Map calls for the establishment of an 'independent, democratic and viable Palestinian State living side by side in peace and security with Israel and its other neighbours'. It reasserted UN Security Council Resolution 1397 and the Saudi initiative in 2002, which affirmed Palestinians' right to independent statehood. The political and economic boundaries of this state, however, are still far from being defined. Most of the ongoing discussions have focused on the political character of this state, on the scope of Israeli retreat and on the terms of negotiations that could lead to the end of the Israeli-Palestinian conflict.<sup>2</sup> No consideration has been given so far as to how trends in Palestinian labour flows to Israel provide insight into the kind of boundaries that are being drawn, particularly as Israel has set the stage for disengaging from the Gaza Strip while continuing to keep its hold of the West Bank.

Palestinian labour flows reflect the evolving dynamics of separation and integration, or boundary redefinition, which has been taking place between Israel and the WBGS over the past three decades. Access to the Israeli labour market has been key in determining

the level of integration or separation between the Palestinian economy and Israel, as well as in determining the level of Palestinian welfare. Yet little attention has been given so far to the fact that labour migration did not come to an end after 1994 but rather changed in composition and direction. The Israeli labour market has become more accessible to workers from the West Bank than to those from the Gaza Strip since the 1990s. Less than 15 per cent of Gaza's workforce has been employed in the Israeli economy since 1994, compared with over 40 per cent in the 1980s (see Chapter 4). Unemployment rates in the Gaza Strip meanwhile have been above 15 per cent since 1994 compared with less than 7 per cent in the pre-1994 era. In the West Bank, by contrast, 110,000 workers were employed in the Israeli economy in August 2000, compared with 70,000 in 1992. Labour flows have also been increasingly moving towards jobs in Israeli settlements built in the Occupied Territories or along the Green Line, rather than beyond it. These changes reflect a process of territorial and economic redefinition between Israel and the Occupied Territories that needs to be explained. They reflect in particular two major developments that have implications for the demarcation and viability of an eventual Palestinian state.

First, they indicate that the Gaza Strip has been separating from Israel while the West Bank continues to be integrated into the Jewish state. This is a process that has been going on since before Israel announced its disengagement plan from the Gaza Strip in 2003, but whose economic and political underpinnings have not been carefully explored so far. Second, the changing pattern of Palestinian labour migration since 1994 suggests that the Occupied Territories have witnessed a process of 'bantustanisation'. This is a process by which the WBGs has been turned into *de facto* population reservoirs reminiscent of South Africa's bantustans in so far as they are unsustainable economically and unable to separate viably from Israel to form an independent contiguous state. South Africa's bantustans were labour reserves to which the indigenous black community was confined and out of which black Africans could not exit or work without a pass issued by the white South African government. They were created as a means to ensure a supply of cheap black labour to white areas while confining the indigenous black population into ten separate geographic areas enclaved within South Africa. These enclaves were given local autonomy but no effective sovereignty. In the case of the Occupied Territories, the process of 'bantustanisation' has not been as clearly pre-planned, or intended for economic reasons, as in the case of apartheid South Africa. However, it is a development born out of the territorial fragmentation that the Occupied Territories underwent, particularly during the Oslo years. It is also the result of the pattern of Israeli regulation of Palestinian labour and population movement introduced since 1991. The data and analysis presented in this study explain how this process of 'bantustanisation' became a reality that puts in jeopardy the prospect for a viable contiguous state in the WBGs.

### **Understanding Palestinian labour migration to Israel**

This book seeks to explain the determinants of Palestinian migration to Israel by analysing the link between migration, development and occupation. It seeks to bridge the gap between present understanding of migration dynamics and the nature of the Israeli-Palestinian conflict. On the one hand, it explores the economic determinants of labour mobility and inquires into the nature of the structural change that occurred in the WBGs

over the past 38 years that made it inevitable for Palestinians to migrate. On the other hand, it asks how the territorial nature of the Israeli-Palestinian conflict impacted on the causes of labour mobility as much as having been influenced by it.

The literature analysing the course of WBGs economic development, while fully aware of the importance of Palestinian labour flows, has not accorded specific attention to the determinants of Palestinian labour migration. As Chapter 2 of this book explains, most of what has been written on the Palestinian economy has focused on the structural imbalances created by the pattern of Israeli occupation and the means to redress it. While acknowledging that Palestinian labour dependency on Israel is a reflection of this structural imbalance, the literature has not succeeded in explaining its various determinants. Economists have tended to treat migration as a pure economic phenomenon, and the result of integrating a small economy such as the WBGs in a more capital-intensive and developed economy such as Israel. Such an approach, while necessary, is not sufficient, for it does not explain why and how Palestinian migration is different from other migration experiences. It does not elucidate why Palestinian migrants tended to come from rural areas and from refugee camps, among families that have lost or are losing their land. Nor does it explain why over 50 per cent of Palestinian workers are concentrated in the Israeli construction sector, which further perpetuates Israel's hold on land. Political scientists or historians, on the other hand, have looked at labour migration as an inevitable outcome resulting from Israel's territorial interests in the WBGs. It is the means that allowed the pacification of the Palestinian population as Israel confiscated the Palestinians' land. Such an approach, however, has not always explored the economic mechanisms that caused Palestinians to continue to work in Jewish areas, despite Israeli government attempts to curtail labour flows in the late 1990s.

The problem of explaining Palestinian labour migration lies in analysing a development context shaped by occupation. It stems from the difficulty of weaving the links between occupation and development, between the structural and rational determinants of migration, and between the land and labour dimension of the Israeli-Palestinian conflict. The originality and contribution of this study lies in analysing these links, and in articulating the economic and political determinants of Palestinian labour migration.

### *Occupation and development*

What makes the analysis of development under occupation particularly problematic is both the nature of this occupation and its underlying strategic objectives. Unlike the people and rulers of most developing countries, the Palestinians in the Occupied Territories not only were faced with the challenges of defining their growth prospects and employment opportunities in a context of national, regional and international inequalities, but were also confronted with a prolonged military occupation that started in 1967. After the Six Day War, Israel seized the Gaza Strip from Egypt and the West Bank from Jordan. Israel did not annex the territories, but at the same time it worked on putting a claim on them through its military control and settlement construction. As Abed (1988:8) has noted, Israeli occupation was not simply 'a military incursion into foreign territory', but had the effect of 'redefining the conditions that govern the lives of Palestinian people...beyond the notion of occupation. It is uprootedness and dispossession'. The

concept of dispossession is particularly important in this respect, as it does not refer simply to the process of rendering the occupied population landless. In Abed's view, it carries 'the broader meaning of robbing the affected population of *the material basis* to live and prosper as a community and further to *deny this population the right and means to redress the grievances* that arise as a result of this usurpation' (1988:8–9; italics added).

Israeli occupation makes it difficult to abstract the political and territorial realities of dispossession from the economic rationale behind migration. It raises the question of how Israel created the economic conditions for Palestinians to seek employment in an occupier's environment while robbing them of their land. It also brings up the question of what kind of development the occupation created. The Palestinian economy witnessed important structural changes following 1967 as it became transformed from an agrarian into a service-oriented economy dependent on Israel. It saw the improvement of its inhabitants' individual welfare at the same time as the deterioration of its national productive capacity to grow independently from Israel and to absorb its growing labour force. Palestinians in the WBGS, meanwhile, were prevented from having a national authority that would have allowed them to participate in shaping the course of their economic development. Although the Oslo peace process in 1993 allowed the Palestinians to have an elected National Authority, it did not end the occupation nor give them economic or territorial sovereignty. It was Israeli policies and priorities that defined the scope of Palestinian individual welfare and the limitation of the WBGS national boundaries and development. It determined the context for labour migration.

Migration theories, meanwhile, do not facilitate the task of explaining Palestinian migration. This is largely because of the difficulty of incorporating political conflicts into some of their economic models. Rational choice theories of migration, despite their evolution and incorporation of information asymmetries and market imperfections, particularly in rural areas, continue to treat labour migration as a micro-based optimisation decision-making process predicated on individual rationalisation. They concentrate on labour dynamics but do not account for the role of power structures in shaping economic decisions. The political economy approach to migration analysis, in contrast, pays attention to the role of unequal power relations as well as to structural change in shaping the release and transfer of labour. However, neither the rational choice nor the political economy approaches deal with labour migration as occurring in a context of occupation. Rather, they deal with labour migration as occurring within, or between, defined nation-states. No study so far has attempted to explain the causes of migration when a state is occupying another political entity whose economic and territorial borders it is seeking to redefine.

### *Labour and land*

The challenge of explaining migration in the context of Israeli occupation hinges on our understanding of the various facets of the Israeli-Palestinian conflict. It requires an articulation of its land and labour dimensions, and an analysis of the way political priorities dealt with economic realities.

Israeli occupation, and the Palestinian-Israeli conflict more generally, are perceived to be a conflict over land, rather than over economic resources *per se*. As Kimmerling puts

it, 'while other colonizing movements chose their target land on the basis of their political, geographic and economic availability...[for the Zionist movement] Zion was *a priori* the territory involved' (1983a:8). The exact boundaries of Zion,<sup>3</sup> and the place of the West Bank and Gaza Strip in that concept, however, were never clearly established by any Israeli government. The UN Security Council Resolution 242 of 11 November 1967, which followed the 1967 Six Day War, called on Israel to withdraw from territories it occupied, but it did not specify the borders of these territories, or the lines to which Israel was obliged to retreat.

The Israeli cabinet in the aftermath of 1967 war defined the scope of its territorial interest in the WBGS through a policy of land confiscation and the building of settlements. Settlements are particularly important, as they sought to establish a Jewish demographic presence in the WBGS that put in jeopardy the Palestinian claim to sovereignty over the Occupied Territories. Although the Fourth Geneva Convention of 1949, to which Israel is a signatory, considers settlements illegal, Israel built over 178 settlements in the WBGS (including East Jerusalem) between 1967 and 2000 (FMEP 2000). While settling civilians in an occupied land is not an unknown phenomenon in history, the Israeli settlements' experience is unique in so far as it has induced demographic, economic and territorial changes that altered *de facto* the 1967 borders between Israel and the Occupied Territories. It cuts through the territorial contiguity of the WBGS and makes it increasingly difficult to define the boundaries of what is the Palestinian 'economy' or 'national' entity. At the same time, it is Palestinian workers who built the settlements, raising thereby the question of how Israel used Palestinian labour to confiscate Palestinian land.

The extent of Israel's territorial and economic incorporation of Palestinian land, however, has not been uniform, nor has it been done in abstraction from Palestinian demographic realities. Israel's interest in Palestinian land since 1967 has been from the outset beset with the challenge of what to do with a million Palestinians who mostly stayed in their homes and did not flee, as their parents did in 1948. The Palestinian labour force in the WBGS was growing at more than 1.9 per cent per annum after 1967, and the majority were still working in agriculture in 1970. Israeli territorial interests had, therefore, to deal with the reality of Palestinian demography and labour force dynamics from the outset of the occupation. Israel's strategic decision was to incorporate the Palestinian territory and labour force but to exclude the Palestinian demography from its polity. The conflicting interaction of territorial and demographic realities shaped the conditions of Palestinian labour migration, as well as the dynamics of integration and separation between Israel and the WBGS.

Looking from a historical perspective, the appropriation of Palestinian land was never detached from the material realities of labour dynamics. Shafir (1989) has shown that the pattern of Israel's historical appropriation of Palestinian land in the pre-1948 period could not be abstracted from the reality of Palestinian demographic presence. The founders of the Israeli state were already wary of the Palestinian population because of the constraints it put on the project of creating a strong Jewish state. They were also concerned about the potential threat that cheaper Palestinian labour posed to newly arriving Jewish immigrants. Yet the growth of the Jewish Zionist community in Palestine pre-1948 relied on the availability of Palestinian labour, as many Zionist agriculturalists and entrepreneurs continued to employ it (Kimmerling 1983a; Shafir 1989). When the Israeli



state was created in 1948, it eliminated the threat that Palestinian workers could pose to the Jewish economy and identity by expelling the majority of the indigenous population and by controlling the economic life of the Palestinians who remained. The Palestinian-Arab minority in Israel did not threaten the Jewish workforce, since the state deprived many of the Arabs of their land and discriminated against them in different economic spheres<sup>4</sup> (Shalev 1992; Yiftachel 1996). Yet the Israeli economy between 1948 and 1967 continued to rely on Palestinian labour to supply a quarter of the Israeli construction and agricultural workforce (see Chapter 6). Historically, thus, the exploitation of land and labour went hand in hand, regardless of the prime objective of the Zionist colonisation process.

The Israeli occupation of the WBGS presented a continuation of this historical trend, albeit by providing a new economic and political context for the interaction of land and labour relations. By 1967 Israel was an established state capable of defending and expanding its boundaries. The territories occupied presented a strategic and national asset, but also posed a challenge in terms of Palestinian demographic and political claims. Israel had to deal with a Palestinian population that opposed the occupation, a growing labour force that needed work, and a Palestinian economy that Israel did not want to be a source of competition to the Jewish economy, or a material base for Palestinian independence. The initiation of the Oslo Peace Accords in 1993 accentuated the contrasting claims over the land, especially as by 1993 over 259,000 settlers were living in the Occupied Territories (including East Jerusalem), and the number has grown by more than 10 per cent per annum ever since, consolidating thereby the Israeli claims to parts, if not all, of the WBGS (see Chapter 3).

### **Overview and outline of chapters**

This book explains the determinants of Palestinian migration by analysing the dialectic of land and labour relations between Israel and the WBGS. It demonstrates that Palestinian labour migration has been the result of the specificity of Israeli occupation and its implications for Palestinian economic development and labour force absorption. It is the outcome of the process of structural change that took place in the WBGS between 1967 and 2000, which made it inevitable for Palestinians to work in an occupier's economy and build its settlements. This process of structural change has been determined by Israel's concern to consolidate its holdings of Palestinian land, which prevented the Palestinian economy from standing on its own feet, and to absorb its labour force. It is also determined by the nature of Palestinian demographic growth and the way it reacted to the constraints imposed by Israeli occupation. The dialectic of land and labour dynamics in turn has led to a process of boundary redefinition between Israel and the WBGS that is putting in jeopardy the prospects for a viable contiguous Palestinian state.

Through the use of a political economy approach, this study demonstrates that Palestinian labour migration has been the result of Palestinian labour force dynamics, of evolving land relations and of the role of Israeli state ideology of expropriation and settlement. These three structural determinants are central to the understanding of the Israeli occupation of the WBGS, as well as of the Oslo process. Labour, land and state are also central to a comprehensive analysis of any migration phenomenon, for changing

land relations causes people to be released from their homes, and have been induced by Israel's strategic objectives in the WBGS. Meanwhile, labour force dynamics make labour transfer inevitable at times, especially as Israeli occupation has restricted the growth of Palestinian domestic employment. On the other hand, Israeli state policies are important not only in determining the scope of Palestinian labour absorption, but also in shaping the change in land relations and in redefining economic and territorial boundaries with the WBGS. By analysing how land, labour and state policies have converged (or diverged at times), it is possible to explain not only the rise and fall of Palestinian migratory flows, but also why they have tended to be released from certain areas or groups more than others, and how they have been transferred and absorbed into an occupier's economy. It is possible to explain how Israel used Palestinian labour to confiscate the Palestinians' land.

The book is organised into nine chapters. Chapter 1 places Palestinian migration within the present theoretical debate about labour movements. It identifies the theoretical link between land policy, capital accumulation, labour force dynamics and migration. It critically examines the strengths and limitations of the two alternative analytical models, the rational choice models and the political economy approach, in explaining the three distinct but interrelated processes that are central to any migration phenomenon, namely the processes of labour release, labour transfer and labour absorption. Chapter 1 also explains why a political economy approach is more apt to elucidate the pattern and causes of Palestinian labour flows to Israel.

Chapter 2 explores the nature of the structural transformation of the Palestinian economy between 1967 and 1993. It explains the paradox of the development of the WBGS under occupation characterised by rising income per capita but diminishing long-term national productive capabilities. It reviews various perspectives that have sought to elucidate this paradox, arguing that their success in explaining the nature of Palestinian development hinges on their ability to incorporate the territorial dimension of Israeli occupation into their analysis.

Chapter 3 identifies the specificity of Israeli occupation by pinpointing the peculiarity of Israel's land and settlements policy, and its role in defining the framework within which Palestinian economic development and labour flows have taken place. It also pays particular attention to the territorial and demographic expansion of settlements over the past three decades, and their implications for the prospects of a sovereign Palestinian entity in the Occupied Territories.

Chapters 4–6 analyse the structural determinants of WBGS labour migration. Chapter 4 describes the character of Palestinian labour flows, emphasising their precarious and commuting character and their concentration in the Israeli construction sector. It also identifies the role of labour force growth in creating the conditions for people to seek employment in Israel, especially in view of the limited employment options inside the WBGS. It stresses the difference between the Gaza Strip and the West Bank in their reliance on the Israeli labour market, accounting for the significant changes that have taken place since 1993.

Chapter 5 focuses on the mechanisms of Palestinian labour release and transfer from the WBGS, particularly from agriculture. It analyses the different institutional and market mechanisms that have contributed to Palestinian release labour, such as Israeli land and trade policies. Among other things, the data and analysis presented in this chapter verify

the extent to which Palestinian workers transferred to Israel because of the higher wages available in the more capital-intensive economy or because of lack of jobs at home.

Chapter 6 analyses the mechanisms of labour absorption in the Israeli economy. It concentrates on the Israeli construction sector, given its importance for Palestinian commuting migrants and for the Israeli economy and ideology of settlement. Israel's ideology of settlement and construction expansion has paradoxically encouraged Palestinian labour flows, as the Israeli construction and settlement sectors have increasingly relied on Palestinian workers to supply them with the needed workforce. Despite the entry of foreign workers into the Israeli economy in the 1990s and the introduction of the closure and permit policies, Palestinians have continued to be employed by Israelis, revealing the latent structural dependence of Israeli demand on WBGS labour. In this chapter, I explore the structure of Israeli demand for Palestinian workers, explain the institutional framework regulating the absorption of WBGS workers, and identify the ways by which Palestinian workers came to play an important economic role as cheap and flexible labour. I also show how Israeli state housing and immigration policies have played a key role in explaining the geographic distribution and persistence of Palestinian labour flows, without threatening other workers.

Chapters 7 and 8 concentrate on explaining the changes in Palestinian labour flows since the initiation of the peace process in 1993. In the former, I provide a textual and an economic analysis of the Oslo Accords, highlighting the structural change that this agreement brought to Israeli-Palestinian labour and land relations. I pay particular attention to how the interaction of land, labour and the state dynamics led to a *de facto* redefinition of Israeli-Palestinian boundaries in a way that compromises the viability of a future contiguous Palestinian state in the West Bank *and* the Gaza Strip. The analysis in this chapter demonstrates that a process of 'bantustanisation' of the Palestinian territories has taken place, while explaining why such a term is used and how it relates to the South African historical experience. I emphasise that while the Israeli policy makers might not have accorded explicit attention to the labour implications of their territorial policies, or have been interested in creating labour reserves for economic reasons, the territorial, regulatory and economic developments since 1993 have led to the creation of disconnected population reserves with the characteristics of 'bantustans'.

Chapter 8 provides a case study that sheds lights on this process of 'bantustanisation'. Based on primary data collected on Palestinian workers employed in Israeli settlements in the West Bank, the chapter provides a micro-perspective on the mechanisms of Palestinian labour release, labour transfer and labour absorption that are discussed in the preceding chapters. It also provides an illustration of the dynamics of territorial and economic redefinitions between that which is Israel and that which is to become 'Palestine' in the future.

Chapter 9 concludes by indicating how the developments of the past three decades have compromised the prospects for a viable economic and territorial Palestinian separation from Israel as well as the future of Palestinian labour flows.

### Data sources

Detailed labour data, particularly migration data, that are based on consistent definitions and labour surveys are often difficult to find in developing countries (Berry and Sabot 1978; Turnham 1993). This, however, has not been the case for the Occupied Territories, as data on the Palestinian economy and labour force are quite extensive. They draw on two main sources that are also used in this book. These include the official statistics produced by the Israeli Central Bureau of Statistics (ICBS) for the period 1967–1993 and by the Palestinian Central Bureau of Statistics (PCBS) for the post-1995 period.<sup>5</sup> Although these sources have limitations that have been discussed elsewhere (UNCTAD 1996; Farsakh 1998), they remain the only consistent data series for the pre-1994 period.<sup>6</sup> ICBS and PCBS data remain valuable in so far as they rely on ILO and international survey methodologies, and provide consistent time-series data on the Palestinian labour force.<sup>7</sup>

It is important to note, though, that these two official sources differ in their definition of the Palestinian areas and in their coverage of the surveyed population. In particular, Israeli and Palestinian sources differ in their definition of East Jerusalem and of who is included in the Palestinian population. The ICBS excludes the Palestinian population of East Jerusalem from its data on the WBGS, although East Jerusalem was among the areas occupied in 1967. Moreover, it considers Israeli settlements to be part of the Israeli economy, although territorially they are situated within the occupied West Bank and Gaza Strip. On the other hand, the PCBS includes the inhabitants of East Jerusalem in its Palestinian labour surveys. In this book, however, the term ‘Palestinian economy’ refers to all production activities carried out by Palestinians within the 1967 borders of the WBGS. It also includes the Palestinian inhabitants of the WBGS employed in Israel, but excludes East Jerusalem as long as Israeli official statistics do so. ‘Israeli economy’ will refer to all economic activities undertaken by Israeli citizens whether they are living inside Israel or in the settlements in the WBGS.

The other source used in this book is primary data collected during a fieldwork survey conducted on Palestinian workers employed in the Israeli settlements construction sector. The survey was conducted in the summer of 1999 and in 2000. It was motivated by the fact that Palestinian employment in the Israeli settlements had not been studied hitherto and official statistical sources do not provide detailed data on it. The survey covered a sample of 90 construction workers from the Jalazon refugee camp in the Ramallah area, and from the rural town of Salfite, near Nablus in the north of the West Bank. The survey also included a sample of 30 Palestinian subcontractors employed in Israeli construction. The data collected provide insight into the micro-dynamics of Palestinian labour migration in the context of settlement construction. The employment of Palestinians in Israeli settlements, a central component of the Israeli occupation, reveals in a nutshell the dialectic process of territorial appropriation through the use of Palestinian labour.

# 1

## Migration theories, labour transfer and structural change

At present, there is no single coherent theory of international migration, only a fragmented set of theories that have been adopted largely in isolation from one another, sometimes, but not always, segmented by disciplinary boundaries.

(Massey *et al.* 1993:432)

This chapter provides a critical review of migration theories that seek to explain labour mobility in the context of economic development. It explores how far they can help elucidate the causes of Palestinian labour flows to Israel.

Palestinian migration shares a number of similarities to and differences with other experiences of labour transfer. As in many developing countries, migrants from the WBGs have been predominantly unskilled and semi-skilled male labourers (Skeldon 1997). They came mainly from rural areas but also from refugee camps, which are inhabited by descendants of Palestinians who lost their land when the State of Israel was created in 1948 (see Chapter 4). The majority were also employed in low-skilled occupations in the construction and agriculture sectors in the receiving economy. These sectors combined absorbed nearly 70 per cent of the total WBGs workforce employed in Israel (see Chapter 4).

What has been particular to Palestinian migration, though, is its male *commuting* character and its heavy dependency on the Israeli labour market. Palestinian labour migrants were not like Mexican or North African migrants seeking permanent settlements in the United States and the European Union respectively (Stalker 2000). Rather, they commuted daily to take jobs controlled by their occupier, and returned each night to their homes in the WBGs. Their status was more precarious and circular than that of temporary Arab or Asian workers going to the Gulf (Amjad 1989). Moreover, Palestinian labour flows to Israel represented over 40 per cent of the employed force in the Gaza Strip and 30 per cent of workers from the West Bank in the 1970s and 1980s. Such labour dependency on another economy has rarely been seen, with the exception of Lesotho, where migrants to South Africa represented over 45 per cent of its total workforce in the 1980s and 1990s (Lundahl and Petersson 1991).

Any comprehensive analysis of Palestinian migration needs to explain why and how the WBGs economy acquired such a heavy dependency on the Israeli labour market. It also needs to explain its precarious commuting character and its sectoral distribution. Migration theories provide various explanations of the causes of labour migration, but it is increasingly difficult to situate them within one clear analytical perspective (Wright

1995:788). On the one hand, there is the rational choice approach, which considers migration to be a rational decision based on an optimising behaviour. On the other hand, there is a political economy perspective that analyses labour mobility as part of the process of capitalist development. The difference between the two approaches lies in the emphasis they accord to the role of human agency as against social structures. It is also the outcome of their contrasting conceptualisation of the migration phenomenon as well as of the development process and how it influences labour transfer. Their ability to explain the Palestinian case hinges on their analysis of three key factors that are central to any migration process in developing countries, namely, changing access to resources, particularly land; the quest for employment; and the role of state policies in shaping economic and political conditions. Establishing the link between these factors is essential to understanding not only who migrates, but also how labour is being released from a sending economy, transferred and then absorbed in a receiving economy.

### **Rational choice models**

At the forefront of rational choice theories of migration is the Harris-Todaro (H-T) model. Although it has been heavily criticised ever since its publication in 1970, the model remains one of the 'few theories in economics [that] have been the subject of...widespread acceptance in policy circles, of empirical challenges and of theoretical extensions' (Lucas 1997:733). Its central premise is that migration is a micro-rational economic search for employment and income not found at home. It is a decision taken on the basis of *expected* income differentials between two areas. The model is a two-sector labour-market model that considers migration to be an investment in human capital taken in a context shaped by high unemployment levels in the urban sector and by large population growth. The rural sector, from which the migrants are believed to originate, is assumed to be capitalist, and to have no surplus labour. Migrants are assumed to be risk-neutral, utility-maximising agents. They are also assumed to be perfectly mobile between sectors and to have access to perfect information. Their employment in the modern urban sector is assumed to be a function of probabilistic job rationing (Harris and Todaro 1970:127–128).

The Harris-Todaro model has been particularly attractive for its acclaimed capacity to provide a simple rational explanation based on a push-pull framework of analysis, where migration is 'positively associated with urban wages and negatively related to rural wages' (Todaro 1980:380). It continues to be used today in most micro and macro Computable General Equilibrium models attempting to establish the optimal level of migration and unemployment in developing economies (Lucas 1997). However, it has been severely criticised for various empirical and conceptual problems. Various studies have shown that migration is not necessarily an investment in human capital, or dominated by skilled workers (Standing 1985; Massey *et al.* 1993). Newbury and Stiglitz (1979) show that migrants tend to come from areas where sharecropping is most common, indicating thereby the importance of analysing the pattern of land holdings and rural structure to determine who migrates, something the Harris-Todaro model does not do. Fields (1975) and Bhattacharya (1993), meanwhile, show that networks and organised contractual arrangements, rather than probabilistic rationing, play a more important role

in determining the prospect and duration of migrants' employment in places of destination. As to expected wage differentials, which are so central to the model, they were found to be statistically significant (Barnum and Sabot 1976; Berry and Sabot 1978). However, they have not always been found to be a *sufficient* cause for migration (Massey *et al.* 1998; Taylor 1996). Studies from Southern Africa, Asia and Latin America indicate that people migrate despite the lack of wage differentials (Bilsborrow *et al.* 1984; Standing 1985; Stark 1991; Cook 1999; de Haan 1999). In the Palestinian case, as Chapter 5 reveals, wage differentials between Israel and the WBGS were virtually absent between 1974 and 1986, yet migration flows continued to grow over that period.

### *New Economics of Migration*

The New Economics of Migration (NEM) provides the most elaborate approach to explain labour mobility within the rational choice analytical framework. While not rejecting the Harris-Todaro model altogether, NEM economists, led by Oded Stark, have sought to provide insights 'into additional motives, as evidence that there is something beyond the mere capturing of the differentials which accounts for international migration phenomena' (Stark 1984:206). For Stark, the question is not so much how to explain labour mobility in the context of high unemployment in the urban sector, but rather to illustrate how the migration decision is being formulated *within* the rural household. From the NEM point of view, the problem of the Harris-Todaro model hinges on three main conceptual issues. These include the model's identification of the entity making the decision, its assumption about the informational environment in which the decision is made and its conceptualisation of the context that influences such a decision.

The starting point of NEM analysis is to 'consider a model agricultural family assumed to be the decision-making entity, which attempts to transform "familial" into capitalist production' (Stark 1991:11). It considers the household, rather than the individual, to be the entity taking the migration decision. In line with developments in household and population economics (Rosenzweig and Stark 1997), NEM conceptualises the family, or the household, as an entity functioning according to the laws of utility maximisation, both in terms of its income-generating decisions and in its demographic or social activities. Migrants add 'a new element to the utilities-from-children vector, namely facilitating production transformation' (Stark 1982:64). The decision to migrate is based on a cost-benefit analysis carried out by the potential migrant and his or her family to whom he or she is bound through a *de facto* contractual agreement (Stark 1991:25–27).<sup>1</sup> It is not a result of wage differentials *per se*, but rather a strategy about income and risk diversification. The migrant is sent to work outside the local economy in quest for a source of income that will be *remitted* back home.

Remittances play a central role in NEM's explanation of migration. According to Stark, families in developing countries typically live in contexts of imperfect information and incomplete markets, especially in land and credit. By sending a migrant who will remit money back home, the family can alleviate some of the constraints it faces. Remittances also help alleviate 'relative deprivation', which, according to Stark, is another factor causing migration. This is a concept that takes into account the implications of income distribution and social variables for migration. Stark argues that people who are relatively deprived, and thus faring less well in income and status, be it in

their household or in comparison to other households, are most likely to move (Stark 1984:215). This explains, in Stark's view, why migrants in certain cases tend to originate from landowning rather than landless families, since landholding households are argued to be exposed to larger risks than landless peasants, especially in areas that are characterised by an imperfect land and credit market. People who are at the upper or lowest ends of the income distribution ladder usually do not migrate, because they do not have much to gain in terms of status or income. Empirical evidence from Botswana lends support to such an argument (Stark and Taylor 1989).

### *Temporary migration*

The New Economics of Migration has also given some attention to the factors determining a migrant's absorption within a sending area as well as to his or her return. Given that NEM considers the migrant to be tied to his or her family, and bound to return once the situation of uncertainty back home has been overcome, it has paid attention to the reality of circular and temporary migration. According to Stark *et al.* (1997) and Stark and Chou (1998), imperfect information in migrant receiving areas influences the level of wages that employers give to migrants, as well as the optimal timing of their return. Skilled migrants might find themselves worse off in the short run, while unskilled migrants are likely to benefit, as employers give an average wage to all migrant workers, one that does not reflect their levels of education or skills. Evidence from Mexican migration to the United States or of migration from South-East Asia to East Asia shows that during the first years of their migration, migrants do not tend to receive wages that reflect their marginal productivity (Massey *et al.* 1998; OECD 1998; Fong 1996). Recent work has also attempted to model the role of economic variables such as trade openness, inflation and unemployment of natives and of foreign immigrants in influencing the price at which employers would hire new migrants, and the decision to do so (Martin 1993; Stark *et al.* 1997; Borjas 2000).

The level of wages received, and the levels of savings that can be made from those wages, determine, in turn, the optimal timing of the return. According to Bauer and Gang (2001), the duration of migration is tied to the uncertainty about wage rates and the acquisition of assets. It is a function of the migrant's saving target, which in turn is a function of his or her age, level of education, the family conditions, and incomes in sending as well as receiving areas (Hill 1987; Dustmann 1995; Aly and Shields 1996; Hare 1999). Social networks, identified as social capital, also influence the consumption and income levels in areas of destination and in turn influence the migrants' savings targets (Bauer and Zimmermann 1997). Political variables, such as immigration policies, or employment patterns, such as subcontracting, which are believed to influence the level of certainty, are also modelled to examine how far they impact on migrants' savings and thereby their return (Lindstrom 1996; Massey *et al.* 1993, 1998; Phillips and Massey 1999).

### *Application and limitation*

NEM theory made an important contribution to the analysis of migration from a rational choice theoretical perspective. It moved the analysis away from a simple human capital



model to treat questions of uncertainty, asymmetric information and strategic behaviour in contexts of imperfect markets. Among its most important contributions is the linking of migrants' remittances behaviour to households' use of remittances (Massey *et al.* 1993:457). It provides a better understanding of the dynamics of rural sending areas and of the link between access to resources and the quest for employment.

However, despite its contribution and complex modelling, NEM's capacity to explain labour migration, and particularly Palestinian migration, is haunted by two major problems. First, empirical verifications of the NEM models demonstrate that it is not possible to reach any definitive conclusion as to the role of remittances or relative deprivation in explaining the causes and benefits of migration. Evidence from Mexico and Botswana shows that migrants' remittances are greatest in households most exposed to local income risks and in periods of severe drought (Lucas and Stark 1985; Stark 1991:229). Lucas (1985) and Taylor (1995) show that remittances positively influence local income-generating activities by helping households overcome local credit constraints on production. Yet Standing (1985) and Breman (1990) show that the unskilled poor migrate because of need, and are not concerned with, let alone capable of, remitting some money back home. Lipton (1982) and Adams (1996) reveal that it is not the relatively deprived who migrate but rather the most skilled, creating thereby greater inequality in sending areas. In the Palestinian case, migrants going to Israel tended to come from refugee camps and landless areas, not always from landholding areas (Chapter 5). While remittances helped improve income distribution in the WBGs, they created a heavy dependency on the Israeli labour market. Among other things, they increased domestic wages in the WBGs, thereby constraining domestic employment creation (Shaban 1993; Arnon *et al.* 1997).

Second, NEM does not explore the structural factors determining relative deprivation, inequality or market imperfection. NEM's analysis is ahistoric and remains confined within a methodological individualism framework of analysis that is based on autonomisation of economic behaviours and the axiomatic method of deduction (Fine 1980:12; 1998:4). The decision to migrate is a function of psychological axioms about how a family relates to the outside world, engages in socioeconomic comparisons and rationally decides to deal with risk and market uncertainties. NEM is not concerned with the role of the state and unequal power relations in creating these structural uncertainties and shaping these axioms. It does not explore the underlying changing causes of migration.

### **The political economy approach**

The political economy approach to migration shifts the analysis away from a focus on individual rational investment behaviour. While it does not challenge the rationality of migration decisions, it is concerned with explaining how a particular context of development causes labour movement and determines its character. Political economists look at development as a process of structural change associated with the nature of capital accumulation, rather than simply a question of welfare and efficiency, as most rational-choice economists tend to perceive it.

### *Classical political economists*

Classical political economists were among the first to attempt an explanation of migration by analysing the nature of capitalist development. They sought to define the ways by which capitalism emerges out of feudalism, and in the process causes labour transfer. Adam Smith and Karl Marx were concerned with the expansion of market forces and the rise in agricultural productivity, which implied that more goods could be produced on the land with less labour. Both were aware that the process of labour *release*, which refers to the growing labour surplus in agriculture, is separate from the process of labour *transfer*, or actual mobility from one sector to another.<sup>2</sup> Marx in particular focused on defining the source of rising productivity and market expansion.<sup>3</sup> He was interested in the ways by which the dynamics of capital accumulation creates a 'surplus population' that can be 'transferred' to other sectors or economies.

Marx's discussion of the genesis of capitalism and of primitive accumulation is particularly important in this regard. According to Marx, the essence of the capitalist system is the extraction of surplus value from labour power. Surplus value is the source of profits, that element which allows for further accumulation and increase in productivity. For surplus value to be extracted, though, labour needs to be free, which implies that workers are able to sell their labour power and earn a wage. The release, or freedom, of labour is a process that can come about only if workers do not own their means of production, such as land. The so-called 'primitive accumulation', according to Marx, 'is nothing else than the historical process of divorcing the producer from the means of production' (1990:874–875).

Marx discusses three main mechanisms by which this separation from the means of production is made possible and surplus labour is created. First are institutional measures, such as expropriation, enclosures and eviction, that deprive peasants of access to land, especially of communal land. These measures, which are usually sanctioned by the state, create a surplus labour ready to be hired in large farms or in industrial areas. Labour becomes in surplus in so far as it is in diminishing demand in one sector. Second, technical change and mechanisation help the creation of surplus labour as a result of rising productivity of land and labour. Third, commercialisation of agriculture, which is a central part of the process of primitive accumulation, helps to centralise land ownership in the hands of a few agriculturalists, leading to labour displacement as well as to capital accumulation and centralisation in the industrial as well as the agricultural sector (Marx 1990: chapter 25.5).

The success of primitive accumulation, particularly in agriculture, determines the sustainability of capitalist expansion in the modern industrial sector, as well as the level of labour surplus and of its transfer. In his discussion of surplus labour, though, Marx makes an important distinction between *absolute* and *relative* surplus population by differentiating the population detached from its means of *subsistence* from that detached from its means of *production* (Hakimian 1990). He also describes the sources or forms that this surplus population can take (e.g. floating, latent, also stagnant, and nomadic).<sup>4</sup> He accords special attention to the latent surplus population, which refers mainly to the rural workforce, namely people who are employed in low-productivity jobs and are 'constantly on the point of passing over into an urban manufacturing proletariat, and on the lookout for opportunities to complete this transformation' (Marx 1990:796). The nomadic surplus labour, 'people whose origin is rural, but whose occupation is for the

most part industrial', are particularly relevant to the Palestinian employment in Israel, as Chapters 4 and 8 reveal. Marx describes this nomadic surplus labour as precarious and on the move, as the 'light infantry of capital, thrown from one point to another according to its present needs'. Its access to the industrial sector is dependent on the role of contractors who act as intermediaries connecting the released labour with the capitalist employer (Marx 1990:818).

Marx was also concerned with the process of labour absorption. He argued that the demand for labour in the industrial sector would be larger than the expansion of demand for labour in the agricultural sector, particularly in the early stages of industrialisation, thereby pulling migrants to it.<sup>5</sup> He also maintained that the process of capital accumulation leads to the concentration of capital, causing a fall in the demand for labour and giving rise to a reserve army of workers. The creation of the reserve army, this precarious permanent industrial labour force that has no choice but to sell its labour, is pivotal in Marx's analysis of the expansion of capitalism and of migration. It plays three important roles for capitalist development. First, it provides a labour reservoir from which capitalists can draw labour when they want, and according to cyclical development. Second, it regulates wages and keeps them down, given that it divides the labour force into active and inactive workers. Third, the reserve army disciplines the working class (Marx 1990:800–814).

Marx's approach is insightful for its emphasis on the historical specificity of migration experience and its link to the nature of capitalist growth.<sup>6</sup> It is elaborate in its discussion of the link between land relations and labour release, as well of that between capitalist development and labour absorption. Subsequent political economists further developed his concept of primitive accumulation and of surplus labour. In the Palestinian case, though, Marx's comprehensive approach has rarely been used, except for his concept of a reserve army of labour, which is assessed in Chapter 6.

### *Surplus labour in development theories*

The concept of surplus labour has taken an important place in the development debate after 1945, especially in the Lewis model (1954, 1958). Distancing himself from the neoclassical analytical approach to which the Harris-Todaro model adhered, and which Lewis considered incapable of explaining the development challenge, Lewis sought to 'see what could be made of the classical framework in solving problems of distribution, accumulation and growth' in developing countries (1954:140). He argued that developing countries have unlimited labour resources which could be mobilised to increase saving and profit rates, thereby setting them on a steady growth path.<sup>7</sup>

The Lewis model is a dualistic model in which developing countries are typically conceptualised as being divided into two sectors: a low-productivity subsistence sector and a high-productivity capitalist sector. The former is characterised by the availability of low-productivity labour that is in excess supply relative to available capital and natural resources. Surplus labour often takes the shape of 'disguised unemployment' and it includes all those working in agriculture as well as petty traders, servants and all kind of casual workers. It is in 'surplus', or redundant, in so far as its wage is determined by the average, rather than the marginal, productivity of the labour or by the 'code of ethical behaviour' (as for domestic services). The capitalist sector, by contrast, has a higher

productivity level than the subsistence sector and works according to the principle of profit maximisation. According to Lewis, it can pull in workers at a constant wage without harming the output of the subsistence sector. The process of labour transfer continues up to the point at which the surplus labour is absorbed, wages start to rise and the subsistence sector will dissolve through the process of capitalist expansion (1954:153).

The Lewis model has been adapted by the Fei-Ranis model in 1964, with which it is often wrongly associated.<sup>8</sup> Both models have been used to explain the agrarian question in many developing countries, or how these became transformed from agricultural to industrial economies (Fei and Ranis 1964; Abella and Mori 1996; Ranis *et al.* 1999). However, the Lewis model has been challenged on three main grounds: the validity of the surplus labour concept, the nature of the subsistence sector and the role of wage differentials as a mechanism of labour transfer.

Empirically, it has been difficult to locate what kind of labour could be redundant or in surplus (Jorgenson 1966).<sup>9</sup> In agriculture, which has become the focus of subsistence-sector analysis, it was argued that seasonal or casual workers could be considered redundant in a period of no harvest, while remaining essential at other times. Evidence from WBSG as well as from South Africa reveals that migrants continue to be needed in agriculture, and to return to it at seasonal periods (see Chapter 5). Palestinian labour, though, could be considered to be in 'surplus', in the sense that labour was redundant, of low productivity or unemployed, whenever its employment options were restricted by constraints put on investment in the WBSG and/or on free access to the Israeli labour market.

Lewis's analysis of the subsistence sector also proved to be vague. While it is analogous to the sector in which primitive accumulation (mentioned by Marx) takes place, its structure, complex links to the capitalist industrial sector and demise are not fully analysed. Nor are the institutional mechanisms needed to ensure that the transfer of labour and savings takes place between the two sectors fully discussed. According to Lewis, the two sectors are bound together through the flows of labour and products. These bonds are important to the prospects of successful capitalist growth. Also inbuilt in the models is the assumption that output growth in the subsistence sector, which consists of consumption wage goods and industrial input material needed by the high-productivity sector, is not impaired by changes in terms of trade. Yet labour release could lead to a fall in output, especially as higher wages in the capitalist sector attract the best agricultural workers. A fall in output would lead to a *de facto* increase in real wages, and thus would compromise growth of savings and investment in the capitalist sector. Moreover, Lewis assumes that the transfer of labour would not lead to a rise in income per capita in the subsistence sector. For this to happen, either the state or the capitalist class would need to extract the surplus and hold subsistence incomes down. Often, this can only happen by coercion or by concentration of the productive forces in agriculture (Godfrey 1979; Hakimian 1990). Lewis does not explore the *means* by which labour can be made redundant while agricultural production increases (such as the process of mechanisation, population growth, the green revolution, etc.) (Bharadwaj 1979; Leeson 1979).

The Lewis model also fails to consider the possibility that wage differentials might not be enough to make workers move from it and into the more dynamic sector, or might not be the relevant factor. Various studies have shown that peasants are not always willing to

leave their subsistence sector to work at the wage offered by the capitalist sector. This is especially true when the product value of their land is larger than the wage offered, or demand for labour in the subsistence sector is substantial (Swindell 1985; Standing 1985; Hakimian 1990). Lewis fails to consider the role of power relations and of the various institutional means by which labour is *mobilised* from the low- to the high-productivity sector.

### *Circular migration and bantustanisation*

Migration patterns in various colonised countries in the twentieth century indicate that the release of labour to industry follows the commercialisation and the fall of the native economy (Arrighi 1970; Bundy 1979; Standing 1985; Hugo 1985; Breman 1990; Standing *et al.* 1996). However, unlike the experience of Europe or the prediction of the Lewis model, this process does not mean the end of the subsistence sector, nor does it lead to the unilateral transfer of labour. Migration has become much more of a circular rather than a permanent pattern, especially in the past three decades (Stretton 1985; Siddiqui 2001). It is circular, or temporary, in so far as migrants maintained their links to their rural areas and only went to urban centres for specific periods and sectors. Palestinian labour flows to Israel can also be considered of this type, in so far as Palestinian workers commuted daily to a foreign occupying entity and never severed their residential link to their areas of origin.

Radical political economists have focused on the pattern of capitalist expansion in developing countries, and particularly the role of the state and unequal power relations, in explaining circular migration. The earliest works in this regard came out of the Southern African migration experience, given the predominance of circular temporary labour flows there. The work of Arrighi (1970) on Zimbabwe-Rhodesia and that of Bundy (1979) on the peasantry in South Africa show that the pattern of circular migration emerged out of a specific and protracted historic colonial experience that led to the demise of the native economy. Early expansion of trade encounters between Western powers and native peasants in Southern Africa led initially to the expansion of indigenous agriculture, giving little incentive for peasants to participate permanently in wage employment (Arrighi 1970). It was only after active involvement of the state in the eradication of indigenous agriculture that native peasants were forced to become wage earners for the capitalist sector. Many colonial states taxed black farmers heavily, protected settler agriculture from international competition and gave them subsidies not given to native areas, thereby forcing an unequal competition on indigenous agriculture. The state also expropriated the natives and forced them into 'reserves' that were not particularly fertile or capable of sustaining the growing native population. The policy of apartheid imposed in South Africa by 1948 was one of the most recent and clearest attempts to lock an indigenous population into a circular pattern of labour dependency, ensuring a supply of cheap labour to white areas (Legassick 1975; Legassick and Wolpe 1976; Wolpe 1980).

In explaining the origin of circular migration, the work of Meillassoux, a Marxist economic anthropologist, is particularly important. He has been among the first to try to define, in Marxist terms, the origin of migration within the dynamics of the 'subsistence' sector and its link to the more dynamic capitalist sector. Formulating his theory in 1975 (it was translated into English in 1981), he preceded Oded Stark in defining the

subsistence economy as formed of the domestic, or household, economy. In contrast to Stark, Meillassoux analysed the structure and role that this economy occupies within the process of capitalist development. He argued 'neither capitalism nor feudalism is exclusive of the domestic economy, for they rely on domestic relations to reproduce themselves' (Meillassoux 1981:96). The domestic economy is the core of the capitalist system because it is the place where human beings are produced, and thus the energy or labour power from which surplus value is created. The household economy reproduces the human beings as physical and social reproducers (Meillassoux 1981:xii). It also generates subsistence goods so long as it has some relation to the means of production, often land. Furthermore, Meillassoux argued that the production of these three distinct but related outcomes is ordered by 'the manipulation of the living means of reproduction, namely women', through lineage and the power of the elderly. The elderly control marriages, the work and income of the young, and the redistribution of wealth and land. They control the creation and transfer of value within the domestic economy and outside it. Moreover, Meillassoux argued that this pattern, or mode, of production, is articulated, or linked, with the capitalist economy through trade and labour migration, both at the level of circulation and at the level of production. This articulation allows for the transfer of value to take place from the subsistence to the capitalist sector of the economy. According to Meillassoux, 'it is by preserving the domestic sector which is producing subsistence goods, that imperialism realises and further perpetuates primitive accumulation' (1981:97). He emphasised that this process is dynamic and bound to lead to full destruction of the subsistence sector and thereby the complete release of labour (Meillassoux 1981:98).

Wolpe (1980) applied these arguments in the context of South Africa and Murphy (1991) to the WBGs. Wolpe argued that apartheid was imposed in 1948 to sustain a domestic, pre-capitalist mode of production that was disintegrating. The whole policy of separate development for the Bantustans, or homelands, was intended to improve standards of living in a way that would sustain a steady supply of healthy workers to industry, one that is cheaper than settled urban migrant labour. It also allowed the subsidisation of wages, thereby reducing the cost of production to industry. Wages paid to workers going to the white sector were simply a complement to the income generated from the land, not a substitute for it.

Murphy applied the argument of Wolpe to the Occupied Territories. She argues that the WBGs form a pre-capitalist economy that is exploited and linked structurally with Israel within a single social formation. According to Murphy, the WBGs have witnessed a process of internal colonialism,<sup>10</sup> which came about as a result of Israel's historical development and its quest for domination and power. It is driven by Israel's interest to expropriate resources, and particularly labour power, from the dominated population, i.e. the Palestinians. She argued that Israel's capitalist system is in need of cheap labour in order to increase its rate of capital accumulation. At the same time, Palestinian labour is cheap because it is produced and reproduced in a pre-capitalist mode of production. Through the double system of control and segregation, the Palestinian economy is made to release labour, while at the same time it continues to bear the cost of its reproduction.<sup>11</sup> The reproduction of Palestinian labour is borne by the local economy through the fact that net fiscal resources are flowing out of the Occupied Territories rather than into it,

while aid and remittances have enabled the Palestinians to survive (Murphy 1991:240–297) (see Chapter 2 for more details).

However, the work of Meillassoux, Wolpe and Murphy suffers from a number of problems. First, it has been difficult to draw a line between capitalist and non-capitalist economies, or to argue that developing countries, particularly the WBGs, are not capitalist. Second, Meillassoux's argument, while valuable in its discussion of the domestic economy, a discussion that grasps the various forms of power relations, is simplistic from a gender or feminist point of view. The specification of the domestic economy and the role of the patriarchy in determining the migratory system are more complex than envisaged by Meillassoux (Wright 1995). Third, it is not obvious, contrary to Murphy's argument, that Palestinian labour came to play the same role that African labour played in South Africa. Palestinians represented only 7 per cent of the Israeli labour force, not 75–80 per cent of the working population as the natives did in South Africa (Lipton 1986; Standing *et al.* 1996). Fourth, the contradictory nature of state intervention and its need to accommodate different agencies are not always taken into consideration. In the case of South Africa, Posel (1997) shows that the ruling class was not uniform in its interest in an apartheid-determined migratory system, as was assumed by Wolpe (1980). Such a system met the needs of white agriculturalists who were demanding cheap black labour. It did not correspond to the demand of manufacturing capital, which was in favour of a more efficient and sedentary labour force, even if it was more expensive than oscillating migrant labour. It is thus important to analyse the conflicting details of capitalist growth, as well as the nature of state policies and the state's contrasting interests, to explain how a circular migratory system can develop as well as end.

### **A critical appraisal**

Migration theories have moved a long way in trying to explain the causes of labour transfer in the context of development. While the different approaches have not evolved in isolation from one another, they have maintained their methodological differences. Migration review articles have accepted the distinctiveness of the two main approaches available, without attempting to refute their analytical capabilities (Massey *et al.* 1993, 1998; Wright 1995; Siddiqui 2001). Some studies have attempted to bridge the gap between them by advocating a multidisciplinary three-stage explanation of migration, where the individual, the household and the economy structure at large are analysed (Massey *et al.* 1998; Cook and Mauer-Fazio 1999; de Haan 1999). Such work acknowledges the role of institutions as well as of markets in shaping the character and the causes of migration. However, studies of this kind tend to oscillate between applying a NEM framework that is less laden with mathematical formulas (see Hare 1999; Brettell and Hollifield 2000) and adopting a neo-Weberian sociological analysis of structuration (de Haan 1999). They do not always take into account the distinctive methodological approaches that the rational choice and the political economy frameworks hold, approaches that it is not possible to bridge.

The difference between, and usefulness of, the rational choice and political economy approaches to migration analysis hinge on their distinct conceptualisation of the

migration process and of its link to the development process. Their ability to explain labour migration is a function of their analysis of the interconnections between land relations, labour and population dynamics, and state policy. In this regard, the political economy approach has been more successful because of the attention it gives to the dynamics of structural change.

### *The migration process*

As explained earlier, rational choice models conceptualise migration as an individual strategy for seeking income and employment. Although the New Economics of Migration (NEM) is more elaborate than the Harris-Todaro conceptualisation of migration as an individual one-life event, it still analyses migration as a rational autonomistic phenomenon at the micro individual or household level. While it accepts *de facto* some of the critiques made in the 1970s and 1980s in the radical and the sociological literature about the role of households and structures in determining labour mobility (Bach and Schraml 1982; Kearny 1986), it incorporates structural elements within a framework of methodological individualism. Income inequality, land distribution or social capital are included in migration equations so long as they influence the strategic behaviour of the rational voluntarist agency. The household, like the individual, is shaping structures, rather than being shaped by them.

The political economy approach, while not questioning the rationality of migration, does not analyse it as a primarily behavioural phenomenon. Political economists are particularly concerned with explaining the process of labour *transfer* rather than of labour *mobility*. The difference in terminology is important in so far as it indicates the greater attention being accorded to the structural understanding of capitalist growth. Political economists consider labour migration as a historically specific incident integral to the process of structural change, not as a mathematical or econometric exercise in individual strategic choices.

Meanwhile, migration theories also differ in the attention they accord to the three main stages of a migration process: the pattern respectively of labour release, labour transfer and labour absorption. Rational choice theories have focused their attention on the mechanism of labour mobility, and particularly on the push-pull factors that make people move from one area to another. The Harris-Todaro model regards expected wage differentials as a central factor pulling workers, while the NEM emphasises the role of remittances. These, more than wages, are considered to be the carrot that pulls the worker to leave his or her place of origin.

In explaining the process of labour release—that is, the conditions that make a migrant leave his or her place of origin in the first place—rational choice models offer a limited explanation. Fundamentally, people move because of a particular psychological perception of relative deprivation or market imperfection. Structural inequalities are relevant so long as they are *perceived* to affect income, not because of the reality of poverty they impose. The same perspective is also used to analyse the mechanism of labour absorption, as rational choice models concentrate on employers' behaviour and perception of the informational environment for explaining how workers are absorbed.

On the other hand, political economists give particular attention to the mechanisms of labour release and labour absorption. They concentrate on the different market and



institutional means that accompany the contradictory process of capital accumulation and which explain why people move from certain areas and are employed in specific sectors. Their analysis is dynamic in so far as it conditions the level of labour absorption in an economy to the structure of production and cost of labour, which itself is a function of the mechanism of labour release and the relationship between the sectors. It is not a question of employers' perceptions and access to perfect or imperfect information.

However, the political economy approach does not accord enough attention to the details of labour transfer and the role of institutions, particularly labour contractors, in determining the success of labour absorption in the growing sector. For Lewis, a constant wage differential is enough to make labour move without causing a fall in production or jeopardising savings. For radical economists, wages as such do not need to play a significant role, since structural change makes people redundant, thus needing to move to wherever they can find a job. The removal of labour from its means of subsistence and production is considered to be sufficient to mobilise labour and to ensure that this labour is cheap. Not enough attention is given to the role of different political and institutional conditions, which can prevent the released and needy labour from being employed in a growing sector or economy.

### *Causes of migration: land, labour and state*

The role of the development context, and particularly the relation between land dynamics, the quest for employment and state policies, is key to explaining migration. Rational choice models, however, hold a narrow perception of the development and how it influences labour flows. While they give importance to the role of rapid population growth in making an economy export the labour it cannot absorb (Todaro 1980; Lucas 1997), rational choice models fundamentally relate to developing countries as contexts shaped by imbalances, imperfect information and incomplete markets. Developing countries differ from developed countries mainly in the *level* of certainties or market flexibilities, not in the structure of production and capital accumulation. Political economists by contrast consider development to be a process of structural change that involves social, economic and political transformations. Developing countries differ from developed countries in the pattern of land distribution and structure, in the role of agriculture in growth and employment, and in the pattern of state intervention in local and international economic relations. These different structures shape different migration processes.

The relation of the potential migrant to the land, which is a central source of income in developing countries, has been central to migration theory. However, rational choice theories fail to account for the complexity of this relation. Although the elaborations brought by the NEM were significant in shifting the migration analysis away from the neoclassical macro concern for population growth and unemployment into the microdynamics of rural households, rational choice models still do not deal with families or rural areas as complex production *structures*. They do not analyse the complex power relations within the household, and thus cannot shed light on who is likely to migrate. While the NEM incorporates land and credit markets, uncertainties and social and political variables into its equations, such as the role of social capital or immigration policies, it stops short of explaining the role of structural inequalities and state policies in

shaping these variables and in influencing the form that migration takes (e.g. circular versus permanent, male versus female).

Ultimately, the analytical determinant for NEM's analysis of labour release and absorption is based on the existence of uncertainty or imperfect markets and on an opportunity for sending remittances, not on an understanding of how these conditions came about. Whether the context of risk and uncertainty occurs in a rural-urban context, urban-urban, rural-rural, or is state or market induced, is not relevant to the analysis. Yet the NEM's flexible approach also weakens its explanatory power, since it cannot account for the specificity of the migration experience and its links to production structures in sending and receiving areas. It fails to explain, for example, why in Southern Africa migration was circular and concentrated in the mines rather than in industry, and how it persisted despite its inability to sustain migrants or their families (Wolpe 1980; Standing *et al.* 1996). It remains limited in elucidating how Pakistani or Egyptian temporary migration to the Gulf is different from permanent Mexican migration to the United States, or from Palestinian commuting migration to Israel, despite the presence of 'imperfect markets' in all sending areas. It does not shed light on why Palestinian migrants were predominantly male unskilled and semi-skilled, and employed in Israeli construction rather than industry, or why their numbers fluctuated after 1993 despite the rise of Palestinian unemployment and 'relative deprivation' (Chapter 7).

Political economists focus on the relation between labour and land, particularly in explaining the mechanism of labour release, as part of their concern for the socio-economic process of structural change. The pattern of production on the land is analysed since it determines the level of agricultural output, labour and savings that can be produced and transferred between sectors. It also determines the extent to which land productivity rises and leads to an irrevocable process of labour release. However, the post-war literature, be it the work of Lewis or that of radical political economists, struggles in its attempts to define the character of production on the land and gets entangled in describing it as pre-capitalist, a subsistence sector, or simply a sector of low productivity. The approach remains important in discussing how the commercialisation of agriculture changes property relations, and in revealing the various mechanisms by which this process can take place (through market forces, coercive measures, land reforms, mechanisation and changing patterns of production through change in crop culture, the green revolution, etc.).

The political economy perspective also focuses on the process of labour absorption by analysing the dialectical dynamics of capital accumulation, rather than by focusing on the pattern of employers' strategic behaviour. It gives particular attention to the role of the state in determining the pace of labour absorption as well as of its labour release. It establishes a link between state policies and objectives, changing land access and employment options. Although the literature has failed at times to stress the contradictory nature of the state's involvement, the political economy approach stresses its role in shaping the context in which labour flows takes place and in directing them for specific strategic economic and/or political objectives. The key issue is to identify the historical contextual specificity, or contingency, in which these objectives are defined and continuously reformulated.

However, rational choice and political economy approaches share a common limitation. They both analyse migration within the context of defined nation-states or

between states. They do not explore the causes, and implications, of migration when a country is occupying another or when the process of labour flows takes place in a context of undefined or continually changing boundaries between countries or sectors.

### *Labour transfer from the West Bank and Gaza Strip*

In the context of the WBGS, migration did not take place between two defined nation-states, but rather between an occupying entity and an occupied population. A political economy approach is more apt to explain the specificity of Palestinian labour flows, in view of its focus on the contradictory dynamics of structural change. Labour, land and state policies have all played a central role in explaining why over a third of those in the employed labour force have commuted daily to work in Israel over the past three decades, as is explained in the rest of this book. They also elucidate why flows were free and circular between 1967 and 1993 but became curtailed afterwards.

The quest for employment and income is at the heart of the WBGS individual or the household decision to seek work in Israel. This is especially true given the rapid labour force growth rates reported in the WBGS. But migration decisions were not taken in a vacuum, nor did they touch every active person in the Palestinian economy in the same way (see Chapter 4). This requires an understanding of the nature of Israeli occupation, of the various ways by which it linked the WBGS with Israel, and of the way it contributed to the demise of the Palestinian economy's productive capacities (see Chapter 2).

The relation between land and labour is central in this regard. WBGS commuting migrants came from rural areas, as well as from refugee camps whose descendants lost land as a result of the Israeli-Palestinian conflict. The Palestinian economy was mainly a commercialised agrarian economy, absorbing nearly 40 per cent of the total labour force when Israel occupied the WBGS in 1967. By 1993, agriculture employed less than 20 per cent of the Palestinian labour force, while the economy had been transformed into a service-oriented, Israeli-dependent economy (see Chapters 2 and 5). The Palestinian agricultural sector witnessed a prosperous period of accelerated commercialisation in the early 1970s that led to the release of labour, but it remained a low-productivity sector compared to Israeli agriculture and economy at large. 'Surplus' labour was transferred to the Israeli economy but it also returned to the WBGS by the 1990s.

Israeli state policies had various implications for the pattern of Palestinian labour release and absorption. As is explained in the next two chapters, Israeli occupation was concerned with Palestinian land for strategic rather than purely economic reasons. Yet Israel integrated the WBGS into its economy in a way that allowed the transfer of labour and savings between the two areas, rather than the transfer of capital into the Palestinian economy. The tools it used to displace the indigenous population from the land were both market and institution driven. Meanwhile, Israeli state policy expropriated the land as well as restricting investment in the local economy at large. The strategy of Israeli settlements has been unique in conditioning the Palestinian migration pattern and differentiating it from other labour transfer experiences, be they in Africa or in South Asia. Settlement construction has been key to the process of boundary redefinition between Israel and the WBGS, since the settlements encroach on the territorial integrity of the territories occupied in 1967 (see Chapter 3). The irony lies in the fact that Palestinian labourers were building these settlements, revealing thereby how economic

and territorial dynamics are intricately interwoven. State policies, though, were not devoid of contradictions. They conflicted with the economic priorities of construction firms, which were interested in Palestinian labour, especially when the Israeli political and military establishment took the decision to reduce the amount of such labour (Chapter 6).

The following chapters analyse the dialectic of labour flows over the past three decades, and reveal their implications for the territorial demarcations between Israel and the WBGs. They identify the means by which Palestinian labour was released, transferred and absorbed, by analysing the contradictory implications of Israel's land objectives and evolving economic and political realities. What is required in the first instance is an analysis of the economic implications of Israeli occupation. The next chapter is devoted to that purpose.

## 2

### Development under occupation

#### Structural change in the West Bank and Gaza Strip, 1967–1993

The inability of the WBGS economy to absorb its growing labour force has been at the heart of the Palestinian development question and a central factor in explaining labour migration. Between 1967 and 1993, the Palestinian labour force more than doubled, but domestic employment in the WBGS grew by less than 33 per cent (see Chapter 4). Employment in Israel has been key for keeping unemployment in the WBGS at less than 7 per cent between 1970 and 1993, and for sustaining a population that has been growing at more than 2.2 per cent per annum since 1970 (see Chapter 4).

This chapter reviews the nature of Palestinian development under Israeli occupation and its implications for labour transfer. It analyses the kind of structural change that occurred between 1967 and 1993,<sup>1</sup> and which made many seek employment in foreign labour markets. Numerous studies have been published on the Palestinian economy over the past two decades, describing the development outcome in the WBGS as ‘skewed’, ‘stalled’ (World Bank 1993; Benvenisti and Khayat 1988), ‘under-developed’ (Abed 1988; Samara 1988) or ‘de-developed’ (Roy 1995, 2001). The difference in terminology is not accidental; rather, it is reflective of the different approaches used in the analysis of economic development and structural change. On the one hand, it is possible to identify an economic approach that focuses on the economic implication of integrating a small economy, such as the WBGS, into a larger economy such as Israel. On the other hand, there is a political economy approach which situates the Palestinian development experience within the political and historical context of the Israeli-Palestinian conflict. Irrespective of the approach used, however, there is general agreement that the WBGS’s links to Israel shaped the conditions of growth and employment in the Occupied Territories (Abed 1988; Samara 1988; World Bank 1993; UNCTAD 1993a; Roy 1995; Arnon *et al.* 1997). There is also an acknowledgement that these links produced a paradoxical development outcome in the WBGS, characterised by growing income per capita but deteriorating *national* productive capabilities. Such an outcome is also reflective of a process of boundary redefinition between Israel and the WBGS that is eroding the economic base of an eventual Palestinian state.

The first part of this chapter reviews the nature of the Palestinian demographic challenge that the WBGS posed to Israel and the way that the occupation handled it economically. The second part documents the paradoxical development outcome in the WBGS, while the third part assesses the ability of the current literature to explain it. It shows that the success or otherwise of the different analytical approaches in explaining the specificity of Palestinian structural change hinges on their capacity, or willingness, to

incorporate the territorial dimension of Israeli-Palestinian relations into their economic analysis.

### **The occupation: challenges and opportunities**

The occupation of the WBGS faced the Israeli state with a number of challenges as well as opportunities. At the end of the Six Day War in June 1967, the Israeli army had captured a total area six times the size of the state of Israel, an area that included the West Bank and Gaza Strip, Sinai and the Golan Heights. From a legal and international point of view, Israel's occupation was illegitimate. The United Nations Security Council (UNSC) resolution 242, unanimously adopted by the UN Security Council on 11 November 1967, condemned the Israeli assault and reconfirmed 'the inadmissibility of the acquisition of territory by war'. It called on Israel to withdraw 'from territories occupied' during the June Six Day War, which included East Jerusalem as well as the rest of the WBGS. The Fourth Geneva Convention relative to the Protection of Civilian Persons in Time of War of 1949 applied to the Palestinian inhabitants of the WBGS as well as to those living in the Golan Heights and Sinai (UNSC resolution 237, June 1967). The Israeli military authority was forbidden from subjecting the inhabitants of the occupied areas to Israeli civilian rule and laws, or from changing the territorial or demographic character of the conquered areas.

The Israeli military and government officials, though, considered the occupied areas an asset of strategic importance for Israel's political and defence concerns. As is well documented in the literature by now, the national unity government led by the Labour Party in 1967 held two main views with regard to the future of the Occupied Territories (Aronson 1987; Gazit 1995; Roy 1995; Arnon *et al.* 1997). On the one hand, some members of the cabinet<sup>2</sup> called for the incorporation into Israel of all territories conquered in 1967. This 'maximalist' line claimed that the West Bank, and to a lesser extent the Gaza Strip, were an integral part of Israel, the 'promised land'. They stressed the indivisibility of the 'mystical-historical entitlement' of the Jews to it (Lustick 1988, 1993; Friedman 1992; Aran 1997; Heilman 1997). On the other hand, the 'minimalists' or 'centrists' within the Labour alignment did not want to incorporate the Palestinian population of the WBGS into the Israeli polity for fear of jeopardising the Jewish character of the state (Gazit 1995). They were also concerned with how best to deal with UNSC resolution 242, which called for Israeli retreat from occupied land in exchange for peace with its Arab neighbours.

The WBGS posed a demographic and an economic challenge, as much as it was a territorial asset. In terms of economic value, the West Bank had valuable water resources, but not much in terms of other natural resources.<sup>3</sup> In terms of population, Israel found itself in control of nearly a million Palestinians living between the West Bank, the Gaza Strip and East Jerusalem. These formed the equivalent of 30 per cent of Israel's population at the time. Unlike in 1948, most of the Palestinian population of the WBGS did not flee. Israel did not wish to incorporate them into the Israeli polity for fear of jeopardising the Jewish character of the state (Gazit 1995). The economic, political and demographic differences between the Gaza Strip and the West Bank also posed serious concerns. The Gaza Strip had two-thirds of its population made up of refugees who had

lost their land in 1948, had lower income per capita than the West Bank and was more densely populated (1,870 persons per square kilometre, compared with 320 in the West Bank). Prior to the occupation, it was under Egyptian administration. The West Bank, by contrast, was more rural, more affluent in terms of land and water, and had long-standing ties with Jordan, which formally annexed it in December, 1948. The question of what to do with these people, both politically and economically, was central to the cost of occupation, to labour migration and to the ability of Israel to assert its territorial claim over the area.

### *Dealing with Palestinian demography*

The first thing that the Israeli government did was to put the WBGs under military control. Jordanian and Egyptian law, which had prevailed before the occupation, remained in place in the West Bank and Gaza Strip respectively (together with the preceding British and Ottoman laws that had remained unaltered by the Jordanian government). However, Israeli military orders were decreed in whatever domain the Israeli government determined was necessary. Although Israel created a civil administration in 1981, which was supposed to look after Palestinian civil affairs, the military governor remained the first and last authority responsible for the area. He was part of the Israeli military establishment, accountable only to the Prime Minister. The military determined the WBGs's territorial, legal and economic life.

The Israeli government was also quick, if not explicit, in determining the scope of its territorial interests in the area. Within three weeks of the end of the war, the Israeli Knesset (parliament) voted to annex East Jerusalem and 71,000 dunums of the West Bank to the north and east of the holy city (a dunum is 1,000 sq. m.=0.1 hectare=0.25 acre). It thus redefined the geographic space of East Jerusalem, cut it administratively from the rest of the West Bank and declared it to be an integral part of the 'unified and eternal capital' of Israel. Meanwhile, the Minister of Labour, Yigal Allon, proposed a plan for settling Israel's territorial and sovereignty claims over the West Bank and Gaza Strip. The plan envisaged the annexation of 25–40 per cent of the West Bank, and possibly the Gaza Strip (see Chapter 3). While Israeli officials have not openly adopted this plan, many officials, chief among whom has been Moshe Dayan, have tended to regard the occupation of the West Bank and Gaza Strip as permanent (Aronson 1987), and the Allon Plan has remained a guiding principle in Israeli territorial policy in the West Bank and Gaza Strip (see Chapter 3). The available literature on the Palestinian economy has not always accorded enough attention to the role of the Allon Plan and Israel's territorial policies in shaping the nature of Israeli economic policy and its outcome in the WBGs.

Meanwhile, the Israeli military conducted a census of the Palestinian population in September 1967. This was the only one ever held in the WBGs up until 1997, and was carried out by the Israeli Central Bureau of Statistics (ICBS). It reported a total Palestinian population of 966,700 in September 1967. This figure excluded 200,000 persons who were estimated to have left the West Bank between June and September as a result of the war and whom Israel refused to allow back (Benvenisti and Khayat 1988). The 1967 population figure also excluded inhabitants of East Jerusalem, recorded as

numbering 65,000 in 1967, whom Israel incorporated as part of its annexation of the holy city (see Chapter 3).

The population base year used in the official Israeli statistics is particularly important because it is the basis on which all population and labour force growth calculations were made in the period 1967–1993. It has been contested, however, largely because it has led to an underestimate of the Palestinian population of the order of 10–15 per cent (UNCTAD 1995; Benvenisti and Khayat 1988; Shaban 1993).<sup>4</sup> The latest census, carried out by the Palestinian Central Bureau of Statistics (PCBS) in December 1997, indicated that the Arab population of the WBGS (excluding East Jerusalem) is much larger than ICBS sources would have estimated. The ICBS gave a figure of 1.8 million Palestinians in the WBGS in 1993 (see the Appendix, Table A1). The 1997 census indicated a total population of 2.68 million (plus an estimated 210,000 in East Jerusalem) (PCBS 1999a: 23). Given that labour surveys were based on the population census, the figures on Palestinian workers employed in Israel until 1993 are thus likely to be biased downwards.

Israeli handling of the Palestinian demography and labour forces in reality, though, is reflective of a redefinition of the content and size of the Palestinian population, as well as of the economic and territorial boundaries between Israel and the WBGS. The ICBS, which, as mentioned, became the main provider of data on the Palestinian economy between September 1967 and 1993, defines the Palestinian labour force as the Arab residents of the WBGS who are over the age of 15 and who are reported to be working or looking for work in the WBGS and/or in Israel (ICBS 1992, *SAI*: 107).<sup>5</sup> It excludes all WBGS Palestinians living and working abroad for over a year, as well as Bedouins and persons in institutions (prisons and others), from the WBGS labour force surveys. The exclusion from labour data of Palestinians employed abroad leads to an underestimate of the international mobility of WBGS residents, and of its role in providing employment and income venues to Palestinian households. Meanwhile, Israeli sources exclude inhabitants of East Jerusalem from WBGS labour surveys,<sup>6</sup> and do not distinguish Palestinians employed in Israel from those employed in illegal Israeli settlements inside the West Bank and Gaza Strip. Palestinians employed in Israel are not defined as international migrants, i.e. workers employed in another country. They are referred to as commuters who are ‘integrated’ into Israel. The Palestinian labour force is considered a single entity that includes only those working domestically and in Israel.

Meanwhile, Israel had to deal with a fast-growing Palestinian population and labour force that needed employment (see also Chapter 4). In both the West Bank and the Gaza Strip, unemployment was reported at over 13 per cent in 1968. Between 1968 and 1993, the Palestinian population in the WBGS doubled, but the impact of this growth on the labour supply was attenuated as a result of emigration. Between September 1967 and 1990, more than 300,000 people emigrated, which is the equivalent of 16 per cent of the total population in 1990 (calculated from ICBS 1992, *SAI*: tables 22.1 and 22.2). Meanwhile, the population structure of the West Bank differed from that of the Gaza Strip. The Gaza Strip was mainly urban and predominantly young,<sup>7</sup> while the West Bank remained rather rural, with 45.6 per cent of the total population in 1997 reported as living in rural areas, a figure that represented a slight fall compared to 58 per cent in 1967 (MAS 1999:45). The refugee population living in the Gaza Strip (inside and outside the camps) represented more than 65.1 per cent of the population compared with 26.5 per cent in the West Bank in 1970 and 1997 (PCBS 1999a: 28).<sup>8</sup> This is a considerable



weight on Gaza's economy and labour force, since refugees are heavily concentrated among low-income groups.<sup>9</sup> The pressure of population growth started to be felt in the mid-1980s, especially in the Gaza Strip, where natural increase rates were typically higher than in the West Bank (4.5 per cent and 4.0 per cent respectively in 1993; see Table A1).<sup>10</sup> Finding employment and a source of income for this growing population was going to be the determinant in any project of sustaining the occupation, or reversing it to create an economically viable Palestinian state.

### *Israeli economic policy in the West Bank and Gaza Strip*

Israeli economic policy in the WBGS dealt with the Palestinian demographic challenge by incorporating the Palestinian economy into the Jewish economy, albeit on an unequal basis. According to Gazit (1995) and Arnon *et al.* (1997), Israeli economic policy in the area was based on a 'problem-solving' approach, rather than on any grand or clear strategy. It was guided by a concern to prevent a situation of political or economic unrest emerging.<sup>11</sup> Roy (1995, 2001) and others (Abed 1988; Sayigh 1988; Samara 1988), while not disputing the absence of an Israeli grand design for the WBGS, have argued that Israeli policy was instead guided by a determination to prevent the development of a viable competitive Palestinian economy that could provide the basis for viable political independence.

However, irrespective of the perspective used, there is general agreement that Israeli policies led to the integration of the WBGS into Israel, rather than to separation. What is meant by integration is that the Palestinian economy became open to Israeli markets and dependent on Israeli demand and regulations. This integration has been variably described as 'asymmetric', 'involuntary', 'imposed', 'one-sided' or simply 'colonialist' (Budeiri 1982; Gharaibeh 1985; Sayigh 1988; UNCTAD 1992; Hamed and Shaban 1993; World Bank 1993). It relied on four main pillars, which included: (1) labour, rather than capital, flows; (2) a specific trade regime; (3) an economic management system that was determined by Israeli officials with no consultations with Palestinians; and (4) a particular land policy.

Labour flows were the first element in binding the Palestinian economy to Israel. Although some Israeli government officials were opposed to Palestinian employment in Israel for fear of its effect in terms of displacing local Israeli workers, the majority agreed that the reduction of unemployment in the WBGS through migration was going to be helpful in reducing political unrest and opposition to the occupation (Van Arkadie 1977; Gazit 1995; Kleiman 1990; Arnon *et al.* 1997). The pacification of the Palestinian population was to be achieved through a policy of labour integration rather than by a decision to allow free capital flows between the areas.<sup>12</sup>

The trade regime imposed on the WBGS was the second key factor in determining the pattern of growth in the Palestinian economy. The West Bank and Gaza Strip were incorporated into a 'one-sided' or 'involuntary' customs union with Israel (Hamed and Shaban 1993; Arnon *et al.* 1997). It was involuntary in so far as it imposed on the WBGS restrictions concerning the kinds of commodities that can be imported into or exported from it, protected Israeli agriculture, and imposed an external tariff structure that was unilaterally determined by Israeli officials. Trade with Jordan was limited to a few,

mainly agricultural, products. Trade with the rest of the world passed only through Israel and via Israeli agents.

Macroeconomic policy and regulatory framework was the third factor in the incorporation of the West Bank and Gaza Strip into the Israeli economy. A monetary union with Israel was imposed and the Israeli currency became a trading tender, just like the Jordanian dinar. The military closed all but two banks in the WBGs and did not allow Israeli or foreign investment. They also strictly controlled the size of personal transfers, particularly between 1981 and 1991. The only two banks that were allowed to operate were restricted in their lending and borrowing capabilities and were monitored by the Israeli Monetary Authority. Meanwhile, between 1967 and 1971 the military establishment issued more than 200 military orders that regulated Palestinian economic life (import and export licences, building licences and factory licences, the right to travel, etc.) and tied investment to military approvals (Shehadeh 1988; Benvenisti and Khayat 1988). The Israeli military also determined the WBGs's budget, levied taxes and collected them. Palestinians had to pay income taxes higher than those levied on Israelis for the same range of income (typically they were 3–10 per cent higher) (World Bank 1993, vol. 2:120–121). As with VAT, which was imposed after 1981, or trade tariffs, tax revenues were transferred to the Israeli Treasury.

The fourth pillar of economic integration was Israeli land and infrastructure policy (see Chapter 3 for more detail). Israel took direct control of the land, integrated water and energy resources within the Israeli national network, and alone decided the amount of water and energy to be allocated to Palestinian areas. Palestinians had no autonomy or control over their land or water resources, let alone over economic management. They were allowed to use 200 million cubic metres (mcm) of water per year, a level determined in 1973 and not changed since, despite population growth. This represents nearly a quarter of the 750 mcm of the annually renewable groundwater resources available in the WBGs (World Bank 1993, vol. 2:34). Israel is believed to absorb an estimated 60–70 per cent of these water resources.

### **Development under occupation: an economic paradox?**

The result of this specific form of integration was to insert a small, mainly agrarian Palestinian economy into an occupying industrial economy (Israel) eight times its size in terms of income per capita. It led to a process of structural change characterised by growing income per capita but deteriorating national productive capabilities. The heavy Palestinian dependency on the Israeli labour market both reflects this diminishing productive capability and in part explains the improvement in income per capita.

### *Standards of living*

Palestinian GDP and GNP per capita more than doubled between 1967 and 1993. Real GDP per capita of the West Bank grew from \$670 in 1970 to \$1,644 in 1993. In the Gaza Strip it grew from \$430 to \$922 (see Figures 2.1 and 2.2). GNP grew faster than GDP, indicating the effect of external income sources, namely labour exports and trade, on

growth. The West Bank, with a GNP income per capita of \$1,978 in 1993, was wealthier than

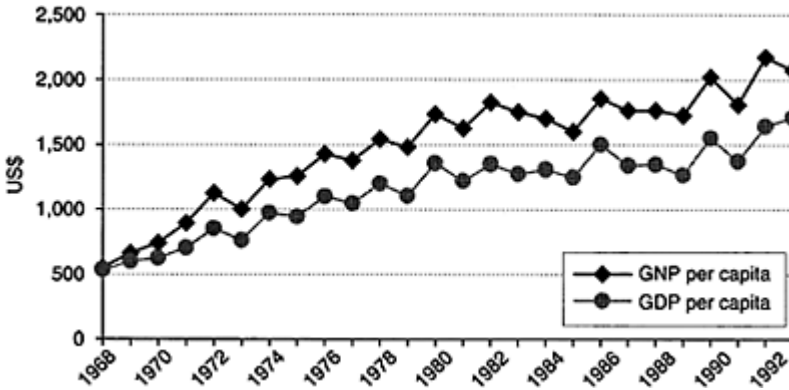


Figure 2.1 West Bank GNP and GDP per capita (in 1986 US\$), 1968–1993 (source: ICBS, *Statistical Abstract of Israel (SAI)* (various issues)).

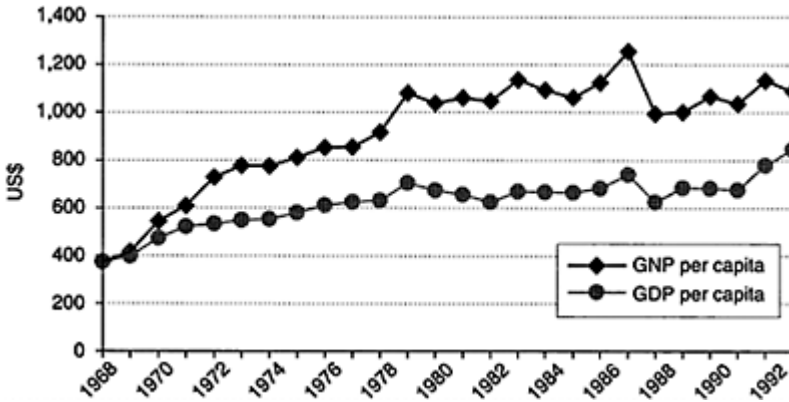


Figure 2.2 Gaza Strip GNP and GDP per capita (in 1986 US\$), 1968–1993 (source: ICBS, *SAI* (various issues)).

the Gaza Strip, whose income per capita was 58 per cent of this sum, at \$1,152. GNP income per capita in the WBGS (\$1,636) was estimated to have been higher than in Jordan (\$1,200) or Egypt (\$660). In terms of purchasing power parity, though, Arnon *et al.* (1997) found that WBGS GNP per capita was not higher than that of Egypt or Jordan.<sup>13</sup> GNP per capita growth was not always smooth, even if it was on a rising trend in comparison to 1967 (Figures 2.1 and 2.2).

Looking at the macro aggregate level, Palestinian growth under occupation was transitional rather than sustainable (Dessus 2003). Highest growth in GDP was from 1970 to 1979,<sup>14</sup> which was a period characterised by full labour and trade integration with Israel, open trade with Jordan, and the oil boom in the Gulf, which attracted labour and brought in remittances. GDP and GNP growth rates slowed down between 1981 and 1987, as a result of high inflation in Israel and increasing Israeli restrictions on Palestinian production and exports. They fell between 1988 and 1991, as a result of the first Intifada and Israeli restrictions on Palestinian economic activity and labour movement. The Gaza Strip suffered more than the West Bank in this regard (see also Figures 2.1 and 2.2).<sup>15</sup> Various econometric studies indicate that the major factor explaining this overall growth for the period 1970–1993 is factor accumulation, namely increase in capital stock (IMF 2001; Dessus 2002). Capital stock increased by 7.2 per cent between 1970 and 1999, contributing roughly 2.5 percentage points to the 6 per cent real growth in GDP (IMF 2001:27). This capital stock, though, was volatile, and concentrated in the construction sector, not in industry. Growth was not attributed to a process of technological transfer, innovation or growth of productive capacities resulting from integration in a larger and more advanced economy (Dessus 2002; World Bank 2003).

### *Structural change*

In terms of structural change, the Palestinian economy witnessed three important developments between 1967 and 1993, all indicative of the way the WBGS became oriented towards, and integrated into, Israel. First, its growth became dependent on access to foreign labour markets. Between 1974 and 1990, the Israeli labour market absorbed on average 40 per cent of the Gaza Strip's employed workforce and 32 per cent of the West Bank's, mainly unskilled labourers. Migration to the Gulf, predominantly by West Bankers and mainly skilled workers, was important during the oil-boom era in the 1970s but dwindled after the mid-1980s (see Chapter 4).

Second, the Palestinian economy became dependent on trade and sources of demand from Israel, not from the international or local economies. Between 1970 and 1991, total trade in goods and non-factor services (exports and imports) represented 95–99 per cent of the WBGS GNP (in 1991 dollar prices). Exports to Jordan represented less than 30 per cent of total trade, and to the European Union they were marginal (World Bank 1993, vol. 2:160–164). It was easier to access the West Bank than the Gaza Strip. Israel was the main partner, absorbing 70 per cent of the WBGS's exports and providing 90 per cent of their imports. Palestinians imported from Israel typically consumer goods and intermediate products, while they exported mainly agricultural and limited labour-intensive semi-finished industrial goods (textiles, leather, etc.). Israeli goods had free access to the Palestinian economy, which represented its second largest market after the United States. Yet Palestinians were restricted in their access to Israeli markets as a result of tariff and non-tariff barriers. Although available data are believed to underestimate the level of unreported trade that takes place between the two economies, and which goes through subcontracted arrangements, particularly in industry (Diwan and Shaban 1999), the pattern of trade remained skewed towards specific primary agricultural products, and Palestinians were prevented from diversifying their trade destinations. Between 1970 and

1987, the trade deficit in goods represented 22 per cent of the West Bank GNP and 31 per cent of Gaza's (Hamed and Shaban 1993:140). It was mainly financed by the remittances of workers employed in Israel, which represented a quarter of GNP between 1975 and 1985.

The third major structural change pertained to sectoral shifts in employment and production patterns within the WBGs economy. By 1991, agriculture absorbed less than 26 per cent of the labour force, compared with 38.7 per cent in 1970 (Table 2.1). The share of agriculture in the WBGs's GDP fell from 33.7 per cent to less than 16 per cent in the period 1970–1991 (Table 2.2). Meanwhile, the WBGs remained characterised by 'an unusually low degree of industrialisation' (World Bank 1993:5). By 1991, this sector represented 7.3 per cent of GDP in the West Bank and 11 per cent in the Gaza Strip (see Table 2.2). In terms of employment, it absorbed less than 17 per cent of the domestically employed workforce (Table 2.1). Production remained organised in small cottage industries (particularly textiles and leather), and highly dependent on subcontracting activities with Israel (Samara 1988; UNCTAD 1993a; Mansour and Destremau 1997). Fewer than 7 per cent of industrial firms employed more than ten persons (UNCTAD 1993a: 14). Although these figures underestimate the size and the contribution of the Palestinian informal sector to industrial development, the WBGs's industry has been characterised by low capitalisation and the domination of small firms employing fewer than five persons (World Bank 1993).

The service and construction sectors, by contrast, have grown since 1967. The construction sector absorbed around 10–12 per cent of the employed workforce in 1987, and its share of GDP averaged 17 per cent in the West Bank and 22 per cent in the Gaza Strip by 1987 (see Tables 2.1 and 2.2). The service sector represented 55.8 per cent and 46.1 per cent of GDP respectively in 1987. Its share in domestic employment averaged around 49 per cent in the WBGs as a whole, a share commonly found in other developing countries in 1990 (World Bank 2000:298). What is atypical is the failure of the service sector to diversify and to create linkages with domestic industry or agriculture. It consists mainly of family firms involved in selling Israeli products. The public sector's share in the service sector also remained small. The work of UN agencies, particularly the United Nations Relief and Welfare Agency for the Refugees (UNRWA), has filled in a gap in public services in the area. They are particularly significant in the Gaza Strip, where they provide employment for 11.3 per cent of the labour force (UNCTAD 1995).

*Table 2.1* Pattern of employment in the WBGs and Israel (sectoral shares in domestic employment), 1970–1991

	<i>Agriculture</i>			<i>Industry</i>			<i>Construction</i>			<i>Services</i>		
	<i>1970</i>	<i>1987</i>	<i>1991</i>	<i>1970</i>	<i>1987</i>	<i>1991</i>	<i>1970</i>	<i>1987</i>	<i>1991</i>	<i>1970</i>	<i>1987</i>	<i>1991</i>
West Bank	42.4	26.0	28.1	14.6	16.5	16.9	8.4	12.2	10.5	39.1	45.3	44.5
Gaza Strip	31.6	15.9	21.6	12.1	17.5	12.7	8.5	8.4	10.0	47.8	58.2	55.7

WBGs	38.7	22.8	25.8	13.8	16.9	15.5	8.4	10.9	10.4	39.1	49.4	48.3
Israel	8.8	5.2	3.5	24.3	23.6	21.6	8.3	4.9	6.1	58.6	66.3	68.8

Sources: ICBS (1979, 1994, *SAI*: tables 27.22, 27.20, 27.19, 12.10); UNCTAD (1991: tables LAIII/5A, 5B and 5C).

Notes

Data on the West Bank exclude East Jerusalem. Shares in sectoral employment exclude Palestinians working in Israel.

*Table 2.2* Structure of production in the WBGs and Israel (sectoral shares in GDP), 1970–1991

	<i>Agriculture</i>			<i>Industry</i>			<i>Construction</i>			<i>Services</i>		
	<i>1970</i>	<i>1987</i>	<i>1991</i>	<i>1970</i>	<i>1987</i>	<i>1991</i>	<i>1970</i>	<i>1987</i>	<i>1991</i>	<i>1970</i>	<i>1987</i>	<i>1991</i>
West Bank	35.0	19.0	16.0	8.2	8.2	7.3	8.7	17.0	15.0	48.1	55.8	61.7
Gaza Strip	31.0	18.0	18.0	4.1	13.9	11.0	10.6	22.0	18.0	54.3	46.1	53.0
WBGs	33.7	19.0	16.0	6.9	9.0	8.3	9.4	18.0	16.0	50.0	54.0	59.7
Israel	6.4	4.2	2.7	24.0	23.1	20.2	12.7	7.1	9.5	56.9	65.6	67.6

Source: Diwan and Shaban (1999: table A1).

Notes

Data on the West Bank exclude East Jerusalem. Data refer to shares at factor cost.

The shift from agriculture to services in the course of development is quite typical of most LDCs. What is peculiar to the Palestinian case is the fact that sectoral shifts have been accompanied by substantial labour flows to Israel, rather than into industry. These changes are reflective of ‘the externalisation of the Palestinian economy’, a phrase coined by Roy (1995:209). In this respect, the Palestinian economy shares some similarities with various ‘enclave’ economies that developed in Southern Africa. In the case of Lesotho, for example, the structural change from agriculture to services was accompanied by substantial labour flows to South Africa (the share of agriculture in GDP fell from 40 per cent in 1970 to 20 per cent in 1980). Lesotho labour flows employed in South Africa represented half of the male labour force between 1969 and 1989, and generated half of Lesotho’s GNP (Lundahl and Petersson 1991; Maltosa 1995).

The Palestinian economy has failed to articulate internally, in the sense of providing linkages between the respective domestic sectors, based on domestic demand and supply, despite the availability of high savings rates. Savings rates were of the order of 30 per cent of GDP in the West Bank and 40 per cent of GDP in the Gaza Strip in the mid-1980s (World Bank 1993, vol. 2:16). Yet these savings did not emanate from, or contribute to, the formation of productive national capital. Rather, they were financed by workers’ remittances and by international aid. Net factor income from abroad, excluding workers’ wages in Israel, was estimated by Israeli sources to have been of the order of 11–15 per cent of GDP in the WBGs between 1977 and 1984 (estimated from World Bank 1993, vol. 2: table A5). Aid provided by the international community was estimated to have reached a level of US\$200 million for the period 1987–1992. Aid from Arab countries,

including Jordan, represented a total of US\$560 million between 1978 and 1984, but actual transfers are believed to have been higher than reported sums (UNCTAD 1993a: 24–25). The scope for investment, though, remained limited, given Israeli restriction on domestic industrial licensing and trade (Roy 1995; World Bank 1993). Investment in machinery dropped from 12 per cent to 4 per cent in the West Bank between 1970 and 1974 and remained in that low range in both the West Bank and the Gaza Strip up until 1987. Eighty per cent of private investment was channelled towards domestic construction, which was considered a form of saving and security. The limited investment options restricted in turn the ability of the Palestinian economy to absorb its labour force.

Meanwhile, the pattern of structural change in the Palestinian economy was also accompanied by transfer of resources to Israel. The nature of the customs union imposed enabled Israel to collect and appropriate tariff revenues on goods destined for Palestinian areas, which amounted to approximately 12–21 per cent of WBGS GNP between 1970 and 1987 (Hamed and Shaban 1993:142).<sup>16</sup> As a result of the monetary union with Israel and of high inflation in the late 1970s, Israel was estimated to have earned seignorage revenues of the order of 1.6–4.2 per cent of WBGS GDP (Hamed and Shaban 1993:132). Furthermore, the revenues collected by the Israeli Civil Administration remained higher than total expenditure in the WBGS (a ratio of 117 per cent in 1988/1989: UNCTAD 1993a: 23). Despite the taxes and revenues collected by the Israeli Civil Administration, which amounted to 21.7 per cent of the WBGS GDP between 1987 and 1991, development spending in the WBGS was of the order of only 3.5 per cent (World Bank 1993, vol. 2:35).

### **A critical assessment**

The current vast literature on the Palestinian economy has come a long way in describing the nature of the WBGS's economic growth under Israeli occupation. However, if describing what has happened is relatively easy, explaining it is more complex. Part of the difficulty stems from the literature's perception of what development is in the first place, and what the unit of analysis is: the individual or the nation. Among the different approaches, there is an underlying preconception that economic development relates to growing *national* capabilities and not simply to rising individual living standards. As Abed argues, 'every economic act is to be judged as to whether or not it reinforces the occupation or weakens it, whether or not it promotes dependency or self-reliance' (1988:9).

Yet in the Palestinian context, there is a schism between the individual and the national economic outcomes. To explain this schism, there is a need to explore how the interaction of market and state forces produced such an outcome. The literature, particularly the economic approach, has increasingly undertaken such an exploration, but has tended to abstract the economic analysis from the political—that is, territorial—basis of Israeli occupation. The political economy approach, on the other hand, considers Israel's strategic concerns and the historical and territorial reality of the Israeli-Palestinian conflict to be central to the analysis. It puts Israeli 'colonial' state land policy, rather than market forces, at the centre of its analysis of Palestinian development. However, like the economic approach, it assumes that we are talking about clearly

demarcated nations. It does not pay enough attention to the way economic developments during the 25 years of direct Israeli occupation have led to the redefinition of economic and territorial boundaries between Israel and the WBS, which eroded the delineation of a Palestinian nation. Except for the work of Roy, it does not explain how Israeli occupation has led to the economic demise of an independent Palestinian entity in the WBS.

### *The 'economistic' approach*

A number of studies have tried to explain the reason behind the WBS's 'skewed development' (World Bank 1993) through the use of 'the conventions of economists rather than those of sociologists or political scientists' (Arnon *et al.* 1997:1). Its focus is on exploring the implications of having 'two economies of different size and factor endowments, such as the WBS and Israel, meet in the market place' (Arnon and Gottlieb 1993:1). According to Bergman (1976), the Bank of Israel (1983) and Kleiman (1990, 1993), the integration of the WBS's agrarian, less developed economy into a larger, more capital-intensive economy was bound to produce a skewed outcome, as labour would rationally commute to areas with higher wages. Labour migration in turn led to a rise in real wages, which discouraged Palestinian employers from employing WBS workers (Kleiman 1990). However, while focusing on the ideal benefits of trade, these analysts do not explain why market interaction allowed the exports of labour rather than of labour-intensive goods, or why capital flows failed to increase or to be invested in industry, rather than in construction, for example.

The six-volume study by the World Bank (1993) and the work of Arnon *et al.* (1997) provide the most comprehensive and elaborate attempts, within this approach, to explain the nature of Palestinian development in the pre-1993 period. In contrast to earlier studies, they give specific attention to the nature of Israeli *policies* in shaping the pattern of asymmetric growth. They situate the development question within the ongoing debate between state and markets that marked development thinking in the late 1980s and early 1990s, particularly within the World Bank (Fine 2001).

According to the World Bank, Palestinian 'skewed development' is the outcome of 'four unusual features of [the] policy environment' (1993, vol. 2:25). These include 'asymmetric market relations with Israel' (that is, the export of labour rather than goods), 'regulatory restriction that held back the expansion of the private productive sector', 'fiscal compression that led to under-provision of public goods' and 'a declining natural resources base'. The study reviews the various policy instruments that stalled domestic investment, dwarfed the development of the private sector by failing to provide basic infrastructural facilities, and made the WBS dependent on demand structures in the Israeli economy rather than in the domestic or international economy. The World Bank study recognises that market forces alone do not lead to an efficient equilibrium, and that public policies play a role in ameliorating or aggravating market imperfections. While it stops short of clearly blaming the Israeli state and adheres explicitly to 'its technical mission', which does not mandate it to 'deal with political or security aspects', the World Bank acknowledges the price of Palestinian statelessness for Palestinian development (World Bank 1993, vol. 1:1). It stresses the importance of developing a viable public



sector, especially in view of 'the existing economic imbalances and unmet social needs' (World Bank 1993, vol. 1:13).

Arnon *et al.* (1997) are more explicit in acknowledging the role of the Israeli military occupation in determining the nature of Palestinian development. Their study argues that 'the combined effects of the links between the two economies and economic policies implemented by the Israeli government resulted in the distorted structure of employment and trade described here' (1997:232). In common with the World Bank study, Arnon *et al.* reiterate the importance of labour and trade links in contributing 'to the continuation of this unbalanced development'. They add that such an outcome was not simply the result of economic forces or asymmetric market relations but also an outcome of 'the military government, and later on the civil administration, [which] inadvertently or by design, discouraged Palestinian entrepreneurs from creating the productive capacity that could have changed the distorted industrial structure into a more balanced and productive one' (Arnon *et al.* 1997:233).

However, Arnon *et al.* do not explain the nature of Israel's political considerations and how these determined the specificity of Israeli policies, largely because they sought to keep territorial considerations out of their economic analysis. They tend to relate to politics in terms of vested interests, and not in terms of a historically specific conflict that shapes the nature of policy choices, and thus development outcomes. For example, while they acknowledge, like Kleiman (1990), the role of the Israeli agricultural lobby in constraining Palestinian agricultural growth, they do not explain why Israeli policies chose to accommodate the Israeli agricultural lobby and protect Israeli agriculture from Palestinian competition (see Chapter 5) rather than Israeli entrepreneurs interested in investing in the Occupied Territories. The economic approach fails to consider the aim of Israeli occupation, or to situate Palestinian economic development and Israeli economic policies within the context of Israel's territorial policies, and particularly within the framework shaped by the 'Allon Plan' (see Chapter 3). Arnon *et al.* (1997:10) argue that 'although the facts are clear and the "revealed preferences" of Israeli policy-makers tell a sad story, their intentions have not been proven'. For the authors, the issue is one of competing policies whose intention cannot be proven, not about strategic power structures and a specific territorial conflict that have shaped the emanating economic realities.

### ***The political economy approach***

The political economy perspective argues that Palestinian development is not simply an outcome of specific types of policies, but a result of Israeli-Palestinian conflict over the land. It situates the analysis within a settler colonialism framework, arguing that Israel is a settler colonial entity that has specific territorial interests in the WBGS. Relying on a historical understanding of the Palestinian-Israeli conflict, it argues that Zionism, which is the essence of Jewish nationalism, has been, since its inception in the nineteenth century, a 'settler colonial' project. It sought to create a pure settlement, or a pure Jewish homeland in Palestine that would exclude the indigenous population. It wanted the land of Palestine in particular, mainly for ideological reasons and not because of specific economic advantages (Kimmerling 1983a; Ram 1999; Shafir 1989, 1999). In 1948, the Zionist Israeli state was established on 78 per cent of British Mandate Palestine, after the

Jews had expelled and caused the flight of 750,000 indigenous inhabitants. In 1967, the occupation of the West Bank and Gaza Strip was considered a continuation of, rather than a watershed in, Israel's colonial policies (Kayyali 1979; Aruri 1989; Shafir 1999).<sup>17</sup>

The political economy analysis argues that the relation between Israel and the WBGS is one of *exploitation*, not simply one of unequal factor endowment. In other words, Israel is interested in the transfer of resources from the WBGS into its own economy and polity. The earliest protagonists within this approach adhere to a dependency theory framework of analysis (Abu Ayash 1981; Budeiri 1982; Ryan 1979; Mansour 1983; Gharaibeh 1985; Samara 1988). They argue that the economies of Israel and the WBGS are linked in a core-periphery relation 'whereby the smaller units orbit in the gravity range of the larger and more advanced one' (Gharaibeh 1985:4). According to Sayigh, the Palestinian economy is distorted 'not through the working of the invisible hand of market forces, but through the imposition of the visible hand of the occupying power' (1988:267). For Samara (1988), this distortion is leading to the peripheralisation of the West Bank economy<sup>18</sup> as a result of Israeli dispossession of Palestinian land, control over trade and restriction over internal articulation of the Palestinian economy. The evidence of this peripheralisation is to be found in the existence of a surplus workforce, the outflow of labour and money from the economy towards Israel, and the fact that the Palestinian economy failed to industrialise and resolve its agrarian question.

The problem with this approach, though, stems from the conceptual and methodological problems that dependency theory suffers from (Seers 1981; Palma 1981; Kearny 1986; Apter 1987). It sees the world in static terms and fails to see the contradictory dynamics of core-periphery relations. It focuses on relations of exchange rather than production and does not take into account the means by which surplus value is being extracted and transferred as a result of structural productive relations. Migration under this perspective is a result of unequal trade relations, not the outcome of a complex process of structural change that involves political, social and economic transformations in the WBGS.

Roy (1995, 2001), on the other hand, distances herself from such an approach. In a meticulous study, she argues that it is not possible to understand what has happened in the Gaza Strip and in the West Bank (Roy 1999a) by referring to available development theories. She bases her analysis on the premise that in other colonial situations it is possible to achieve some distorted development, or underdevelopment, that allows the weaker economies to have niches of economic capitalist growth, to accumulate capital and to form class alliances between peripheral and core economies (Roy 1995:125). In the Palestinian context, she maintains, this did not occur. What happened in the Gaza Strip, which is the main focus of her work, as a result of its relation to Israel is a process of 'de-development'. As she puts it, 'the Gaza-Israel relation...redefines the nature of [the] dependence to include causes that are not primarily economic in character' (Roy 1995:123). In Roy's view, development theories cannot explain what has happened in the Gaza Strip, because they equate development with growth and because they consider development to be determined by economic fundamentals, and not the result of political prerogatives (1995:125).

The term 'de-development' basically means the 'systematic deconstruction of an indigenous economy by a dominant power', with the aim of dispossessing the Palestinians of their resources and of any means that would allow them to create an

economic base 'to support an independent and indigenous existence' (1995:4). Migration plays a central role in this relation since it is the means by which expropriation and integration into Israel occur. It is the means by which decomposition and thus de-development materialise.

The starting point of Roy's analysis is the existence of two distinct *political national entities*, not simply two economies, within the same geographic space, in which the Israeli part is dispossessing the Palestinians. She defines the content of de-development as a process of de-construction in which development stops and capital accumulation is stalled, no structural transformation occurs, and articulation between the domestic sectors (agriculture, industry, local demand and local production) is prevented. She argues that one can only talk about structural transformation as long as there is a development of local productive capacities as well as social and political change. In the case of Gaza this did not occur. The process of dedevelopment occurs in three principal ways: (1) expropriation and dispossession; (2) integration and externalisation; and (3) de-institutionalisation.

In other words, Israel—through its military and economic power—expropriated land, built settlements and deprived Palestinians of their water and land resources. It thereby deprived them of their means to produce locally. By such policies, Israel also created surplus labour that has no choice but to go and work in Israel. Moreover, Israeli economic policy prevented the development of local production by invading Palestinian domestic markets with highly subsidised Israeli goods, depriving Palestinians of direct access to international markets and limiting exports to Israel according to Israeli quota and demand conditions. Furthermore, Israel prevented the Palestinians from achieving empowerment by depriving them of their political and civil rights. It stalled the development of Palestinian institutions in the social, economic and political spheres.

However, Roy argues that the reason for de-development is not exploitation of Palestinian labour for the sake of extracting surplus value. While exploitation occurred, it was a by-product of Israeli policies, not an aim *per se*. Roy argues that Israel's main objective is to dispossess Palestinians of their resources and of their land, as part of its ideological goal of building a strong and exclusive Jewish state. Unlike other colonial states, Israel was not interested in labour *per se* but in monopolising access to land. 'De-development...was neither planned nor accidental; rather it was the outcome of official policies designed to secure military, political and economic control over Gaza and the West Bank, and to protect Israel's national interests' (1995:135). Israel integrated Palestinian resources and labour as a means of hastening full incorporation of land into the Jewish state.

What is particularly innovative in Roy's approach is her emphasis on the political and ideological foundations of Israeli policy. She relies mainly on a post-modernist approach focusing on the evolving dynamics of economic and territorial developments. Although there is a tendency to assume an 'ideal type' of structural transformation to which the Palestinian economy does not adhere, her analysis is pertinent in showing the erosion of the economic base of an eventual Palestinian independence, at least in the Gaza Strip. While labour migration is not her focus, her analysis allows for an understanding of migration as the outcome of Israeli policies of destruction and integration and of the system of land expropriation and settlements that released labour from the local economy. Moreover, Roy's analysis is dynamic. After documenting the destruction of the

Palestinian economy in the Gaza Strip, she argues that the Strip is today a branch economy of Israel, becoming increasingly dependent on subcontracting production relations developed since the first Intifada. She also argues that this form of integration is the result of changes in the Israeli economy, namely its industrial deepening (1995:326).

However, Roy's work, like most of its predecessors and contemporaries, stops short of analysing the implications of de-development for the redefinition of boundaries between Israel and the Occupied Territories. She concentrates on a nationalist macro perspective that does not allow for an exploration of the conflicting nature between state and class interests within Israel and how this conflict impacted labour movements out of the WBGS. Her interest is not on the contradictory dynamics of labour flows, and how these reflect different processes of territorial and economic redefinition.

### **Conclusion: land, labour and state**

Between 1967 and 1993, the Palestinian economy of the WBGS witnessed a process of structural change that made it dependent on Israel. This dependency was a result of an Israeli policy of economic integration that dealt with the Palestinian demographic challenge by allowing an improvement in individual economic welfare while diminishing the capacity of the WBGS's economy to stand on its own feet. Growth of the Palestinian economy became dependent on Israeli regulations and demand, rather than on domestic growth and linkages between domestic sectors. It became dependent on access to Israeli labour and product markets, rather than on domestic or international markets. While the economy shifted from being a predominantly agricultural economy to a service-oriented one, its employment-generation and productive capacities remained limited. Palestinian labour flows to Israel, meanwhile, played three key roles: they fostered the integration of the WBGS into Israel, they shaped the nature of Palestinian development, and they provided an important source of income at both the individual and the national level. Meanwhile, as the economy became further integrated into that of Israel, the boundaries of the WBGS's economy became more difficult to delineate.

In explaining the paradox of Palestinian economic development, the available literature differs in attributing the outcome to market forces or to Israeli state intervention, and particularly to the more complex nature of the occupation. The 'economistic' approach shows that the incorporation of a small, agrarian, less developed economy into a larger, more capital-intensive economy was bound to produce a 'skewed development outcome', especially in view of the different factor endowment and unequal market forces. While the more recent studies acknowledge the role of Israeli public policies in explaining skewed Palestinian growth, they fail to explain the specificity of Palestinian development, and particularly why its growth had to rely on labour rather than capital flows, and why it resulted in diminishing Palestinian access to land resources. This failure stems from the literature's inability to incorporate an analysis of Israeli occupation that goes beyond conceptualising it in terms of policies only. It stems from a refusal to situate Palestinian economic development and Israeli economic policies within the context of Israeli state strategic interests and territorial priorities.

The political economy approach, on the other hand, situates the analysis within a settler colonialism framework, arguing that Israel is a settler colonial entity that has

specific territorial interests in the WBGS. It argues that the relation between Israel and the Occupied Territories is not simply a relation of inequality, but rather a relation of *exploitation*. The prime objective of this exploitation is not the use of labour, but the exploitation and integration of Palestinian *land*. In determining the mechanisms by which this exploitation, or transfer of Palestinian resources, took place, political economists agree that Israeli state objectives and ideology, rather than simply market forces or specific public policies, have played a central role. However, while giving pertinent attention to the state's land policy, they do not, like the economists, account for the evolving relation between land *and* labour and its role in explaining migration.

The economic approach concentrates on economic endowment and mechanisms and fails to examine how Israel's land policy influenced labour release. The political economy approach gives priority to Israel's interest in Palestinian land but does not explore the various ways in which the expropriation of land is linked to the way labour is being released and absorbed. The implications of labour migration and Palestinian development for the prospects for Palestinian independence are also left undefined. Roy's analysis suggests that the process of de-development has actually led to the erosion of the economic base of a Palestinian state, at least in the Gaza Strip. She stops short, however, of making any prediction about the irreversibility of the process, or how it compares or contrasts with developments in the West Bank. She leaves it to the evolution of Israeli-Palestinian relations to determine any future viability of an eventual Palestinian statehood, or separation from Israel. On the other hand, there is a tendency, particularly in the economic literature, to assume that once the occupation is removed and Palestinians are given control over their resources, they can undo the imbalances created (World Bank 1993; Kleiman 1994). There was little attention paid in 1993 to the fact that the pattern of Israeli retreat and the nature of political control that the Palestinians are going to be given (autonomy versus sovereignty and independence) were going to be paramount in determining the success of 're-development'. The prospects for viable independence are also going to depend on the different attitudes that Israel has towards the West Bank on the one hand and the Gaza Strip on the other.

In order to understand the causes of Palestinian labour migration to Israel since 1967, it is necessary to explain how Israel integrated not only the Palestinian economy but also the WBGS land. The next chapter concentrates on the territorial dimension of Israeli occupation. It also sheds light on how territorial changes, like the economic developments outlined in this chapter, have led to a redefinition of economic and territorial boundaries between Israel and the WBGS, making the prospects for Palestinian economic and political independence increasingly remote, if not obsolete.

### 3

## Land and settlements in the West Bank and Gaza Strip

The occupation of the WBGS did not pose only an economic challenge to the Israelis. The challenge was above all a political and territorial one. The armistice signed between Israel and its Arab neighbours in the aftermath of 1948 left Israel's borders unofficially demarcated, and the 1967 war expanded Israel's frontier without delineating its boundaries. Having seized the West Bank from Jordan and the Gaza Strip from Egypt, Israel needed to define the scope of its territorial interest in the occupied areas and the means to assert a claim over them for future negotiations with its Arab neighbours.

According to Shafir (1999:92), 'after the [1967] six day war, Israel saw dramatic shifts in all three spheres...wherein the peculiarities of Zionist colonisation were found'—namely, the control of Palestinian land, labour and demography. The victory of 1967 offered the Israeli leadership an opportunity to depart from the idea of territorial compromise in Palestine as a solution to the Arab-Israeli conflict. People such as Moshe Dayan, Labour Minister of Defence in 1967, and like Ariel Sharon at the other end of the political spectrum, maintained that Israel's control of the land would force the Arabs into accepting its existence. They argued that, contrary to UN resolutions, land must not to be given up in exchange for peace; rather, it is Israeli control of the land that will force peace (Aronson 1987:14). The occupation of the WBGS also erased the pre1967 Israeli establishment's debate about whether or not to use Palestinian labour, and allowed a reconsideration of the problem of Palestinian demography. The Palestinian demographic reality was no longer considered, by various policy makers, as a restraining factor in Israel's expansionist vision, but rather as a reality that needed to be 'undone' rather than avoided (Shafir 1999:92).

This chapter analyses the instruments Israel used to integrate territorially the WBGS into its 1948 borders, while excluding its Arab population. It complements the discussion undertaken in the previous chapter by explaining how the pattern of land confiscation and the nature of Israeli settlements in the Occupied Territories have shaped the context of Palestinian labour migration over the past three decades. Both factors have enabled Israel to create a *de facto* claim over the WBGS and to redefine its economic and territorial boundaries by expanding its 1948 frontiers. They also put in jeopardy the prospects for a contiguous Palestinian state in the West Bank and Gaza Strip.

### Israel's territorial fundamentals

The Allon Plan of 1967, produced by the Labour Minister and head of the Ministerial Committee on Settlements at the time, set out the scope of Israel's territorial interest in

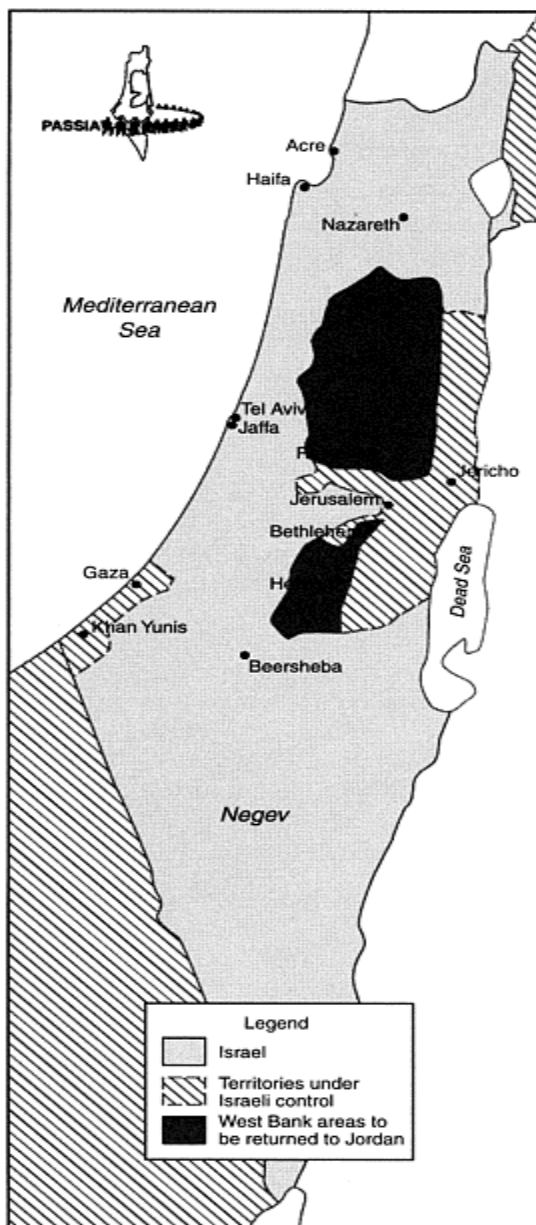
the WBS and its guiding principles for peace negotiations over the future of the WBS. This plan remained the framework within which subsequent Israeli governments (whether of the Right or the Left) worked, even if it was never officially adopted. The early drafts envisaged the annexation of the Gaza Strip, but this idea was abandoned by the mid-1970s (Allon 1976). Up until 1976, Israeli policy makers, central among whom were Yigal Allon and Moshe Dayan, envisaged the incorporation of the Gaza Strip into Israel, after removing 350,000 refugees to Sinai and the West Bank (Roy 1995:103). Having failed to impose any refugee resettlement programme on the Gaza Strip, or to contain the area's demographic growth and political opposition to the occupation, Israeli governments gave up on the idea and proposed to return it to Arab control (Allon 1976).

The final draft of the Allon Plan in 1970 called for the annexation of 25–40 per cent of the West Bank (Aronson 1987:14; B'tselem 2002:12) (see Map 3.1). The areas covered included:

- Jerusalem and its immediate environs;
- a security belt 10–15 km wide running the length of the Jordan Rift Valley;
- the 'Judean' desert, including possibly Hebron;
- the Latrun salient, which is along the Green Line of the pre-1967 border (separating the West Bank from Israel), as well as the Etzion bloc (the Oral Law).

The importance of the Allon Plan lies not only in its definitions of the areas that Israel wanted to keep under its permanent control, but more fundamentally in setting out the conceptual framework for how to handle territorial and sovereign claims over the WBS in coming years. In particular, it sets out four territorial fundamentals that were further developed by subsequent Israeli governments:

- First, it entrenched the separation of East Jerusalem from the West Bank, which was bound to split the north from the south of the West Bank.
  - Second, it laid down the concept of 'security borders', which became an underlying rationale for Israeli land policies and all discussions on territorial compromises. This is a concept that is particularly loose and subject to Israel's unilateral definition, but which continued to be recurrent in all Israeli diplomatic discourse.
- Third, it reasserted the importance of building Israeli settlements as a means of ensuring the annexation of the maximum amount of land but with the smallest possible number of Palestinian people. The Likud Party, after 1977, modified this approach as it built settlements within Arab areas, rather than away from them.
- Fourth, it opposed the principle of an independent Palestinian state. According to the Allon Plan, the unannexed part of the West Bank, comprising two unconnected areas to the north and south (see Map 3.1), and two-thirds of Gaza would be part of a Jordanian-Palestinian state (Benvenisti and Khayat 1988:64; B'tselem 2002:12).



*Map 3.1* The Allon Plan, July 1967  
(source: Palestinian Academic Society for the Study of International Affairs (PASSIA)).



### *Instruments of land confiscation*

The implementation of the Allon Plan required full control over the WBGS land. To pursue this objective, Israel undertook three major actions. First, it prevented the Palestinians from registering their land as a means of confirming their property rights. This process of land registration, which started in the 1950s under the Jordanian government, was stopped by Israel as soon it occupied the area. In 1967, only 30 per cent of the West Bank area was officially registered as being in private hands (Shehadeh 1988:20). This lack of clear property rights gave Israel a legal vacuum that facilitated the pursuit of its territorial objectives.

Second, Israel seized land by declaring a major part of the area it occupied to be state land. In 1967, it declared itself the Custodian of Absentee Property (under military order no. 58), and took over all land pertaining to the enemy government (military order no. 59).<sup>1</sup> In 1980, Israel's Military Governor in the WBGS changed the definition of what is state land and ruled that all unregistered and uncultivated plots would be considered state land and thus subject to seizure. By the mid-1980s, 39 per cent of the West Bank and 27–31 per cent of the Gaza Strip was mapped as Israeli state land (Benvenisti and Khayat 1988:61, 113).<sup>2</sup>

Third, Israel prohibited the Palestinians from using their land in certain areas, particularly around Israeli Defence Force camp installations, in combat zones (particularly in the Jordan Valley and the western slopes), along Israeli bypass roads and around settlements. Moreover, Israel requisitioned and confiscated land, declaring some of it to be 'militarily closed areas'. Unfortunately, no precise figures are available on these confiscations, as they are military secrets. Nonetheless, it is estimated that 280,000 dunums was confiscated and requisitioned between 1967 and 1985 in the West Bank (i.e. nearly 5 per cent of the West Bank) (Benvenisti and Khayat 1988:61–62). During the five years preceding the Oslo peace process, between 1988 and 1993, Israel further confiscated 457,000 dunums, constituting 7.3 per cent of the total area of the WBGS (MAS 2001:161). According to B'tselem (2002:8), Israel seized almost two million dunums of Palestinian land over the 36 years of occupation. Land closed and declared state land was in turn leased, mainly to official representatives such as the Jewish Fund or Israel's Land Administration, or to private citizens, to build Israeli settlements.

### **Settlements and the demographic fundamentals**

Settlements have been key to translating Israeli military control over the land into an Israeli demographic reality that was bound to impact on any negotiations between the Palestinians and Israelis to end their conflict. They also emphasise the interconnection between land and labour relations in the dynamics of Palestinian migration, and the Palestinian-Israeli conflict more generally, as they continue to be built by Palestinian workers.

Historically, the construction of settlements has been a central pillar of Zionist colonialism. For Ben-Gurion, the first Prime Minister of the State of Israel, a Jewish entity can only exist in Palestine by 'creating facts on the ground' (Aronson 1987:5–6). Demographic settlements, rather than international support or claim to sovereignty *per se*,

were the means of imposing a factual claim that would assert Israel's domination over the occupied land.

The West Bank added a religious significance to the settlements. To religious Zionism, led mainly by Rabbi A.Y.Kook and propagated by his son, Z.I.Kook, settling in 'Judea and Samaria' (as the West Bank is called in the Bible) is a sacred duty (the Commandment of Conquest) that would precipitate the return of the Messiah and the way to redemption (Aran 1997; Heilman 1997; Prior 1998). These arguments were particularly important for the Gush Emunim settler movement, which led the drive for the settlements growth from the early 1970s on.<sup>3</sup> They were further propagated and institutionalised with the arrival of the Likud Party to power in 1977.

However, the idea of creating a Jewish demographic reality through the establishment of settlements in the WBGS was, from its outset, faced with two fundamental challenges. On the one hand, policy makers needed to address the Palestinian demographic challenge and how to establish a Jewish presence among an Arab population that represented 35 per cent of the total Israeli population in 1970.<sup>4</sup> On the other hand, settlement construction in the WBGS was considered illegal from an international legal point of view. The Fourth Geneva Convention as well as The Hague Convention on Laws and Custom of War on Land stipulate that an occupier power has no right to change the territorial and demographic character of the area it occupies. In other words, Israel could not annex occupied land or transfer Israeli citizens onto it.<sup>5</sup> According to international law, Israel 'has no right to create facts in the area for its military needs which are designed *ab initio* to persist even after the end of the military rule in that area' (LIDLP 1991:94). Settlements are typically set up as military posts that develop into residential communities. They are designed to persist after the end of military rule.

Despite the illegality of its measures, Israel went ahead with turning its military posts in the WBGS into a Jewish demographic reality that would make any eventual territorial compromise between it and its neighbours to Israel's advantage. The first settlements in the West Bank were built in 1968, in Hebron and then in the Jordan Valley. Yet it was the arrival of the Likud Party to power in 1977, and its adoption of land of 'settlement in all parts of Eretz Israel' as its primary agenda, that gave the largest impetus to settlement construction. In 1977, a comprehensive regional plan was instituted, dividing the West Bank into explicit territorial uses (natural reserves, forests, parks, roads, military closed areas, etc.) and creating new definitions for land appropriation and management. Moreover, a special high-level co-ordinating committee composed of representatives of the Ministers of Agriculture, Defence, the Interior and Housing, and of the World Zionist Organization (which is based in the United States), was formed. This committee was in direct contact with the Ministerial Committee on Settlements and was responsible for elaborating all settlement plans that were adopted and executed (Benvenisti 1984:27). Its composition reflected well the parties that remained central to the elaboration and execution of settlement projects, namely, the army, Gush Emunim, the government and the World Zionist Organization.

It is important to note that the Israeli attitude towards the Gaza Strip differed from its attitude towards the West Bank, especially after 1977. While in both cases Israel sought to expropriate as much land as possible, its settlement policy in the Gaza Strip was not conducted with the same vigour. In 1977, peace negotiations started between Egypt and Israel, leading to the Camp David accords in 1978. This peace treaty returned Sinai to

Egypt and proposed an autonomy plan for the WBGS, to be initiated first in Gaza. While the autonomy plan was rejected by the Palestinians, in both the West Bank and the Gaza Strip, it reflected the Israeli government's evolving political options for the occupied Palestinian territories. It confirmed Israel's opposition to the creation of an independent Palestinian state and its different political visions for the West Bank and the Gaza Strip respectively.<sup>6</sup> The settlement plans and construction since 1977 testify to Israel's intention to integrate the West Bank (including East Jerusalem), while suggesting a greater willingness to give up the Gaza Strip in future peace negotiation processes. By 1993, not more than 4,800 settlers lived in 15 settlements in the Gaza Strip, compared with 117,100 in over 122 settlements in the West Bank (Table 3.1, p. 62). In East Jerusalem, a total of ten settlements were created around the city, with 137,400 settlers living in them by 1992 (Table 3.2, p. 63). Israel defined these settlements as 'neighbourhoods' that are an integral part of the city it annexed illegally in 1967.

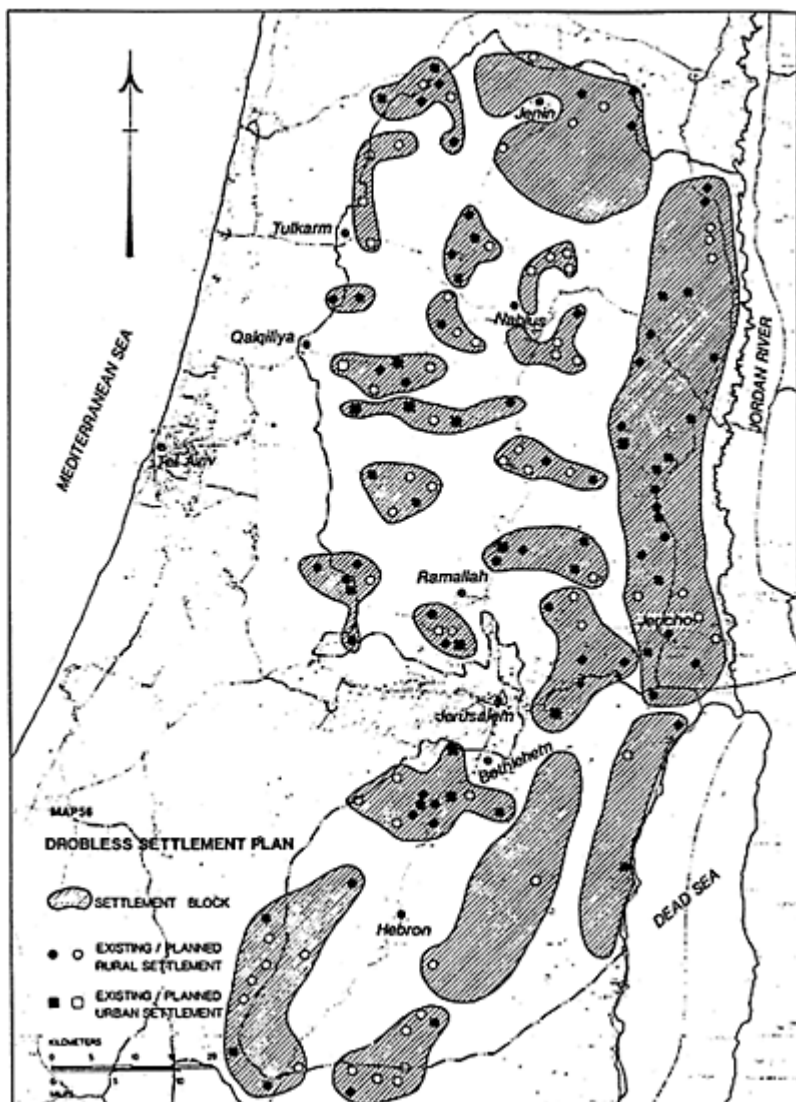
### *The 1978 'settlement master plan'*

If the Allon Plan provided the territorial framework for establishing Israel's control of Palestinian land in the WBGS, the Drobless Plan of 1978 was the master plan for translating this control into a Jewish geographic and demographic reality. Prepared by the World Zionist Organization in 1978, the Drobless Plan set the agenda for the expansion of settlements in the West Bank in particular.<sup>7</sup> It was particularly important for setting the stage for the fragmentation of the West Bank. It modified the Allon Plan and sought to remove any 'shadow of doubt regarding our [Israeli] intention to remain in Judea and Samaria'. It intended 'to minimise the danger of the establishment of another Arab state in the region' by Judaizing and integrating the West Bank into Israel (the Drobless Plan in Benvenisti and Khayat 1988:64). The Sharon Plan of 1981, which adopted Drobless's, further envisaged conceding isolated densely populated enclaves to Palestinian self-rule while aiming to annex most of the West Bank (Weisman 2003). Ariel Sharon has been the patron of the settlement expansion ever since.

The first important feature of the Drobless Plan was a call to build settlements *within* and *around* Palestinian areas. Such a construction ethos marked a departure from the Zionist historical pattern of settlement building (Elazar 1982; Kellerman 1993), since it advocated the construction of settlement among Arab areas, rather than away from them. Moreover, the Drobless Plan advocated the construction of settlement blocks, rather than isolated Israeli outposts, to be built along the eastern and western sides of the Samarian Hills, rather than just around Jerusalem and the Jordan Rift, as the Allon Plan recommended (see Map 3.2). The Drobless and the Sharon Plans deliberately sought to fragment, rather than avoid, the Palestinian demographic challenge by recommending that settlement blocks divide the West Bank into Palestinian clusterings of no more than 100,000 inhabitants. Both plans challenged the pre-1977 unofficial guided Israeli settlement policies of avoiding Palestinian population areas and sought to incorporate the maximum amount of territory with the minimum possible Palestinian population (Jong 1998; Shafir 1999).

The second central element of the Drobless Plan was its institutionalisation of the community-type settlements that the Gush Emunim movements had been promoting. These settlements were mainly of a community suburban type, rather than self-sustaining

agricultural economic entities that have been typical of historical and Labour Zionism (Kellerman 1993:48; Benvenisti 1984:53). The community-based settle-



Map 3.2 The Drobless Plan (source: Benvenisti and Khayat 1988).

ments were envisaged as commuter suburban dwellings that would attract white-collar urban dwellers working in the metropolitan areas of Tel-Aviv and Jerusalem.

The third feature of the Drobless Plan was its emphasis on developing a whole set of infrastructure and roads connecting the settlements with each other and with Israel. The system of Israeli bypass roads, estimated at a total of 288 km by 1986, further segmented the West Bank into fragmented Palestinian areas while at the same time connecting the Israeli settlements to the metropolitan poles of Israel (Benvenisti and Khayat 1988:59; see Map 3.2). The 1967 geographic borders between Israel and the WBS were thus increasingly eroded.

The fourth major element of the Drobless Plan was to integrate the West Bank settlements within the metropolitan areas of Jerusalem and Tel Aviv. This idea of metropolitanisation of settlements in the WBS marked a departure from the Zionist settlement pattern between 1948 and 1977 of seeking to maximise control over the land by dispersing Israelis away from the economic centres of the country (Newman and Applebaum 1992; Kellerman 1993). The Drobless Plan's objective of creating 'a dense chain of settlements along the mountain ridge running from Nablus to Hebron' was achieved by expanding the suburban settlements along this mountain ridge that are within 30 km range of Jerusalem and Tel Aviv. Eighty-two per cent of all investment envisaged in the 1983–1986 settlement plan went to these settlements (Benvenisti 1984:59). The policy of metropolitanisation also sought to generate support for the WBS settlements not only from a group of ideologically motivated people, but also from white-collar urban commuters interested in an attractive middle-class quality of life, as well as from various interest groups within the Israeli economy (such as homeowners, construction companies, religious groups).

The point was thus to normalise and institutionalise an illegal act of expropriation that would make territorial retreat very difficult, if not impossible. Yet as Portugali argued, this pattern of settlements 'reshaped Israel metropolitan fields by extending them into the Occupied Territories and including within them not only Jewish settlements but also Palestinian settlements' (1993:21). Not only did the settlements incorporate Palestinian land into 1948 Israel, and thereby erode the 1967 borders, but also they were bound to tie the Palestinian population more deeply into Israel, albeit by seeking to fragment it.

### **'Creating facts': settlements and settlers, 1967–2000**

The growth of settlements went through four main phases between 1970 and 2000. Each of these phases consolidated Israeli presence along four major axes envisaged by the Allon and the Drobless Plans, namely, Jerusalem, along the 1967 Green Line, within the West Bank and along the Jordan Valley. They paved the way for carving up the West Bank and disrupting the territorial continuity necessary for the eventual establishment of a Palestinian state.

#### ***East Jerusalem first, 1967–1977***

The first settlement stage spanned the period from the aftermath of the occupation until 1977. It concentrated on asserting Israeli demographic and territorial domination over East Jerusalem, annexed in 1967. The municipal boundaries of the city were enlarged to include not only East Jerusalem as it was defined under Jordanian rule, but also a total of

71,000 dunums confiscated from the neighbouring Palestinian towns (Aronson 1996:17). A total of eight settlements were built around the city and by 1977 hosted 33,300 settlers compared with only 4,300 in the rest of the West Bank (ICBS, SAI, 1980) (Tables 3.1 and 3.2).<sup>8</sup>

A total of 19 settlements were built in the rest of the West Bank, and six in the Gaza Strip between 1970 and 1977, but they were scarcely populated. They were mainly of a kibbutz or moshav type, primarily involved in agricultural activities. Settlements in the West Bank were mainly in the Jordan Rift and along the Green Line, as advocated by the Allon Plan. This period also witnessed the development of what were called in Israel 'illegal settlements' (a total of five), established by Gush Emunim. They were illegal in so far as they were built on private Palestinian land without the official approval of the Israeli government. With the exception of Elon Moreh, which was dismantled and displaced, no settlement was dismantled in this period. Ever since 1977, all settlements have been built on what the Israeli military defined as 'state land' (Shehadeh 1988).

### *Expansion along the lines of the Drobless Plan, 1977–1989*

The years 1977–1989 were the period of massive expansion of the settlements in the West Bank. By 1989, a total of 115 settlements had been built, mostly of the community settlement/suburban type. The settler population nearly quadrupled over a period of seven years, from 20,100 in 1982 to 78,700 in 1989 (see Table 3.1 and Figure 3.1). Over 76 per cent of the increase in the settler population in the West Bank between 1984 and 1986 took place in settlements situated within the metropolitan areas of Jerusalem and Tel Aviv (Benvenisti and Khayat 1988:32). Small settlements also expanded, built around larger towns, in order to create clusters of Jewish communities encircling Palestinian communities, as the Drobless Plan envisaged. Moreover, this period witnessed the development of five of the 18 planned industrial centres within settlements, particularly in places such as Ariel, Burkan, Atarot, Mishur Adumim and Kadumim, where clothing, plastic and electronic industries were developing (Benvenisti 1987:61). WBGS settlements became not only residential suburbs for Israelis working in Tel Aviv or Jerusalem, but also industrial centres that produced goods and services.

*Table 3.1* Settlements and settlers in the WBGS  
(excluding East Jerusalem), 1972–2000

Year	West Bank			Gaza Strip		
	<i>Number of settlements by end of period</i>	<i>Settler population, end of period</i>	<i>Yearly growth rate of settlers during period</i>	<i>Number of settlements by end of period</i>	<i>Settler population, end of period</i>	<i>Yearly growth rate of settlers during period</i>
1972–1977	19	4,323	35.1	6	700	2.7
1978–	76	20,100	41.1	5	800	2.4

1982						
1983–1989	115	78,700	22.9	13	3,000	22.2
1990–1993	122	117,100	12.4	15	4,800	13.3
1994–2000	123–148 <sup>a</sup>	191,600	8.3	16–19 <sup>a</sup>	6,700	5.2

Source: ICBS (1990,1996, 2001, *SAI*: table 2.7); ARIJ (2001b); FMEP (2001b); and FMEP database.

Notes

a Figures for the number of settlements in West Bank are taken from ICBS, but are believed to be underestimated. According to FMEP and ARIJ, the number of settlements by 1999 was 148 in the West Bank and 19 in the Gaza Strip. The figure for the number of settlements in Gaza Strip in 1977 refers to the number in 1972.

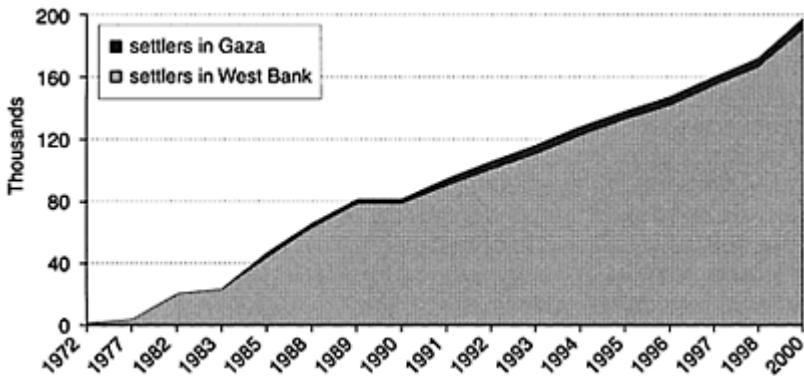


Figure 3.1 Number of settlers in the West Bank and Gaza Strip (excluding East Jerusalem), 1972–2000.

*Table 3.2* Palestinian and Israeli populations in East Jerusalem, 1977–2000

	1977	1982	1986	1992	2000
Palestinian population	101,200	120,200	103,900	130,700	172,900
Israeli population	33,300	62,000	103,200	137,400	172,500
Israelis/Palestinians (%)	32.9	51.6	99.3	105.1	99.6

Source: ICBS (1980, 1994, 2001, *Statistical Yearbook of Jerusalem*: tables III.10, III.13, III.14).  
Note

The Israeli population refers to those living in 11 settlements established in East Jerusalem (they became 13 in number by 2000, according to ICBS data).

In so far as Jerusalem is concerned, the settler population continued to grow in order to create a Jewish majority in the eastern part of the city. While in 1977 the Jewish population in East Jerusalem represented less than 33 per cent of the total population, by 1986 it nearly equalled the Palestinian population (Table 3.2). Meanwhile, an Israeli master plan was set up in 1982 to establish Metropolitan Jerusalem, which encompassed a boundary of c. 100 square miles around the city. This area included the outer chain of Jerusalem settlements, which included major Israeli colonies such as Ma'ale Adumim, Betar and Givat Ze'ev, as well as areas of Ramallah in the north and Bethlehem in the south of the West Bank (see Map 3.3; see also Jong 1998). The circle of metropolitan Jerusalem included half of the Israeli settler population in the West Bank (excluding those living in annexed East Jerusalem). It further fragmented any Palestinian territorial contiguity between the north and the south of the West Bank. After 1990, Israeli settlements in the WBGs witnessed a major boost. The settler population in the WBGs increased by 12.4 per cent per annum between 1990 and 1993 (Table 3.1). According to some authors, the growth of settlers was the result of an influx of new Jewish immigrants into Israel (Kellerman 1993; Fialkoff 1992). Over 250,000 new immigrants were admitted into the country during this period, leading to a boom in the construction sector in Israel as well as in the settlements. In 1991 and 1992, while the Madrid negotiations were going on and the secret talks were starting in Oslo, more than 6,500 new houses were being built in the settlements, nearly triple the average number of new houses built in previous and subsequent years (Figure 3.2; see also Chapter 6).



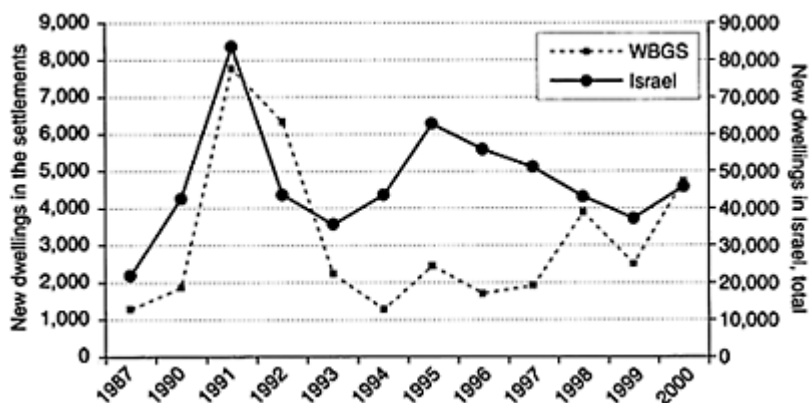


Map 3.3 Israeli settlements in Jerusalem (source: FMEP).

**Pre-empting the interim peace agreement, 1990–1993**

However, the major drive in settlement construction in this period was not due to the influx of immigrants *per se*. Available data show that settlements absorbed less than 2.1 per cent of new immigrants between 1990 and 1995.<sup>9</sup> Rather, the major boost came as a result of Israeli plans to further develop the Jerusalem-Tel Aviv inter-metropolitan region and to consolidate the integration of the West Bank settlements into them (see Chapter 6 for further details). Under the Hills Axis-Seven Stars Plan and the National Outline

Scheme (no. 31), the government decided to expand Israeli housing on both sides of the Green Line and to build a new major Israeli highway along the Green Line (route 6) with 'some 12 East-West road exits...planned to connect Jerusalem, Samaria and the Northern valleys' (Dunsky and Golani 1992:92; see also Chapter 6). The major settlement growth during these three years was in the major Israeli areas 20 km or less from the Green Line and/or in the Jerusalem metropolitan area. These included in Ariel (in the north of the West Bank), Betar (in the south), Ma'ale Adumim (in the centre) and Givat Ze'ev (Jerusalem). These four settlements alone absorbed 35 per cent of the total Israeli population increase in the WBGs and accommodated 33 per cent of all settlers.<sup>10</sup>



*Figure 3.2* Annual increase in new Israeli dwellings initiated in Israel and in the WBGs, 1987–2000 (sources: ICBS (1990, 1994, 1998, 2002, SAI: tables 16.4, 16.5, 22.5)).

#### Note

The scale on the left-hand side refers to the number of Israeli dwelling units whose construction started in the WBGs. The scale on the right-hand side refers to the dwelling units started in the Israeli economy as a whole.

By 1993, four major settlement blocks had been established in the West Bank,<sup>11</sup> each connected to Israel, bypassing Arab areas but fragmenting the West Bank and Gaza Strip. They demographically and territorially redefined the 1967 borders, as settlements expanded Israel's metropolitan fields. The vision expressed by the detailed 1983 programme of the Drobless Plan, 'to disperse maximally large Jewish population in areas of high settlement priority and...to achieve the incorporation of [the West Bank into] the Israeli national system', materialised (quoted in Benvenisti 1984:27; original emphasis). A total of 137,400 settlers were living in 11 settlements in East Jerusalem, compared with 121,900 in the WBGs by 1993 (Tables 3.1 and 3.2). While these settlers represented no

more than 10 per cent of the total population living in the WBGS in 1992, and less than 3.8 per cent of the total Israeli population, the built-up area of settlements occupied 1.3 per cent of the West Bank land while Palestinian built-up areas represented 6 per cent of the land (ARIJ 2001b). Settlers and settlements became a demographic and territorial reality to be taken into account during the peace negotiations that started in 1993 between Israel and the Palestinians.

### *Pre-empting the final status negotiations, 1993–2000*

The period 1993–2000 saw the initiation of the interim peace process, which sought to settle claims over the West Bank and Gaza Strip. Although the Oslo Declaration of Principles in 1993 stated that the integrity of the West Bank and Gaza Strip would be preserved during the interim period (article IV; see Chapter 7 for further details), Israel did not commit itself to halting all settlement activities. Rather, this period saw an unprecedented growth in settlements, as well as the division of the Occupied Territories into three different areas (A, B and C), in which Israel kept full control over more than 61 per cent of the West Bank and 15–30 per cent of the Gaza Strip (FMEP 2002b; see also Table 3.3).

According to Palestinian sources, the settlements built-up area doubled between 1992 and 2000, increasing from 77 sq. km (1.3 per cent of the West Bank) to 150 sq. km (which represented 2.6 per cent of the West Bank) (ARIJ 2001b).<sup>12</sup> Over 49 new settlement posts were erected between 1994 and 2000 (FMEP 2001b), and between 2,500 and 4,500 new Israeli houses a year, built mostly around Jerusalem and close to the Green Line (Figure 3.2). In the mid-1990s, annual growth rates of new dwelling units in the settlements were higher than the levels in the second half of the 1980s, or in Israel since 1995 (see Figure 3.2). Moreover, nearly 2 per cent of the West Bank (100,000 dunums) was confiscated for the use of bypass roads alone (FMEP 1999a). During the seven years of Oslo, at least 192 km of new bypass roads were being built,<sup>13</sup> half of which were constructed in 1995. The settler population increased from 121,900 to 198,300, or by over 60 per cent, between 1993 and 2000 (calculated from Table 3.1). In East Jerusalem, they reached a total of 172,250 (Table 3.2).

*Table 3.3 Land distribution in the West Bank and Gaza Strip, August 2000*

	<i>West Bank</i>		<i>Gaza Strip</i>	
	<i>Area size (sq. km)</i>	<i>Percentage of total area</i>	<i>Area size (sq. km)</i>	<i>Percentage of total area</i>
Area 'C, under full Israeli control, of which	3,455.6	61.0	110.8	30.4
Natural reserves	332.8	5.9	–	–
Israeli military base	37.7	0.7	–	–
Israeli closed area	999.1	17.7	–	–
Israeli built-up area	150.5	2.7	–	–

Area 'B', joint Israeli-Palestinian control	1,200.2	21.3	n.a.	–
Area 'A', under PA control, of which	1,004.2	17.7	254.2	69.6
Palestinian built-up area	367.7	6.5	–	–
Total land area	5,659.0	100.0	365.0	100.0

Source: ARIJ (2001a).

Note

The different classifications listed under area C overlap. The data are based on the GIS data system and differs slightly from those of FMEP (2000) because of different definitions of the size of the West Bank.

### **Territorial integration and societal separation**

The installation of Israeli settlements necessitated not only a specific territorial strategy of integration, but also an administrative and an economic infrastructure. On the administrative level, Israeli intervention was mainly geared towards creating functional separation between Jews and Palestinians. Economically, the Israeli state gave financial subsidies to the Jewish settlers while depriving the Palestinians of access to resources. A policy of separation and segregation between the two communities was pursued, which contrasted with the policy of territorial integration being created.

#### *Separating Palestinians from Israelis*

After 1970, Israel developed a system that installed a legalistic, personal and functional separation between the Jewish settlers and the Palestinian population. This process of separation took four major forms. In the first instance, and as explained in Chapter 2, the Israeli military administration issued more than 200 military orders between 1967 and 1971 regulating the administrative, legal and economic life of the Palestinians. The military government also controlled the work of Palestinian municipalities and determined their town and territorial planning.

In the second instance, Israel set out the administrative means for allowing the construction of settlements. During the first decade of occupation, the decrees concerning land acquisition were set up (by military orders nos 58 and 59), the high planning committee made up of military officials took control of land administration and planning (military order no. 418), and a special department for the transactions of land and registration of settlements (military order no. 569) was created. This department was concerned only with transactions of land under Jewish control.

In the third instance, particularly in the period 1977–1989, Israeli policies were geared towards consolidating a legal and functional separation between Palestinians and Israelis. The Israeli civil administration was created in 1981 (military order no. 947) to handle the daily issues of Palestinians' life, while the military governor (to whom the civil administration remained accountable) allowed Israeli citizens to live and work in the West Bank.<sup>14</sup> Israeli settlers were protected and accountable to Israeli law, while

Palestinians were subject to military laws. Five Jewish regional councils were established to allow the settlers to run their affairs.<sup>15</sup> Israeli settlements became administered like any town in Israel. They were given the right to levy taxes as well as the right to carry out zoning and urban planning, which was forbidden the Palestinians. Moreover, the majority of settlements were defined as development areas 'A', which meant that they benefited from a number of economic concessions and incentives available both to individuals and to industries. Meanwhile, Palestinians were being subjected to heavier taxation (VAT was introduced in 1983), and were not allowed easily to build or to initiate economic activities, as a result of more stringent Israeli administrative measures (such as control over land use (military order no. 1039 in 1983), and restriction on entry of financial flows) (Rabah and Fair-weather 1994; Benvenisti and Khayat 1988).

In the final instance, Israel sought to create a *physical* separation between the Palestinians and the Israelis, particularly after 1990. In 1990, Israel introduced the permit system, which made the flow of Palestinian people and goods out of the WBGS conditional on receiving a security clearance permit from the Israeli military (see Chapters 4 and 6 for further details). In contrast to the pre-1990 period, when the borders between the WBGS and Israel were kept open, and labour and goods moved relatively freely, post-1990 contacts between the Israelis and Palestinians were restricted and regulated according to administrative and security decrees. Moreover, Israel started the closure policy, which shut the borders between Israel and the Palestinian territories for however long Israel deemed necessary (see Chapter 7). In 1990, it started the construction of a physical barrier with the Gaza Strip, as it consolidated the Erez checkpoint and during the 1990s sharpened the barriers around the strip. The physical barrier, or wall, with the West Bank was initiated only in 2002 (see Chapter 9). Israeli settlers continued, meanwhile, to commute to Israel unaffected by permits or closures.

### *Financial incentives*

The construction of settlements required substantial financial resources. These funds came from local/regional council self-generating income (through local taxes), but mainly from the government, which is involved in direct and indirect resource transfer to the settlements, particularly through the Ministries of the Interior, Housing and Education. Moreover, the government channels substantial money through the Settlement Division of the World Zionist Organization, which has more discretion in its budget allocation than state agencies do (B'tselem 2002:74). Benvenisti (1987:59) estimated that the total amount of capital investment put into settlements was of the order of \$3 billion (in constant 1987 dollars) between 1968 and 1987. Annual public financing of the settlements (excluding military and maintenance budgets) doubled from an annual average of US\$0.75 million in the 1970s to over US\$1.67 million in the 1980s (Benvenisti and Khayat 1988:32). They absorbed 20–25 per cent of the total government development budget in certain areas, such as housing, industry and education (Benvenisti 1987:59). In the seven years of the Oslo peace process, US\$2.5 billion was spent on settlement housing alone. Sixty-five per cent of these investments were initiated from public funds, the Israeli national rate of public investment in housing being only 38 per cent (FMEP 2002). By 1999, settlements absorbed 2 per cent of Israel's annual \$25 billion budget (FMEP 1999b).

Financial investment in the settlements also came from non-public sources, central among which has been the World Zionist Organization. This organisation is estimated to have spent an annual sum of \$34–\$41 million between 1977 and 1985 (Benvenisti 1986:57). Over 40 per cent of these funds went to the construction of houses, while the rest went to road construction, industrial development and community services (Benvenisti 1984:59). The government also allowed individual settlement councils and settler-financed organisations like Amena (the construction arm of the Gush Emunim movement) to finance housing projects. Amena remained particularly important in constructing and selling cheap accommodation, since it accepted lower profit margins as part of a strategy of attracting Israelis to the settlements.<sup>16</sup>

Since the 1980s, the Israeli government has encouraged the Israeli private sector to invest directly in settlements. Given that the majority of WBGS settlements were defined as Development Area 'A', private investors were exempted from a number of taxes that apply to investment projects in Israel, and were subsidised if they initiated industrial projects (for example, they received subsidised credit, their infrastructural costs were made lower, environmental and pollution restrictions were less stringent, etc.). Israeli constructors were also given tax exemptions and guarantees that unsold houses would be bought. Public subsidies to construction firms amounted to up to 50 per cent of the land development costs, while in Israel proper such subsidies are not available. In settlements, the government also subsidised 75–100 per cent of development costs associated with the construction of multi-family housing (B'tselem 2002). These encouragements helped decrease the share of public-led construction in the settlement from over 82 per cent of all new houses built before 1985, or in 1991 and 1992, to a range of between 45 per cent and 75 per cent between 1994 and 1998.<sup>17</sup>

In addition to these housing subsidies, other financial incentives were awarded to individual Israelis to encourage them to move to the settlements. The government, particularly through the Ministry of Housing, provided potential settlers with grants and soft loans to purchase houses.<sup>18</sup> It also reduced their income tax by 5–10 per cent, gave them education and transport subsidies, and offered early retirement schemes for teachers working and living in the settlements.<sup>19</sup> These incentives contributed to the tripling of the Israeli population in the West Bank between 1982 and 1989, and to their continuous growth thereafter at an annual rate of more than 8 per cent (see Table 3.1).

The nature of the economic incentives also succeeded in normalising the settlements in Israeli society. A survey of settlers in the West Bank (excluding East Jerusalem) in 1986, conducted by the Israeli Ministry of Housing, found that 65 per cent of settlers had moved there mainly for economic reasons. Of the settlers, 46 per cent considered themselves secular, 8 per cent religious, and the rest defined themselves as 'traditional' (Benvenisti 1987:53). In 1999, 73 per cent moved for socioeconomic reasons (Peace Now 1999).<sup>20</sup> In 1992, 55 per cent of settlers lived in settlements in the metropolitan region of Jerusalem and Tel Aviv, down from 85 per cent in 1986 (FMEP 1993), indicating that settlements have grown to be economically dynamic. In 1997, 43 per cent of settlers worked within the settlements, rather than commuting to major cities.<sup>21</sup> Yet the system of bypass roads ensured that these settlements continued to be connected to Israeli metropolitan areas.

### *Demographic and economic cost*

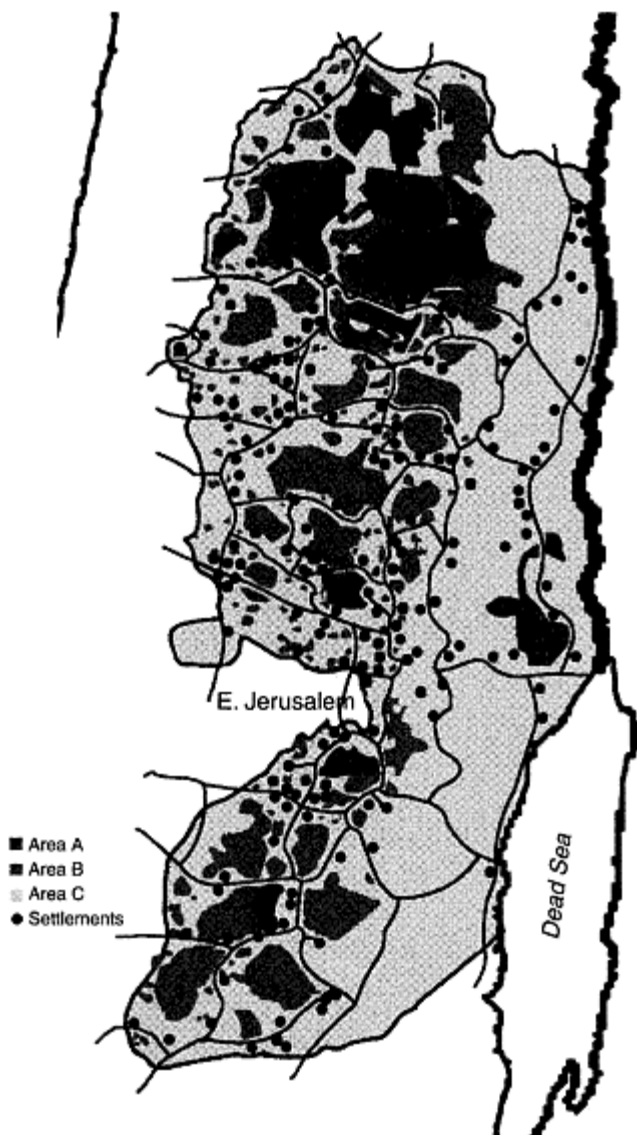
The heavy financial support that settlements receive has long been argued to be unjustifiable, economically or politically (Peace Now 1999; Lustick 1993).<sup>22</sup> During the 1980s and 1990s, government grants per capita to settlement councils remained 30 per cent higher than similar grants given to development towns or areas within Israel (Benvenisti 1987:62; FMEP 2002). In the period 1990–1999, annual transfers per capita from the Israeli central government to settlement local councils were one and a half times the amount per capita transferred nationally (FMEP 2002). A total of NIS 2,224 was invested per capita in the WBGS settlements in 2000, which is 65 per cent higher than the sum spent inside the Green Line (NIS 1,336) (B'tselem 2002:75).

The disproportionate investment in the WBGS settlements is all the more striking when one explores the demographic importance and distribution of settlers. In 1999, settlers (including those in East Jerusalem) still represented less than 5.4 per cent of the total Israeli population living on both sides of the Green Line. Seventy per cent of the settlements had fewer than 1,000 inhabitants. Only 26 out of 123 settlements cited by official Israeli sources had more than 1,000 inhabitants. The four major settlement city centres with over 10,000 inhabitants (Ariel in the north of the West Bank, Givat Ze'ev and Ma'ale Adumim in the centre and around Jericho, and Keryat Arba in the south) represented one-third of the Jewish population in the WBGS in 1999.<sup>23</sup> By 2000, settlers represented 12 per cent of the total population (Arabs and Israelis) living in the WBGS (including East Jerusalem).

### **Implications and conclusion**

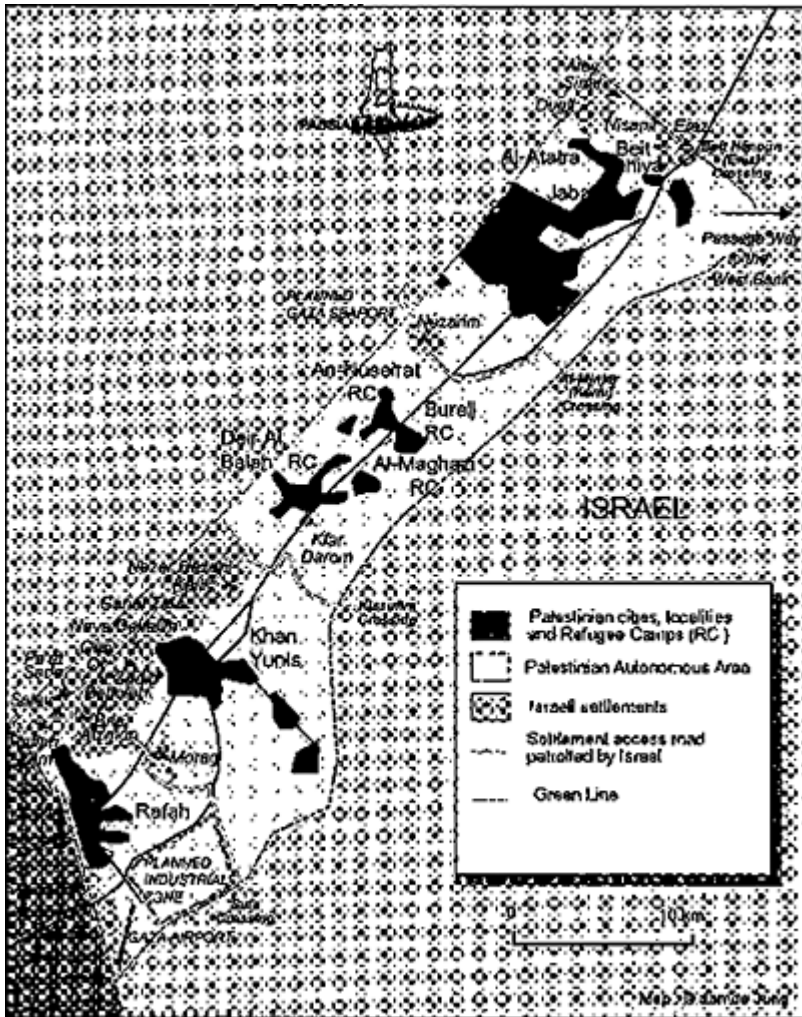
The settlement strategy pursued between 1970 and 1999 had major territorial, political and economic implications. Territorially, settlements created two major changes that eroded the basis for a contiguous Palestinian state. First, they redefined the 1967 borders between Israel and the WBGS. As Jong (1998:97) put it, 'the emerging domain of Jewish settlements in the West Bank [was] pivotal for extending and consolidating Israel's emerging metropolitan core of greater Tel Aviv and Jerusalem, and for creating geographic depth for the Jewish State throughout' the West Bank. Forty-six per cent of all settlers in 2000 were living in the western hills of the West Bank within 10–20 km of the Green Line, mainly along the Shomron settlement bloc, with its main city of Ariel. Another 36 per cent of the settlers were living in the metropolitan regions of Jerusalem, in places such as Ma'ale Adumim and Givat Ze'ev. The bypass road system helped link the settlements with Israeli cities and to erase the 1967 demarcations.

Second, settlements led to the territorial fragmentation of the WBGS. By 2000, 179 settlements in the WBGS (including East Jerusalem) were dispersed all over the Occupied Territories (see Maps 3.4 and 3.5). The 170,250 settlers living in East Jerusalem, up from 137,400 in 1992, have reduced the Palestinian population to less than 27 per cent of the total inhabitants of the municipal Jerusalem area.<sup>24</sup>



*Map 3.4* Territorial fragmentation of the West Bank under Oslo, August 2000 (source: based on FMEP database).





Map 3.5 The Gaza Strip, 2000 (source: Palestinian Academic Society for the Study of International Affairs (PASSIA)).

The Judaisation and metro-politanisation of Jerusalem have led to a *de facto* geographic split of the north of the West Bank from its south. The other settlements and 191,600 settlers have led to the transformation of the West Bank into ‘alienated islands’ of Jewish and Arab communities (Benvenisti 1984:19). These islands developed into major settlement blocks that by the 1990s cut the West Bank into three major non-contiguous enclaves or Palestinian population reservoirs. The Gaza Strip meanwhile had only 6,700

settlers among a total of 1 million Palestinians, albeit cutting the area into three parts. Since 1990, the Gaza Strip has been physically cut off from Israel with the construction of the Erez checkpoint and increasing security controls. Its access to the West Bank has been curtailed since 1993, as the safe passage between the two areas was not fully operational.

On the political level, Israel's territorial and administrative measures allowed it to modify its status from an occupier to a *de facto* land claimant. By 1993, over 259,300 Israeli settlers lived in the WBGS, including East Jerusalem. They were citizens of Israel; they were part of the Israeli polity, having no intention of being integrated into Palestinian society. Israeli surveys on the willingness of settlers to move to Israel reveal a divergence of opinion,<sup>25</sup> while reflecting an Israeli political consensus that settlements are not as reversible as international law stipulates, or Palestinians wish them to be (Klieman 2000). As the secret negotiations were taking place in Oslo between PLO and Israeli officials, Shimon Peres, Israel's Foreign Minister, instructed his negotiators to push for a Gaza first option, which would have meant giving the Palestinians autonomy first over the Gaza Strip (Savir 1998:6, 54). The Labour government under Yitzhak Rabin in 1992 considered that any 'territorial compromise' over the West Bank would exclude major settlement blocks in Metropolitan Jerusalem and along the Jordan Valley (Aronson 1996:9–16; Klieman 2000), as originally conceptualised by the 1967 Allon Plan. Israeli policy makers have differed since then not on the incorporation of settlements, but on which settlements and how many settlers to include within the Israeli state (see Chapter 7).

The question thus remains as to what kind of polity the Palestinians can have under these circumstances. Can a viable Palestinian state still emerge and, if so, will it include the West Bank or mainly the Gaza Strip, given its smaller and thus more easily transferable settler population? The PLO has worked since 1974 to achieve international legitimacy for its claim to represent the Palestinian right to self-determination and to build the institutional structures of its state before the state is territorialised (Gresh 1988; Sayigh 1997; Robinson 1997; Heller 1997; Rubin 1999). The municipal elections in the WBGS in 1976, which were won by PLO supporters, affirmed the role of the PLO as representative of the Palestinian people inside the Occupied Territories. The first Intifada in 1987 reasserted this allegiance and represented the clearest political opposition to the Israeli occupation. In 1988, the PLO officially accepted UNSC resolution 242, thereby recognising *de facto* Israel on 78 per cent of historic Palestine. It also declared the Palestinian state, which in view of UNSC resolution 242 would have meant including the WBGS, with East Jerusalem as its capital. It thereby reaffirmed its refusal to accept any autonomy plan, central among which has been the one proposed by the Camp David peace negotiations in 1978. It also challenged Israel's insistence on linking the Palestinians' political fate to Jordan.<sup>26</sup> The Oslo peace process that started in 1993 affirmed the role of the PLO as the Israeli partner for negotiating the future of the WBGS. It was left, though, to the negotiation process between Israelis and Palestinians to define the content and boundaries of a separate Palestinian polity entity in the WBGS (see Chapter 7).

Meanwhile, the process of Israeli territorial expansion and incorporation between 1967 and 1993 was not without its own contradictions. Despite Israeli policies' attempt to separate Palestinians from Israelis through discriminatory legal and administrative

measures, the process of territorial integration was not disassociated from a process of economic integration of the WBGS. As Portugali argued, the 1967 occupation put the Israelis and the Palestinians 'together inside the same political territory enfolding each other not only on an ideological superstructural level but also in the daily confrontations and interaction' (1991:30). As explained in Chapter 2, Israel incorporated the Palestinian economy by a particular customs union system that allowed the flow of goods and labour services. The open borders policies pursued up until 1990 not only allowed Israel to control 60 per cent of the West Bank and 25 per cent of the Gaza Strip, but also resulted in making 30 per cent of the Palestinian labour force dependent on work in Israeli sectors. Meanwhile, the growth of 'alienated islands' of settlements, built by Palestinian workers and surrounding them, was turning the WBGS into a series of *de facto*, though not *de jure*, 'bantustans' or population enclaves (see further Chapter 7). The restrictions on Palestinian land use, the limitations put on domestic investments in the WBGS economy explored in Chapter 2, and the nature of the Palestinian employment challenge and labour dependency on Israel explained in the next chapter further strengthened this tendency.

## 4

# **Characteristics of Palestinian labour migration**

This chapter describes the pattern of Palestinian labour migration to Israel between 1967 and 2000. It situates its importance within the context of growth in the Palestinian labour force, showing that the Israeli labour market played a significant, though not steady, role in absorbing the Palestinian working population. Palestinian labour flows have remained circular; they became increasingly volatile, had a different importance for the West Bank and Gaza Strip respectively, but did not come to an end in the 1990s, as many predicted. Rather, they changed in form and in content, reflecting different prospects for integration and separation between Israel and, respectively, the West Bank and Gaza Strip. They continue to reflect a structural labour dependency on Israel and the inability of the domestic WBS economy to absorb its growing active population.

### **The Palestinian labour force<sup>1</sup>**

The importance of Palestinian labour migration to Israel can be first grasped by situating it within the context of the employment challenge facing the Palestinian economy since 1967. The different sources of labour force growth, as well as the level of unemployment, created a demand for jobs that could not always be met locally, thereby encouraging migration.

The Palestinian labour force has been a small but fast-growing workforce. It grew at different rates between 1970 and 1993, but averaged an annual growth rate of 2.8 per cent. It nearly doubled over a period of 23 years, from 180,500 to 338,500 (see Tables 4.1 and A2). The PCBS reported a higher figure, recording the Palestinian labour force (including Palestinians in East Jerusalem) at a total of 732,500 workers in 2000<sup>2</sup> (Table A2). This labour force represented, on average, 40 per cent of the total working-age population in the West Bank and 35 per cent in the Gaza Strip, compared with 53 per cent in Israel in 1997 (MAS 1997:24). In terms of educational attainment, the share of the labour force with more than nine years of schooling increased from 15 per cent to 50 per cent for the West Bank and from 26 per cent to 59 per cent for the Gaza Strip between 1972 and 1992 (calculated from Fischleson *et al.* 1993:65).

*Table 4.1* Average annual percentage growth rates of the Palestinian working-age population, labour force and employment, 1970–2000

<i>Years</i>	<i>Working-age population</i>	<i>Labour force</i>	<i>Employment</i>
1970–1980	2.2	1.9	2.2
1981–1987	2.1	4.5	4.3
1988–1993	3.5	3.2	2.3
1970–1993	2.4	2.8	2.6
1995–2000	3.7	4.1	3.9

Sources: Calculated from Table A2 and IMF (2001:36–39).

Note

Figures exclude East Jerusalem before 1993 and include it afterwards.

Twenty-three per cent of the WB employed force and 26 per cent of that in the GS had more than 13 years of schooling by 2000 (PCBS 2002).

The Palestinian labour force has remained small in comparison to the expanding Palestinian population it needed to sustain. The share of the labour force in the total population has been roughly 18.8–20 per cent in the West Bank and 15.7–19 per cent in the Gaza Strip since the late 1980s and in the 1990s (calculated from Tables A1 and A2). This implies that every economically active person was maintaining over five people. In the periods 1970–1980 and 1988–1993, labour force growth was lower than growth of the working-age population, indicating a lag in the absorption of new entrants into the labour force (see Table 4.1). Except for the period 1970–1980, the labour-force growth rates were higher than the growth in total employment (which includes employment in the WBGS and in Israel) (see Table 4.1). Since 1995, the labour force has been growing by 4.1 per cent per annum, which suggests a growing demand on job creation.

The Palestinian labour force has been mainly an employed force, distributed between Israel and the domestic economy. Unemployment remained low so long as access to the Israeli economy remained open, being less than 5 per cent between 1970 and 1990 (see Table A2). After 1993, the number of unemployed grew by over 7 per cent, reaching as high as 19.6 per cent in the West Bank and 32.5 per cent in the Gaza Strip in 1995 and after 2000 (PCBS 2002). Available data indicate that unemployment tended to be higher among the more educated, as is often the case in developing countries. Between 1989 and 1992, 6–9.5 per cent of those with 13 years of schooling or more were unemployed, compared with less than 3 per cent of those with less than nine years of schooling (PCBS 1995:111). Unemployment is also more prevalent in urban than in rural areas (Heiberg and Ovansen 1993:190).

Unemployment rates are important in so far as they provide an indication of the size of the visible, or floating (to use Marx's term), surplus labour available in an economy and ready to move. They are central to understanding Palestinian labour migration to Israel. This is because labour mobility in a context of a tight labour market would suggest the strength of a simple wage-pull mechanism, while migration in a context of a labour

surplus economy would suggest that forces other than wages are causing people to seek employment away from the domestic economy. Yet in the Palestinian context, it is difficult to obtain accurate figures on the size of the unemployed or surplus population because of the nature of the data available. ICBS data, which cover the 1967–1993 period, define as unemployed all those who *declare* themselves to have been looking for work, even if only for one hour, over the past week, ‘by registration at the labour exchange, by personal or written application to employer, or by attempt to establish an independent business’ (ICBS 1992:152). This is bound to give low unemployment rates that are not very meaningful, especially as people in developing countries do not necessarily report their unemployment through such formal ways.<sup>3</sup> Moreover, Israeli sources do not consider workers barred from entry into Israel as a result of curfews, border closures or other political reasons, as unemployed.<sup>4</sup> Thus, to gauge the importance of the Israeli labour market it is not enough to look at unemployment rates. It is also necessary to examine the different sources of Palestinian labour supply and the pressure they indirectly imposed on the labour market.

### *Source of Palestinian labour supply*

Palestinian labour flows to Israel occurred in a context of rapidly changing sources of labour supply. The size of the labour supply, which affects the demand for jobs, has been influenced by the nature of population growth and by participation rates. The Palestinian population has had a fast growth rate of more than 3.4 per cent since 1980 (see Table A1). The increasing population growth rate, which is one of the highest in the world, is attributed to three major factors. First, improvement in health conditions led to a fall in mortality rates in the WBGs from 20 per thousand in the late 1960s to five per thousand in the late 1980s and 1990s (Shaban 1993:658; IMF 2001:32). Second, the decrease in emigration rates after 1980 led to rising annual population growth rates. Between 1994 and 1995, immigration was recorded to have increased, following the signing of the peace accords with Israel, but it subsided after 1998.<sup>5</sup> Third, and most importantly, crude birth rates and fertility rates increased. Crude birth rates in the Gaza Strip rose from 42 in 1968 to 54 per thousand in 1993, and in the West Bank from 44 to 45 respectively (Arnon *et al.* 1997:64). In 1997, the female fertility rate in the WBGs was at 6.1, but was significantly higher in the Gaza Strip (6.9) than in the West Bank (5.6) (PCBS 1999a: 32). This compares with fertility rates of 2.9 in Israel and 3.9 in Egypt in 1993 (MAS 1998).

In the short term, high fertility and population growth rates increase the pressure on the small employed labour force to find enough resources to feed a youthful and ever-growing population. The young cohort (0–14 years old) represented over 47 per cent of the total WBGs population in 1997 and in 2001 (PCBS 1999a:29; IMF 2001:36). In the medium term, the labour supply, and demand for new jobs, will expand as the large youth cohort enter the working-age population.

Apart from population growth, labour force participation rates (LFPRs) also influence the size of the labour force. In the WBGs, LFPRs have grown from 30 per cent in 1968 to 38 per cent in 1993, with some fluctuations as can be seen in Table A3. Since 1993, participation rates are reported to have grown to 45 per cent in the West Bank, reaching similar levels to those in Jordan (MAS 1997:24). However, LFPR remained volatile and

low, especially in the Gaza Strip, where it was less than 40 per cent between 1995 and 2000 (Table A3).

The low participation rates in the WBGS economy, particularly before 1993, have contained the size of the labour supply, and in turn limited the growth of the labour force and the pressure for job creation. They are attributed to four main factors. First, men, who represent over 87 per cent of the Palestinian labour force, had fluctuating participation rates. As can be seen from Table A3, male participation in the Gaza Strip increased but did not go beyond 71 per cent in the 1990s. In the West Bank, male participation dropped sharply to 61 per cent between 1977 and 1982, as a result of emigration to neighbouring Arab countries.<sup>6</sup> Given that the migrant population is likely to have a higher ratio of workers to dependants than the population that remained resident in the WBGS, emigration disproportionately reduces participation rates among the residents.

Second, the female participation rates are low in the WBGS. ICBS data reveal that female participation rates fell from 14 per cent to 10 per cent in the West Bank and from 5 per cent to 2 per cent in the Gaza Strip between 1970 and 1993 (Table A3). According to PCBS data, though, female participation rates are higher than those recorded by the ICBS and have been increasing. However, women still represented less than 12 per cent of the Palestinian labour force in 1998, which is low compared to a MENA (Middle East and North Africa) average of 24 per cent and an average of 14 per cent in Jordan and 41 per cent in Israel (World Bank 2000). The factors attributed to this low participation rate are numerous, but inconclusive. The high fertility rates are one factor; others are cultural factors and lack of appropriate employment, particularly in the public sector (Shaban 1993).<sup>7</sup>

Third, low participation rates have been also influenced by the late entry of the 15- to 17-year-old cohorts into the labour force as a result of increasing education. In 1991, 80 per cent of males and females of school age were enrolled in secondary schools.<sup>8</sup> The 15- to 17-year-old cohort represented less than 5 per cent of the male labour force in 1989, compared with more than 7 per cent in 1970. Early withdrawal from the labour force is also a factor. The labour participation of men in the age cohort of 55–64 dropped to 62 per cent for the West Bank and 51 per cent for the Gaza Strip by 1991. Remittances, aid and international migration could have played a role in sustaining families in the WBGS and thereby enabling older men to leave the labour force early (Shaban 1993:663). Participation rates of men and women aged over 55 are expected to be lower than 20 per cent for the period 2000–2020 (IMF 2001:38).

Fourth, participation rates are also influenced by the availability of employment options. Emigration reduced participation rates, as people could afford to sustain their family back home through emigration and remittances. At the same time, increased access to the Israeli labour market, with which the WBGS was integrated, influenced Palestinian participation rates. Arnon *et al.* (1997) found a positive correlation between participation rates and employment (in both the Israeli and the WBGS markets) and a negative correlation between participation and wage ratios between employment in Israel and in the WBGS. The entry of the Palestinian National Authority in 1995 has led to an expansion of employment, particularly in the public sector, that is correlated with an increase in WBGS labour force participation rates.<sup>9</sup>

Analysis of the sources of labour supply in the WBGS indicates that migration, both to Israel and to the Arab world, attenuated the labour supply size that was induced by

population growth. However, after the Gulf War in 1991, migration options became limited, while the labour force continued to make pressing demand for new jobs. The IMF predicts that Palestinian labour supply will grow by 4.4 per cent per annum up until 2010, largely as a result of the increase in the working-age population induced by the entry of a large youth cohort and an increase in participation rates of men and women (IMF 2001:32–35). This would mean that domestic employment would need to grow by more than 6 per cent per annum if unemployment is to remain at less than 8 per cent and access to Israel remains open. Between 1970 and 1993, total employment of Palestinians in WBGs and Israel grew only by 2.6 per cent (Table 4.2).

### Palestinian employment in Israel

The extent to which the Palestinian labour force became dependent on the Israeli labour market has been a function of its ability to access Israel (as well as other labour markets), and of the limitations put on employment growth in the WBGs. Israel kept its borders to the WBGs open up until 1988 and restricted them thereafter through a series of security measures, central among which have been the workers' magnetic cards introduced in 1988, the work permit in 1991, and the checkpoint and closures policies (see Chapter 6 for further details). Yet as Table 4.2 shows, the Israeli labour market has remained a key employment outlet, in view of the limited employment options at home. Palestinian employment in Israel grew by 6.3 per cent per annum between 1970 and 1993 compared with 1.8

*Table 4.2 Average annual percentage growth rates of Palestinian employment in Israel and in the WBGs, 1970–1993*

	<i>West Bank</i>		<i>Gaza Strip</i>		<i>West Bank and Gaza Strip</i>		<i>Total employment</i>
	<i>Domestic</i>	<i>Israel</i>	<i>Domestic</i>	<i>Israel</i>	<i>Domestic</i>	<i>Israel</i>	
1970–1973	–4.2	38.0	–4.9	56.7	–4.5	43.8	3.9
1974–1980	–0.2	–0.7	–0.1	4.6	–0.2	1.5	0.4
1981–1987	3.4	7.9	2.6	4.2	3.1	6.2	4.3
1988–1993	4.4	3.5	9.5	–7.7	6.1	–5.1	2.3
1970–1993	1.7	5.8	2.1	7.4	1.8	6.3	2.6

Sources: Calculated from Table A4.

Note

Figures for the West Bank exclude East Jerusalem.



per cent in the domestic economy. The Israeli labour market absorbed two-thirds of the increase in the Palestinian labour force that took place over this period. The importance of the Israeli labour market, though, changed over time and varied by region and sector.

*The rise and fall of labour flows*

Palestinian labour flows to the Israeli economy grew at a steady pace so long as freedom of movement was maintained across the Green Line. They increased from 20,000 in 1970 to a peak of 115,600 workers in 1987 and again in 1992. From its outset, the Israeli labour market proved to be more important for the Gaza Strip than for the West Bank. Between 1974 and 1993, 38.4–45.4 per cent of the Gaza Strip employed force was employed in Israel, compared to 28–33 per cent of West Bank workers (see Figure 4.1 and Table A4).

Palestinian dependence on the Israeli labour market went through five main stages. The first period, between 1968 and 1973, witnessed an increase in total employment of 66,000 persons who were absorbed almost entirely by Israel (calculated from Table A4). This increase was a result of rises in participation rates, fall in unemployment and release from domestic agriculture (see Tables A5 and A6). During this period, domestic employment, with the exception of employment in services, witnessed negative growth, while in Israel the rates of Palestinian labour absorption grew by over 38 per cent per annum (see Tables 4.2 and 4.3).

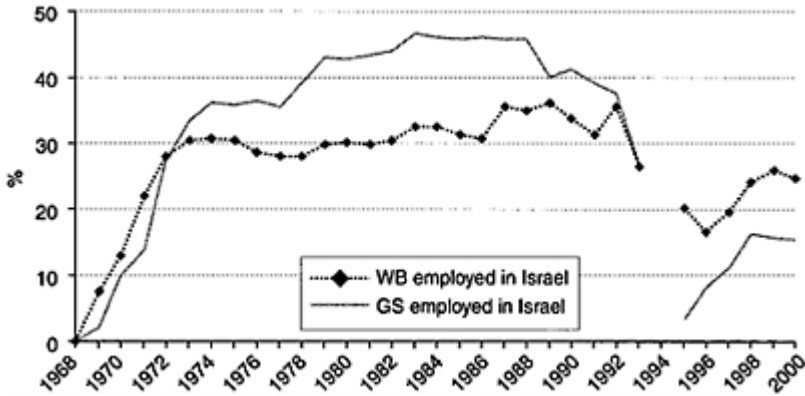


Figure 4.1 Share of workers employed in Israel in total employment for the West Bank and the Gaza Strip, 1968–2000 (sources: ICBS, SAI (various issues); PCBS, *Labour Force Surveys (LFS)* (various issues)).

## Note

Data for 1994 are not available because of the transfer of authority from the ICBS to the PCBS.

*Table 4.3 Absolute changes in sectoral employment in the WBGs and in Israel, 1970–2000 (in thousands)*

	<i>Employed locally</i>					<i>Employed in Israel</i>				
	<i>Agri culture</i>	<i>Industry</i>	<i>Con struction</i>	<i>Services</i>	<i>Total</i>	<i>Agr iculture</i>	<i>Indus try</i>	<i>Con struction</i>	<i>Services</i>	<i>Total</i>
1970–1973	–17.6	–0.8	–4.4	3.6	–19.2	6.8	8.7	20.5	4.7	40.7
1974–1980	–7.4	3.4	5.0	–0.7	0.3	–2.8	3.6	–0.5	6.0	6.3
1981–1987	1.0	5.5	3.0	16.8	26.3	6.4	5.9	10.9	10.1	33.3
1988–1993	6.8	8.0	17.4	27.5	59.7	–8.1	–12.0	5.7	–13.8	–28.2
1970–1993	–5.5	14.5	21.7	48.3	79.0	3.6	2.2	48.6	5.9	60.3
1995–2000	26.6	19.8	–0.8	116.5	162.1	6.9	12.6	49.2	10.6	79.3

Sources: Calculated from Table A6.

## Note

Figures exclude East Jerusalem.

In the second period (1974–1980), the Palestinian labour flow stabilised at an average annual growth rate of 1.5 per cent. Palestinian labour supply is argued to have reached equilibrium by 1974 as the Israeli and WBGs labour markets converged. During these seven years, there was a fluctuation in the number of West Bank workers going to Israel and an increase in the number of Gaza Strip workers (see Figure 4.1 and Table A4). Palestinian labour had two market outlets, with skilled workers going mainly to the Gulf while unskilled labourers went to Israel (Shaban 1993). An estimated total of 70,000 workers were employed abroad in 1981 (Shaban 1993), a figure that is very close to the number of workers employed in Israel in that year (see Table A4). More West Bankers left than Gaza workers, largely because they faced fewer travel restrictions than the latter.

The third period was between 1981 and 1987. It was marked by a decrease in emigration to neighbouring countries as demand for Palestinian workers fell. This period witnessed the full integration of the two labour markets as movements of labour were free. Meanwhile, domestic employment grew for the first time, by 3.4 per cent per annum in the West Bank and 2.6 per cent in the Gaza Strip, but was still lower than employment

growth in Israel (Table 4.2). Most growth was in the service sector (see Tables 4.3, A5 and A6).

The fourth period, which lasted from 1988 to 1993, was the most unstable. It marked the first Intifada, the Gulf War in 1991 and the introduction of Israeli security restrictions on the movement of workers, exemplified in the permit and closure policies (see Chapter 6 for further details). The Israeli and Palestinian labour markets started to separate as flows started to fluctuate, and the number of weekly hours of work dropped from 44.1 to 37.4 in the West Bank between 1987 and 1990 and from 42 to 34 in the Gaza Strip.<sup>10</sup>

The year 1993 confirmed a turning point in Palestinian labour flows to Israel. This fifth period, which lasted until 2000, was marked by major fluctuations, as the number of Palestinian workers fell by 51 per cent between 1992 and 1996 (see Figure 4.1 and Table A4). Access to the Israeli labour market became more restricted as a result of Israel's permits and closure policy, but the fall in labour flows was more dramatic for GS workers than for the WB (see Figure 4.1). By 1997, WBGS labour flows to Israel had rebounded, reaching a total of 145,100 workers by August 2000, higher than the peak reached in 1992, and the highest since 1968 (Table A4). (According to PCBS data, 25 per cent of all WBGS workers—28,000 people—employed in Israel and Israeli settlements are East Jerusalemites holding Israeli ID.) Yet in terms of working days, WBGS labourers worked less than 19 days a month between 1990 and 1997, compared with 22.5 days in 1987 (PCBS 2000:86; Angrist 1996:429). Palestinian workers in Israel came to represent 22 per cent of total employment in the West Bank and less than 12 per cent of that in the Gaza Strip for the period 1995–2000 (Table A4). This is a reversal of the trend between 1975 and 1992, when the Gaza Strip was far more dependent on Israel than the West Bank.

### *Characteristics of WBGS workers in Israel*

Palestinian workers in the Israeli economy remained predominantly male, with women forming less than 2 per cent of the migrant workforce. Moreover, Palestinian workers in Israel were mainly daily commuters, or circular migrants. While some workers slept illegally in Israel, the majority went home at the end of a day's work.<sup>11</sup> They were, therefore, a flexible labour force that did not burden the Israeli economy with investment for their accommodation or integration into Israeli society.

### *Origins*

Palestinian workers in Israel tended to originate from rural areas, as well as from refugee camps. Abu-Shokor's survey of 1,099 Palestinian workers in Israel conducted in the summer of 1984 showed that 48 per cent of male migrants were from rural areas and 23 per cent from refugee camps (1987:109).<sup>12</sup> ICBS (1981, *JSGAS*) and Benvenisti and Khayat (1988) also stated that one-third of West Bank workers in Israel came from rural areas and worked their land back home. According to the FAFO survey in 1992, though, the proportion of West Bank commuters of rural origins decreased to 30 per cent of the total West Bank workers in Israel, reflecting the fall in agricultural employment in general (see Table 2.1). If we distinguish between the West Bank and the Gaza Strip, we

find that the share of male migrants from refugee camps in 1992 is higher for the latter (35 per cent versus 15 per cent) (Heiberg and Ovinsen 1993).

In terms of age distribution, more than 40 per cent of the employed workforce between 15 and 24 years of age worked in Israel in 1987, compared with less than 30 per cent in the domestic economy (Table A8). Yet the share of the young, or new, entrants in the migrant labour force dropped to less than 21 per cent by 1993. The main reason for this drop is linked to the 1987 Intifada. The political disturbances that characterised the 1988–1990 period tended to disfavour youth employment, especially as Israeli restrictions prevented those less than 28 years of age from working beyond the Green Line (see Chapter 6). Workers who were between 15 and 24 years of age made up less than 8 per cent of the Gaza migrant workforce in Israel and 38 per cent of West Bankers in 2000 (compared with 49 per cent and 44 per cent respectively in 1975 (see Table A8)). In terms of marital status, unmarried workers represented one-quarter of West Bank workers in Israel and one-third of those from the Gaza Strip (Abu-Shokor 1987; ICBS, 1981, *JSGAS*). After 1993, this share dropped, because of Israeli restrictions on the entry into Israel of unmarried men (see Chapter 6 for further details).

WBGS commuters to Israel became more educated over the years, as a result of increased school attainment levels among the Palestinian labour force, as already mentioned. The mean number of years of schooling for male migrants in the 1980s was of the order of 8.6, compared with 7.7 for those in the WBGS (Angrist 1995:1066). The share of those with no years of schooling employed in Israel dropped from 20 per cent in 1975 to less than 5 per cent between 1992 and 2000 (see Table A9). However, in comparison to Palestinians working in the WBGS, labour flows to Israel are biased towards the less educated, particularly those with less than 13 years of schooling. These represented less than 10 per cent of the employed population in Israel, compared with over 14–29 per cent in the domestic economy (Table A9).

The youthful origin of migrants is common to many migration experiences and is not surprising in view of the nature of Palestinian population growth. The fact that Palestinian workers tend to come from rural areas is not peculiar either, since migrants from many developing countries tend to be dominated by people of rural origins (Russell *et al.* 1990; Stalker 2000). However, what is peculiar to the Palestinian context is the commuting nature of these flows and their dominance by people who lost their land (refugees) or continue to leave it as a result of the conflict over land.

### *Destination*

In terms of occupational and sectoral concentration, Palestinian commuters tended to be employed in low-skilled jobs. Around 60 per cent of WBGS workers employed in Israel were in unskilled occupations compared with 33 per cent in the domestic economy between 1981 and 1990.<sup>13</sup> Between 1970 and 1987, skilled professionals made up only 2.4 per cent of all commuter workers, compared with 12 per cent of those employed in the domestic economy (UNCTAD 1995). According to surveys conducted by the ICBS in 1981, 25 per cent of workers in Israel had been employed there for more than four years. In 1984, 54 per cent of workers in Israel had been employed all year round (Abu-Shokor 1987), indicating that the Israeli labour market is not a spot market.

The pattern of WBSG sectoral employment in Israel also contrasts with Palestinian employment in the domestic economy, where the majority concentrate in services (see Figures 4.2 and 4.3). Israeli agriculture was important in 1970, absorbing a quarter of all WBSG commuting workers, but this share fell to less than 15 per cent after 1975. It remained more important for workers from the Gaza Strip than from the West Bank, for reasons that are explained in Chapter 5. The Israeli industrial and service sectors fluctuated in importance, but each absorbed less than a fifth of the commuting workforce up until the mid-1980s. The construction sector remained the most important sector, absorbing Palestinian workers at a rate of 4.4 per cent per annum between 1970 and 1993 (calculated from

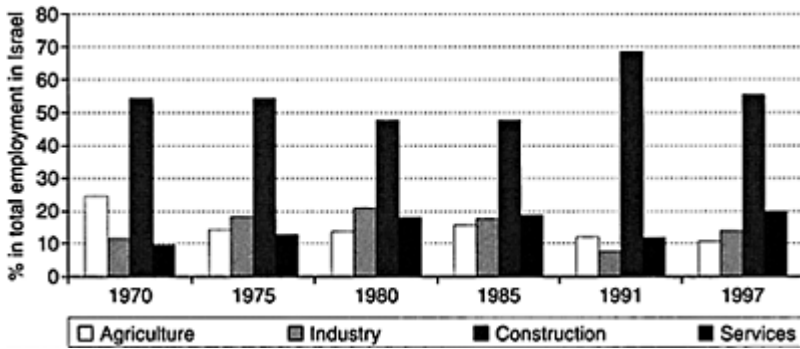


Figure 4.2 Percentage distribution of WBSG workers employed in Israel by sector, 1970–1997 (source: Table A5).

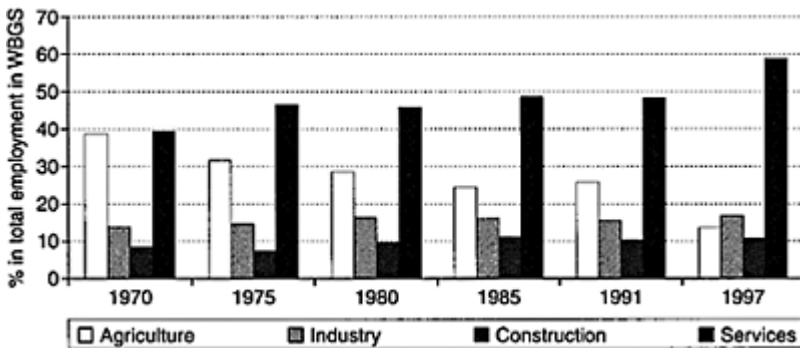


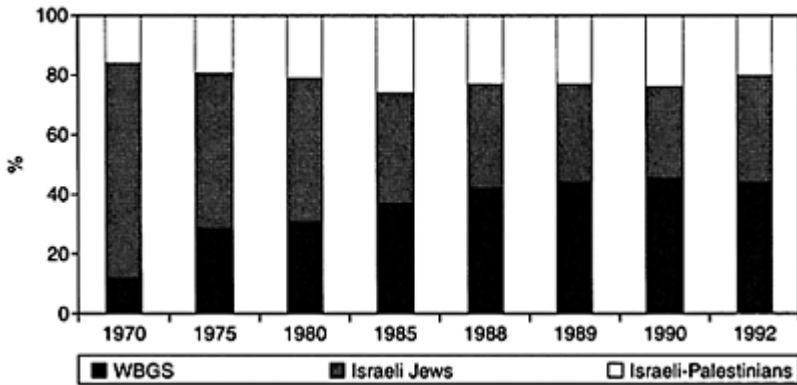
Figure 4.3 Percentage distribution of WBSG workers employed in the domestic economy by sector, 1970–1997 (source: Table A5).

Table A5). It has remained the destination of over 50 per cent of all WBGS workers in Israel since 1975 (Figure 4.2). This contrasts with the experience of Mexican migrant workers in California where the majority concentrated in agriculture (Martin 1993; Massey *et al.* 1998), or the experience of South African migrants (from Malawi, Zimbabwe or Lesotho) who dominated the South African mining sector (Grush *et al.* 1991; Maltosa 1995).

At the macro level, WBGS workers in Israel did not represent more than 7 per cent of the Israeli labour force. However, at the sectoral and occupational levels they assumed an increasingly important role, as is explained in more detail in Chapter 6. Suffice it to mention here that the Palestinian migrant workforce was on average younger and less skilled than the Israeli labour force (Table A10). While their share in the Israeli service sector increased from 10.9 per cent in 1973 to 18.8 per cent in 1993, they remained concentrated in the low-skilled occupations. Thirty-three per cent of Palestinian workers were unskilled, compared with 3.7 per cent of Israeli workers (Table A10). Palestinian migrants also failed to upgrade their position in the Israeli labour market. In 1982, WBGS workers were concentrated in 20 out of 83 Israeli occupational categories, which were the most precarious and worst-paid jobs (Semyonov and Lewin-Epstein 1987). They also remained heavily concentrated in low-skilled jobs in the construction sector, which absorbed less than 7 per cent of the Israeli labour force in 1993 (see Table A10). Yet WBGS workers made up 29–40 per cent of all those employed in the Israeli construction sector between 1975 and 1992. Between 1985 and 1992, just before the arrival of foreign workers into the Israeli labour market (see Chapter 6), Palestinians held a larger share of the construction labour market than Jewish or non-Jewish Israelis (Figure 4.4). The fact that WBGS workers in Israel concentrate in construction is not atypical of migrant workers in general (Amjad 1989; Stalker 2001). However, what is peculiar to the Palestinian context is the heavy concentration of commuting workers in a sector that has strong economic and ideological connotations, as is explained in Chapter 6.

### *Implications*

The WBGS's integration into Israel had major impacts on the transformation of the Palestinian labour market. Participation in the Israeli labour market helped transform the WBGS's labour force into a wageearning population. Sixty-three per cent of the West Bank employed force were wage earners in 1987, compared with 43 per cent in 1970. The share for the Gaza Strip was 67 per cent in 1987, up from 56 per cent in 1970 (PCBS 1995:94; ICBS, SAI 1973:718). Access to the Israeli labour market also stimulated the sectoral shift towards services and away from agriculture, as is explained in more detail in the next chapter.<sup>14</sup>



*Figure 4.4* Ethnic distribution of workers in the Israeli construction sector, 1970–1992 (source: ICBS (1990, 1993: *SAI*: tables 16.16, 16.17)).

The integration into the Israeli labour market also affected the WBGS's capacity to generate domestic employment. According to Arnon *et al.* (1997), employment in Israel did not reduce employment in the West Bank as much as it did in the Gaza Strip,<sup>15</sup> reflecting the latter's deeper dependency on Israel and the lack of alternative labour markets (particularly in the Gulf). Tables 4.3 and A6 reveal that the domestic economy was able to generate new jobs in all sectors only after 1981, and more so in the West Bank than in the Gaza Strip. Moreover, Tables 4.2 and 4.3 indicate that employment in the WBGS grew whenever access to Israel became difficult, particularly between 1987 and 1993 and again after 1993. In the period 1988–1993, domestic employment grew by 6.1 per cent in the WBGS, generating a total of 59,700 jobs, while employment in Israel fell by 28,200 jobs (see Tables 4.2 and 4.3). The largest domestic absorbing sector was services, while in Israel it was construction. A total of 48,300 jobs were created in the Palestinian domestic service sector between 1970 and 1993, which is similar to the number of new jobs created for Palestinian workers in the Israeli construction sector (see Table 4.3). This pattern of job creation reflects the precariousness of employment and its dependence on external demand. After 1993, when access to Israel was at its most difficult, the Palestinian economy managed to create 162,100 new jobs in five years, which was double the number of WBGS workers absorbed in Israel (Table 4.3). Two-thirds of this growth was in the West Bank, not in Gaza. Meanwhile, unemployment rose after 1993, revealing the inability of the Palestinian economy to reduce its dependence on Israel (see also Table A7).

The effect of Palestinian labour market integration on income and wages, and thereby on employment creation, fostered Palestinian dependence on Israel. It contributed to the improvement in income distribution in the WBGS, given the bias of the Israeli labour market towards unskilled workers from low-income groups in refugee camps and rural areas (Abu-Shokor 1990). Yet this bias has also led to a fall in premium for skilled workers (Angrist 1995; Sayre 2001).<sup>16</sup> Furthermore, Israeli-earned wages led to the

doubling of real local Palestinian wages between 1970 and 1987 (Arnon *et al.* 1997:76). The appreciation of the domestic wage has been one of the factors, together with constraints on trade and investment, in discouraging Palestinian entrepreneurs from hiring workers or investing in labour-intensive projects, thereby weakening further the capacity of the domestic WBSG economy to absorb its labour force.

### Conclusion

Over the past 30 years, the Palestinian population has come to rely heavily on the Israeli labour market to absorb its growing workforce. As the WBSG labour force doubled, largely as a result of rapid population growth, an increasing number of people went to work in Israel. This market absorbed two-thirds of the increase in the labour force between 1970 and 1993, depleted the pool of the unemployed, and precipitated the shift away from agricultural employment. Access to the Israeli labour market, though, did not necessarily improve employment growth in the domestic economy, particularly in the Gaza Strip. Employment rather shifted towards the service sector, while enhancing its dependency on external, namely Israeli, demand and regulations.

The Israeli labour market remained particularly important for GS workers. Yet after 1988, they could no longer rely on it as a principal source of employment. The West Bank, by contrast, has continued, albeit at reduced levels, its reliance on this market. This change occurred at a time when the Palestinian population has been growing by more than 3 per cent per annum and the labour force by more than 4 per cent since 1993. Employment in Israel represented on average less than 12 per cent of the employed Gazan population between 1995 and 2000, compared with over 35 per cent in the 1980s. Meanwhile, unemployment rose to 15–32 per cent, compared with 7–19.6 per cent in the West Bank between 1995 and 2000 (Table A7). These changes suggest that the Gaza Strip is being separated from the Israeli economy, while the West Bank continues to be integrated.

Palestinian labour flows to Israel, though, remained precarious all through the past three decades. WBSG commuting or circular migrants acquired, in a sense, the characteristics of ‘nomad labour’ that Marx talked about and Portugali (1993:75) re-emphasised. They were ‘people whose origin is agricultural’, be it refugees or rural workers, ‘but whose occupation is in great part industrial’. They were concentrated mainly in the construction sector, where they were ‘used for various operations of building and draining, brick-making, lime-burning, railway-making, etc.’. Chapter 6 assesses the extent to which they also acted as ‘the light infantry of capital thrown by it, according to its needs, now to this point, now to that’ (Marx 1990:818). First, we turn to the causes of labour release from the domestic economy, which is the focus of the next chapter.



## 5

# Labour release and transfer from the West Bank and Gaza Strip

The review of migration theories undertaken in Chapter 1 outlined two main approaches to the analysis of the causes of labour transfer: a rational choice approach that emphasises the role of incentives and wage differentials in making people move from one place to another, and a political economy approach that stresses the importance of structural change. Most studies on Palestinian employment in Israel, though, have rarely referred to migration theories, and if they did, they tended to adhere to a rational choice framework of analysis (Dweik 1988; Olmsted 1994; Kadri 1998; Sayre 1999). The majority have concentrated on analysing the beneficial and negative effects of Palestinian employment in Israel on domestic wages, employment creation and economic growth in the WBGS (Angrist 1992, 1995, 1996; Kleiman 1992; Fischelson 1992; Shaban 1993; World Bank 1993; Arnon *et al.* 1997; IMF 1999). Most of these studies have taken it for granted that the integration of a smaller Palestinian economy into a larger Israeli economy was bound to induce labour mobility, given the disparity of wage levels on the two sides of the Green Line.

This chapter discusses the limitation of wage differentials between Israel and the WBGS as a factor explaining labour release. It demonstrates that the release and transfer of Palestinian workers to Israel is tied to the nature of structural change that occurred within the Palestinian economy, particularly in agriculture. It is the outcome of an Israeli policy that stifled Palestinian agrarian change while tying it to Israeli economic interests and territorial priorities. The reason for concentrating on the agricultural sector stems from its importance in the structural changes that have occurred to the Palestinian economy over the past three decades, and from the fact that 30–48 per cent of WBGS workers originated from rural areas (Chapter 4). It also arises from its significance for the Palestinian-Israeli struggle over the land.

### Unemployment and wage differentials

As discussed in Chapter 2, rational choice migration theory gives importance to unemployment levels in areas of origin as a migration push factor, and stresses the role of expected wages in areas of destination as a significant pull factor (Harris and Todaro 1970). Available data on the Palestinian and the Israeli labour force, though, indicate that unemployment and wage levels have not played a clear or central role in influencing migration propensities.

### *Unemployment and migration*

Looking at unemployment rates in Israel, we find that they have little influence on Palestinian labour flows, contrary to the expectations of the Harris-Todaro model.<sup>1</sup> Figure 5.1 shows that Israeli male unemployment rates between 1970 and 1977 dropped and the Palestinian share in Israeli employment increased.<sup>2</sup> In the period 1977–1988, unemployment rates increased, while the share of WBGS workforce in the Israeli labour market continued to rise. Between 1989 and 1993, the drop in Palestinian migrants to Israel was a result of greater restriction on labour access, and is not related to an increase in Israeli male unemployment rates, as the post-1993 data also show. Unemployment in Israel had little influence on Palestinian migration propensities, probably because WBGS commuters tend to be segmented in low-paying and unskilled sectors, as mentioned in Chapters 4 and 6. Palestinian labour migration is thus not easily affected by overall Israeli unemployment rates.

On the other hand, the opening of the Israeli labour market to Palestinian workers in 1968 had the effect of reducing WBGS unemployment rates from 13 per cent in 1968 to 4 per cent in 1970 (see Table A2). Unemployment rates remained at less than 4 per cent between 1970 and 1992 and



*Figure 5.1* Share of WBGS workers in total Israeli employment compared with Israeli male unemployment rates, 1970–1999 (source: Table A4 and Bank of Israel (2000: table 4.A.4)).

#### Note

Percentage of WBGS workers in Israel refers to the share of WBGS in the Israeli labour force.

rose to over 10 per cent after 1995 (Figure 5.2). Palestinian domestic unemployment rates and employment in Israel continued to be negatively correlated. It is important to note, however, that the unemployment data in the WBGS do not directly reflect the level of

unutilised and surplus labour (as explained in Chapter 5), and thus the potential force of push factors.

*Wage differentials and migration*

Looking at differentials between Palestinian wages in the WBGS and in Israel, we find that they have gone through four main phases.<sup>3</sup> These phases show that wages in Israel have not always acted as a pull factor. They also show that trends in wage differentials in the WBGS are more helpful in reflecting the level of integration and separation between the Israeli and the Palestinian demand for labour, than in explaining migration. Part of the difficulty in establishing the role of wage differentials in explaining Palestinian labour mobility stems from the fact that these differentials are influenced by changes in Israeli policy as to whether the borders with the WBGS are open or closed at a particular time.

*The pull factors, 1968–1973*

The period 1968–1973 is the time when the Israeli market first opened to Palestinians. Wages in Israel acted as a significant pull factor. Wages, in real 1986 terms, for Palestinians in Israel were at least 80 per cent higher



*Figure 5.2* WBGS workers in Israel and unemployment rates in the Occupied Territories, 1969–1999 (source: Tables A2 and A4).

Note

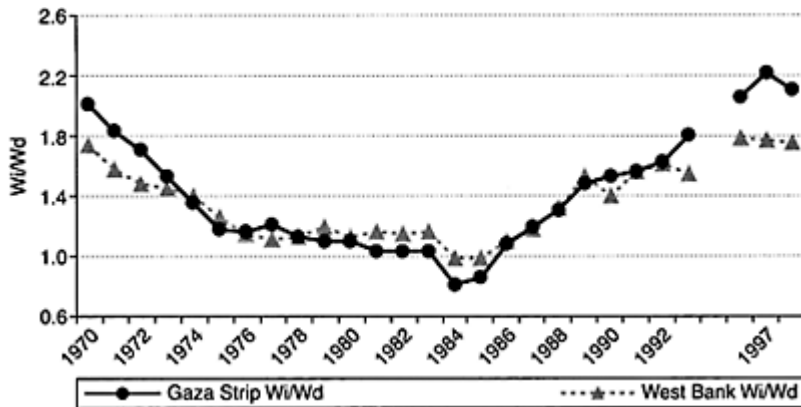
The left-hand axis refers to the numbers of WBGS workers employed in Israel, while the right-hand side refers to WBGS unemployment rates.

than domestic wages at the beginning of 1968, but the gap decreased to around 40 per cent by 1973. Average wages for the WBGS reveal that wages in Israel did attract workers (Figures 5.3a, b, c). Yet as the number of workers increased, the wage gap

between work in Israel and WBGS diminished and wages converged for the agricultural and construction sectors (Figures 5.3b, c). As mentioned in Chapter 4, employment in Israel during this period absorbed workers from Palestinian agriculture (17,600 between 1970 and 1973; calculated from Table A5) and depleted the pool of unemployed (see Table A2).

*Absence of real wage differentials, 1974–1987*

Labour continued to move freely to Israel, although the real wage gap between those employed in Israel and those employed in the WBGS continued to diminish, and even turned negative between 1984 and 1986. These two years were marked by Israel's stabilisation programme, which sought to reduce Israeli hyperinflation of the early 1980s. On an aggregate level, the wage premium for working in Israel was lower for GS workers than for WB workers, indicating the strength of integration between the GS and the Israeli markets (Figures 5.3a, c). The wage premium during this period was less than 10 per cent, a gap barely sufficient to cover commuting costs from the WBGS to Israel. The fact that wages on the two sides of the Green Line equalised over this period suggests that wages in Israel stopped acting as a pulling mechanism, at least with regard to



*Figure 5.3a* Wage differentials between employment in Israel and in the domestic economy, WBGS workers, all sectors, 1970–1998 (sources: ICBS (1975, 1980, 1990, 1994, *SAI*: tables 27.20, 27.23, 27.25); PCBS (1996, 1997, 1999, *LFS*: tables 38–42)).

Note

Wi/Wd=real 1986 NIS wages in Israel as a ratio of wages in the WBGS.

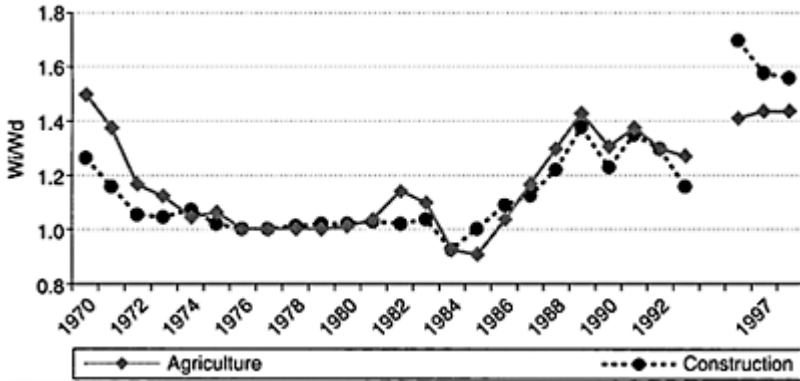


Figure 5.3b Ratio of daily wages earned in Israel to domestic daily wages, West Bank (sources: as table 5.3a).

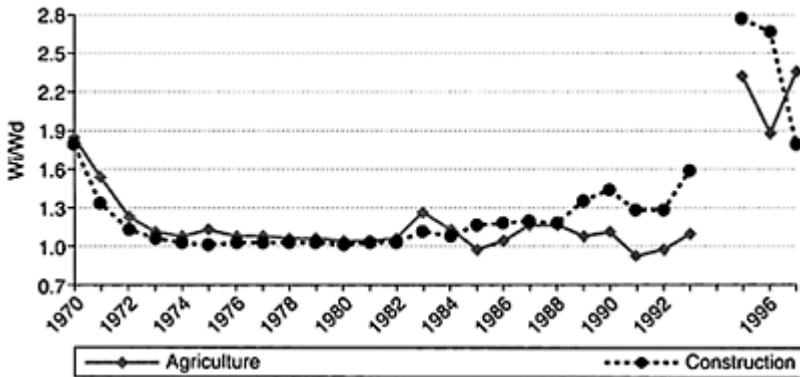


Figure 5.3c Ratio of daily wages earned in Israel to domestic daily wages, Gaza Strip (sources: as table 5.3a).

agriculture and construction, which absorbed more than 70 per cent of the total number of Palestinians employed in Israel. Unemployment in the WBGS remained at less than 3 per cent (Table A2).

*Destruction of a ‘common labour market’, 1988–1992*

The period 1988–1992 is that of the Intifada and a state of heightened political instability unleashed by it. The wage premium for work in Israel increased and could again have

acted as a pulling mechanism, but access to the Israeli market became more difficult. The number of workers going to Israel dropped, particularly the number from the Gaza Strip, although there was an increase again after the Gulf War (1990–1991). The number of days worked also dropped, but more for labourers from the Gaza Strip than from the West Bank.<sup>4</sup>

*Back to 1970 but with a twist, 1993–1998*

The period 1993–1998 started with the beginning of the peace process. Aggregate data show that the wage gap between domestic and Israeli employment increased, reaching levels higher than those prevailing in the early 1970s. Meanwhile, the number of Palestinian workers in Israel continued to drop, and the two labour markets continued to diverge, particularly between Israel and the Gaza Strip. Wages in Israel were 2.5 times higher than wages in the Gaza Strip and 1.6 times higher than in the West Bank (Figures 5.3b, c). Over this period, wages in Israel reappeared as a pulling mechanism, while unemployment was an important push factor. Unemployment was recorded at an unprecedented level of 32.5 per cent in the Gaza Strip and 19.6 per cent in the West Bank in 1996 (Table A7).

*Wage differentials or lack of employment options?*

Two main studies, by Dweik (1988) and Kadri (1998), have attempted, within a Harris-Todaro model, to assess the role of wage differentials in determining Palestinian participation in the Israeli labour market. They argue, however, that contrary to the expectations of the Harris-Todaro-type models, Palestinians are not pulled into Israel because of higher wages, but are rather pushed to work in Israel because of lack of employment opportunities at home.<sup>5</sup>

To illustrate the role of push factors, Dweik relies on cross-sectional data based on a micro labour survey conducted in the summer of 1984 and 1985 by Abu-Shokor (1987).<sup>6</sup> Based on the work of Todaro (1969) and Sjaastad (1962), Dweik constructs two earning equations (one for the Occupied Territories and another for Israel) and makes the migration decision equation a function of wage differentials, expected wages (wages times the probability of finding work), age, household size and place of residence.<sup>7</sup> Among his interesting findings is the fact that family size plays an important role in increasing the incentive to migrate, as does age. The propensity to migrate also increases if you are from a refugee camp or a rural area, and the younger you are.

According to Dweik, the strength of the push factors is revealed by the fact that Palestinian workers continued to commute to Israel despite the fact that wages at home were higher than wages in Israel in 1984–1985. Dweik maintains that this finding ‘contradicts traditional economic theory which argues that the rates of migration are negatively related to income level at home and positively correlated to level of income at destination’ (1988:180). The strength of the push factors is further substantiated by the results of his migration decision equation, and the fact that more than 57 per cent of all respondents gave as a reason for their migration to Israel the lack of available jobs at home, while 11 per cent said it was due to higher wages in Israel. These findings allow him to argue that the deterioration in the economic conditions in the Occupied Territories,

as revealed in the limited domestic employment opportunities, was the reason for migration (1987:180–220).

Dweik's analysis, however, is limited, for two main reasons. Empirically, he bases his whole argument on the strength of push factors on data relating to two exceptional years. While his data are micro based, the author himself is aware that wages in the local economy were higher than in Israel in 1984–1986 as a result of the inflation and stabilisation policy in Israel, whose effect was transmitted with a lag to the Palestinian economy.<sup>8</sup> Conceptually, Dweik does not explain why migrants tend to come from rural areas or refugee camps, or from among the new entrants into the labour force, rather than from the skilled and those with more educated backgrounds. Nor does he explore where employment options at home were limited and by what mechanisms Israeli occupation limited domestic absorption capacity. As is discussed in Chapter 4 (Table 4.3), employment options in the domestic economy up until 1987 were particularly limited in the agricultural and industrial sectors, though not in the service sector.

Kadri (1998) offers a more detailed analysis of Palestinian labour mobility. Relying on ICBS data for the period between 1974 and 1988, he seeks to define the determinants of labour supply to Israel and to 'empirically test the effect of wage differentials between Israeli and West Bank wages on the decision to commute to Israel' (1998:1139). Within the spirit of the Harris-Todaro model, Kadri argues that Palestinian workers are facing a single labour market composed of three sectors. The rational West Banker has to make a decision between working in the rural sector (which Kadri considers to be a subsistence sector), or in the cottage industrial sector in the West Bank, or in Israel. Kadri's central premise is that participation in Israel is part of a general decision to become economically active. He considers this decision a function of four dependent variables: expected wages in the destination *and* in the local economies (wages times employment rates in the two respective places), differences in wages between the two places, employment in the West Bank (1—unemployment in the West Bank), and the sector of employment in Israel (captured as a dummy variable). The inclusion of sectoral employment in Israel into the analysis is particularly important, as it sheds light on the nature of Israeli demand for Palestinian labour.

Kadri's regression of the log of labour force participation in Israel on expected wages, difference in log of respective wages (in Israel and the West Bank), and employment rates leads to three conclusions. First, employment rates are found to be statistically significant in determining participation in the labour market as a whole, as is participation in the Israeli construction sector. This is interesting in so far as it indicates the strength of Israeli demand for Palestinian labour in this sector. Second, expected wages (i.e. probability of employment times wage differentials) are also found to be statistically significant, but the elasticity of labour supply is found to be low.<sup>9</sup> Kadri argues that this finding is inconsistent with Lewis's assumption about the infinite labour supply elasticity in developing countries, but consistent with empirical findings in various developing countries (Banerjee and Kanbur 1981). The inelastic labour supply is another reflection of the low participation rates within the Palestinian working-age population, as discussed in Chapter 4. It is also reflective of the limited employment options.

Third, Kadri finds that wage differences, as distinct from the probability of employment, are statistically insignificant in explaining participation in the Israeli labour market. In other words, wages in Israel are not pulling workers. Only when Kadri

considers differentials between *subsistence agriculture income* in the West Bank and wages in Israel does he find differences in income to be statistically relevant as a pulling factor at a 10 per cent significance level.<sup>10</sup> He interprets this finding to mean that migration is a result of need and not of choice.<sup>11</sup> Kadri's analysis reveals that participation in the Israeli labour market is a result of a quest for employment, and not necessarily a search for higher wages. It also indicates the importance of considering the specificity of the Palestinian agricultural sector, even if Kadri fails to explore it in any detail.

The work of Kadri and Dweik, though, suffers from two major problems. First, their findings are self-fulfilling by the nature of the selected data. Kadri's analysis is based on the 1974–1988 data, which is the period pertaining to the full labour market integration between the Israeli and the Palestinian labour markets. If he were to look at the pre-1974 or post-1988 data, wage differentials would have reappeared as an important pull factor (Figures 5.3a, b, c). Second, Kadri's and Dweik's analyses, just like the models they use, fail to explore the structural changes that occurred, particularly in the agricultural sector, which explain the underlying reasons behind labour release. The point here is not to refute the validity of wages or of push factors, but rather to determine the structural elements that explain when and how wage differentials act as a push or/and pull phenomenon.

### **Agrarian change and labour transfer**

As is pointed out in Chapter 2, the transformation of the Palestinian economy from an agrarian to a service-oriented economy directed towards Israel has been among the most important structural changes that have occurred in the WBGs since 1967. The share of agriculture in West Bank GDP fell from 35 per cent in 1970 to less than 16 per cent in 1991. In the Gaza Strip, it fell from 31 per cent to 18 per cent respectively (see Table 2.2). In terms of employment, agriculture absorbed less than 28.1 per cent of the West Bank labour force in 1991, compared with 44.8 per cent in 1969. In the Gaza Strip, it employed 21.6 per cent of the working population in 1993 compared with 33.1 per cent in 1969 (ICBS, *SAI* 1973:714; see also Table 2.2).

The fall of agricultural employment in the process of structural change is a common phenomenon in developing countries (Hakimian 1990; Byres 1995). However, the specificity of Palestinian agrarian change lies in the fact that it has not been linked to an industrial drive or to growing international integration. Rather, Palestinian agrarian change and labour release have been linked to the specificity of Israeli economic policy in general, and land policy in particular.

### ***Structure of agriculture***

When Israel occupied the West Bank (5.65 million dunums) and Gaza Strip (0.365 million dunums) in 1967, it found itself in control of a Palestinian agricultural sector that was already exposed to outside markets. Forty per cent of the West Bank area and 50 per cent of the Gaza Strip's was cultivated and provided local and Jordanian markets with



most of their food and agricultural consumption needs. In the Gaza Strip, citrus production and exports were developed (UNCTAD 1993b).<sup>12</sup>

The land structure in WBGs, however, was characterised by a skewed distribution as well as by high fragmentation of land plots (UNCTAD 1993b; World Bank 1993). On the basis of the 1967 census, which is the only one to have been conducted so far, 48 per cent of landowners in the WB worked on land plots of less than 20 dunums (i.e. less than two hectares). In the Gaza Strip, 68.7 per cent of total holdings worked on such small plots (see Table 5.1). On the other hand, in terms of land distribution, large landowners owned the lion's share of the cultivated land. This was particularly true in the Gaza Strip, where only 4.1 per cent of total owners holding land of over 100 dunums possessed one-third of the total cultivated area. In the West Bank, 8.6 per cent of owners, those possessing over 100 dunums, cultivated 38 per cent of the land (see Table 5.1).

Over the past three decades, the overall land size has fluctuated in the West Bank, but decreased in comparison to the 1965 figures. It is estimated that the area of the land cultivated in the West Bank fell by 27 per cent between 1965 and 1992 (from 2.43 million dunums to 1.79 million dunums) (Butterfield *et al.* 2000) (Table A11). In the Gaza Strip, there were some attempts to cultivate previously unused land, causing the cultivated land area to increase from 175,500 dunums in 1978 to 195,400 dunums in 1992 (Table A11). However, between 1967 and 1968 the Gaza Strip lost 20 per cent of its land as a result of confiscations (Roy 2001:224). It is difficult to assess the changes in terms of land ownership structure, though, given the absence of an agricultural census in the 1990s.<sup>13</sup>

*Table 5.1 Land distribution by size of holding in the West Bank (1970) and Gaza Strip (1968)*

<i>Size of unit (dunums)</i>	<i>Size of holding</i>		<i>% Total cultivated area</i>		<i>% Owners in total holdings</i>	
	<i>West Bank</i>	<i>Gaza Strip</i>	<i>West Bank</i>	<i>Gaza Strip</i>	<i>West Bank</i>	<i>Gaza Strip</i>
1–20	220,100	40,360	10	21.9	48.0	68.7
21–50	499,700	47,180	24	25.6	29.6	20.1
51–100	579,500	36,840	28	20.0	13.8	7.1
100+	791,800	59,897	38	32.5	8.6	4.1
Total	2,091,100	184,277	100	100.0	100.0	100.0

Source: UNCTAD (1993b: table 1.1); Kahan (1987: table 2.2).

Note

'Farm owners' also refers to tenants.

### *Sources of labour supply*

In terms of labour employment, Palestinian agriculture relied on family farming and sharecropping, especially in the West Bank. The 1967 census suggested that 43 per cent of households in the West Bank owned their farms, compared with 14 per cent in the

Gaza Strip. However, sharecropping remained important, despite the fact that it was underestimated by the available data (Kahan 1987; UNCTAD 1993b). Tenants tended to be responsible for 50–60 per cent of all commercial farms in areas of intensive farming, such as Jericho, Jenin and Tulkarem (UNCTAD 1993b:44). Tenants were usually of three types: either ‘cash tenants’, especially in the Gaza Strip and areas of the West Bank involved in vegetable production; or ‘kind tenants’, who worked in a classical sharecropping mode, particularly pronounced in labour-intensive farming in the Jordan Valley; or ‘olive-tier’ tenants, who predominated in the olive-picking industry. Olive production remained the largest production item in the West Bank, contributing in the range of 21–40 per cent of the total crop output in the 1980s (calculated from ICBS, 1987, *JSGA*: 37).

The share of landless and wage labourers in Palestinian agriculture in 1968 was particularly high in the Gaza Strip. Wage earners represented 14 per cent of total employment in agriculture in the West Bank and 57.1 per cent in the Gaza Strip in 1968 (Kahan 1987:128). The figure would be higher if refugees involved in agriculture were included in the data. However, it is argued that refugees in the West Bank have tended to enter into sharecropping relations with landlords rather than work simply as wage labourers (Kahan 1987; Tamari 1981).

Two important developments affected agricultural employment after Israel occupied the West Bank and Gaza Strip. First, there was an absolute fall in the number of workers, particularly *wage earners*, between 1970 and 1987. A total of 6,100 wage workers from the West Bank and 9,800 from the Gaza Strip left Palestinian agriculture to work in Israel over this period (calculated from Table 5.2). After 1975, Israeli agriculture absorbed more agricultural wage earners than Palestinian agriculture. Between 1985 and 1987, the total number of GS workers employed in Israeli agriculture, which ranged around 9,000–9,700 wage earners, was larger than the total number of both employed and wage earners in Gaza agriculture (see Table 5.2). The number of farm owners and tenants fell by nearly 15 per cent, from 34,000 to 27,400, in the West Bank between 1970 and 1987, while in the Gaza Strip their number fluctuated around 5,000–7,400 farmers and tenants (Table 5.2).

Second, domestic agricultural employment increased after 1987. While it released workers prior to that date, in the period 1987–1993 employment creation in domestic agriculture was positive, and after 1993 employment in agriculture increased more in the WBGs than in Israel, as restrictions on labour entry to Israel increased (Table 5.2). The effect was more pronounced in the Gaza Strip than in the West Bank, as 5,100 GS workers lost their job in Israel, compared with 2,200 from the West Bank. Between 1995 and 2000, Palestinian agriculture returned to being a reservoir of labour, particularly in the Gaza Strip, where 20,300 new workers were absorbed during this period, compared with 11,900 in the West Bank (Table 5.2). Agriculture’s share in total employment fell in comparison to the pre-1993 period and moved in correlation with decreasing access to Israel. It fluctuated between 12 per cent and 19 per cent of total domestic employment in the West Bank and between 6 per cent and 17 per cent in the Gaza Strip in the period 1995–2000 (MAS 2001:166).

The experience of WBGs agriculture in releasing labour, particularly wage earners mostly until the mid-1980s, is linked to Israel’s land, agricultural and trade policies in the WBGs. These policies were characterised by three major periodic shifts that influenced

the dynamics of Palestinian agrarian change. In the 1970s, they encouraged Palestinian agricultural growth while in the 1980s they constrained it. In the 1990s, the Oslo peace process promised to improve agricultural development but without liberating it from Israeli control. All through the past three decades, though, Israeli policy remained consistent in its concern to limit Palestinian capital accumulation, to prevent Palestinian agriculture from competing with Israeli agriculture and to maximise Israel's hold of the largest amount of WBGs land.

*Institutional framework*

*Land and water policy in the West Bank and Gaza Strip*

Israeli land and water policy in the WBGs provided the main institutional framework that determined the pattern of Palestinian agricultural change.

*Table 5.2 Distribution of workers employed in the WBGs's and Israel's agriculture, 1970–2000 (in thousands)*

<i>Years</i>	<i>West Bank</i>				<i>Gaza Strip</i>			
	<i>Total number in domestic agri culture</i>	<i>Farmers employed in domestic agri culture</i>	<i>Wage earners in domestic agr iculture</i>	<i>Wage earners in Israeli agri culture</i>	<i>Total number in domestic agr iculture</i>	<i>Farmers employed in domestic agriculture</i>	<i>Wage earners in domestic agr iculture</i>	<i>Wage earners in Israeli agric ulture</i>
1970	42.5	34.0	8.5	2.6	16.9	6.0	10.9	2.4
1973	30.0	26.0	4.0	3.4	11.8	5.0	6.8	8.4
1974	36.2	27.4	8.8	4.5	11.8	6.0	5.8	8.6
1977	31.0	28.1	2.9	4.5	12.6	7.0	5.6	5.6
1980	31.7	28.9	2.8	4.0	8.9	7.0	1.9	6.3
1985	28.4	25.8	2.6	5.1	8.8	6.7	2.1	9.0
1987	29.8	27.4	2.4	6.2	8.7	7.4	1.3	9.7
1990	37.8	36.0	1.8	5.5	12.4	8.7	3.7	6.8
1993	37.4	34.8	2.6	4.0	16.5	13.2	3.3	4.6
1995	32.7	–	–	5.7	11.9	–	–	1.0
1997	46.9	–	–	–	6.2	–	–	–
2000	44.6	–	–	10.4	32.2	–	–	2.7

*Total change per period ('000)*

1970– 1980	-10.8	-5.1	-5.7	1.4	-8.0	1.0	-9.0	3.9
1980– 1987	1.9	1.5	-0.4	2.2	0.2	0.4	-0.6	3.4
1987– 1993	7.6	7.4	0.2	-2.2	7.8	5.8	2.0	-5.1
1995– 2000	11.9	-	-	4.8	20.3	-	-	1.7

Sources: ICBS (1980, 1985, 1994, *SAI*: tables 27.22, 27.24, 27.25); ICBS (1988, 1990, 1993, *JSGAS*: tables 11–15); PCBS (2001, *LFS*: tables 20–21).

Note

'Farmers' refers to owners as well as to tenants.

Since 1967, as explained in Chapter 3, Israel restricted Palestinians' access to their land by preventing them from registering their property rights. It thereby restricted the scope for agricultural expansion and investment. In 1983, it forbade Palestinians from cultivating their land without having permission from the military governor (military order no. 1039). The fact that Israel confiscated Palestinian areas and declared at least 39 per cent of the West Bank and 27 per cent of the Gaza Strip to be Israeli 'state land' led to the imposition of a *de facto* enclosure system, denying Palestinians free access to their grazing and cultivable resources. Moreover, Israel refused to carry out any land reform in the WBSG and kept the land structure as it found it in 1967. This meant that the scope for land redistribution and increase in agricultural productivity, and the implications thereof for labour release, remained limited.<sup>14</sup>

Israeli water policy also influenced Palestinian agrarian change in so far as it hindered the Palestinians from gaining access to their natural resources. After 1967, the water resources in the WBSG (ground aquifers and wells) were integrated within the Israeli water system, and Israel controlled the supply of water to Palestinian households and agriculture. In 1970, Israel severely restricted the supply of water from the Jordan to the Palestinians, thereby limiting Palestinian agricultural expansion in the Jordan Valley, which represented 47.5 per cent of total irrigated land in the West Bank (Isaac and Shual 1994). Moreover, in 1975 Israel imposed limits on water use from individual wells and the production of water for agricultural purposes. These quotas did not change until 1986, when they were further reduced by 10 per cent (World Bank 1993, vol. 4:20). Although the West Bank aquifers had an annual recharge renewal of 600 million cubic metres (mcm) in the 1980s, Palestinians were allowed to only use 110–132 mcm annually (World Bank 1993, vol. 4:20–21). In the Gaza Strip, 95 mcm of groundwater was withdrawn annually, of which only 60 mcm was annually recharged,<sup>15</sup> leading to serious salination problems on cultivated lands.

### Settlements

Israeli settlements were also a central factor in limiting the scope of Palestinian agricultural expansion, and thereby in influencing labour release. They posed a constraint on Palestinian water and land resources as well as contributing to the fragmentation of the

WBGS. By the late 1980s, 30 per cent of settlements in the West Bank were considered agricultural, distributed mostly along the most fertile land, mainly in the Jordan Valley and in the Etzion block area. In the Gaza Strip, over 70 per cent of settlements were agricultural.<sup>16</sup>

In terms of land size, the area under Israeli settlements occupied 3.4 per cent of the cultivated area in the West Bank and 6–8 per cent of the total cultivated land in the Gaza Strip in 1984 (Kahan 1987:99–112). This may not sound large, but the magnitude of the appropriation and its economic implications can be fully grasped only when one considers the resources given to Israeli settlers. Israeli settlements in 1984 represented less than 1.5 per cent of the total population living in the West Bank, but they occupied 45 per cent of total cultivated areas of the fertile Jordan Valley. Moreover, 69 per cent of settlers' cultivated land was irrigated, compared with less than 6.2 per cent of the total land under Palestinian cultivation in the West Bank (Kahan 1987:112, 129). In the Gaza Strip, the magnitude of Israeli settlers' control of resources is even more striking. While representing less than 0.4 per cent of the total population living in the area, Israeli settlers controlled 6 per cent of the total cultivated area.<sup>17</sup>

Moreover, settlements were allocated a disproportionate amount of water, to the detriment of Palestinian agriculture. The Israeli authorities prevented Palestinian farmers from digging new water wells, and restricted the rehabilitation of available wells to a total of 100–120 licences (World Bank 1993, vol. 4:20). Meanwhile, Israel's water company drilled over 32 new wells in the West Bank, to be used mainly by Israelis and settlers. These produced 47 per cent of all water discharged from the West Bank wells, compared with 53 per cent from Palestinian-owned wells. Kahan (1987:113) estimated that the water consumption per irrigated dunum was 1,342 mcm in Israeli settlements compared with 712 mcm in Arab villages. In the West Bank in 1987, settlers consumed 36 mcm, 95 per cent of which went towards irrigation. This represented a third of what Palestinians were allowed to consume (Kahan 1987:113). According to Roy (2001:25), settlers consumed 16 times as much water as Palestinians in the Gaza Strip. Apart from expropriating and fragmenting Palestinian land, settlements added to the economic constraints imposed on Palestinian agriculture by Israel's agricultural and trade policies.

### *Trade policy*

The nature of Israeli trade policy towards the WBGS proved central in containing Palestinian agriculture growth after 1980, and in making it dependent on trade relations to Israel, rather than on international markets. Palestinian agricultural production met 80 per cent of local consumption needs in the 1980s. While Israel allowed the WBGS to have access to the Jordanian economy in the 1970s, this access was not always open. Palestinian agricultural exports to Jordan, and from it to Arab countries, amounted to 59 per cent of total exports in 1977, or a total of 207,000 tons, mainly of citrus fruits (UNCTAD 1993b). However, exports fell after 1980, largely as a result of Jordanian and Israeli regulatory restrictions.<sup>18</sup> These restrictions, together with increasing protectionism by Jordan and other Arab countries, contributed to the fall of Palestinian exports to Jordan by 40 per cent between 1977 and 1984, from US\$61.7 million to US\$36.3 million. The Palestinian competitive edge was weakened further by the fact that labour costs in Jordan were a third of those in the WBGS (UNCTAD 1993b).

Israel remained the WBS's main trading partner, absorbing 90 per cent of its exports and providing 70 per cent of its imports. It is estimated that Israel exported 75,000–100,000 tons of agricultural goods per year between 1977 and 1986 to the WBS, while it imported from it only 40,000–70,000 tons (World Bank 1993, vol. 4:13). While it is argued that the actual volume of trade is 10–12 per cent larger than that reported in official figures, Israel has maintained an agricultural surplus with the WBS ever since 1970 (UNCTAD 1989).

Israeli trade policy limited Palestinian agricultural growth in four main ways. First, it gave Israeli goods free access to Palestinian markets. Israeli products were subsidised, thereby diminishing the competitiveness of Palestinian products. Israeli subsidies were not limited to water, but also extended to electricity and all kind of other inputs. Kahan (1987:80) estimated that state subsidies in 1987 represented 25 per cent of poultry prices and 30 per cent of egg prices, two items that competed with Palestinian goods. Moreover, Israel protected its farmers by providing them with subsidised credits, and export subsidies, which were particularly important in the case of citrus fruits, vegetables and flowers. These were goods that competed with Palestinian output (GATT 1997).

Second, Israel restricted the production and sales of certain goods within the WBS local markets that might compete with Israeli products. The Israeli Agricultural Department in the WBS forbade Palestinians from developing poultry, milk and potato farms without a licence from the Israeli authorities. The number of these was restricted, to protect the Israeli milk and poultry industries. By the mid-1980s, 80 per cent of the WBS's consumption of milk and meat products came from imports from Israel. Moreover, the Agricultural Department restricted Palestinian access to agricultural inputs from non-Israeli sources, imposing high import tariffs and limited quotas on agricultural imports from third countries (World Bank 1993, vol. 4).

Third, Israel restricted Palestinian exports and protected its markets through various tariff and non-tariff barriers. Israel imposed strict technical, sanitary and technical standards on agricultural as well as manufacturing imports. Moreover, the Israeli Department of Agriculture in the WBS, in accordance with the Israeli Marketing Board, restricted the entry of Palestinian goods into Israel through the use of import licences. These licences were only issued whenever the Israeli marketing board decided that Israeli supply was not sufficient to meet Israeli demand.<sup>19</sup> Despite Israel's trade liberalisation policies in the 1990s, agriculture still remains the most protected sector, particularly in terms of tariffs and non-tariff barriers (GATT 1997).

Fourth, Israel prevented the development of any viable Palestinian institutional mechanism that would facilitate the marketing and upgrading of the WBS's agriculture. The Palestinians were not allowed to have their own marketing board. Up until 1986, WBS exports to Europe, which represented less than 8 per cent of total exports, had to pass via the Israeli citrus exporting board (Agrexo), which imposed stringent standards on quality. After 1986, Palestinian exports to the European Union, the majority of which were citrus, faced various quality and marketing difficulties, and continued to depend on access to Israeli ports in order to reach outside markets.

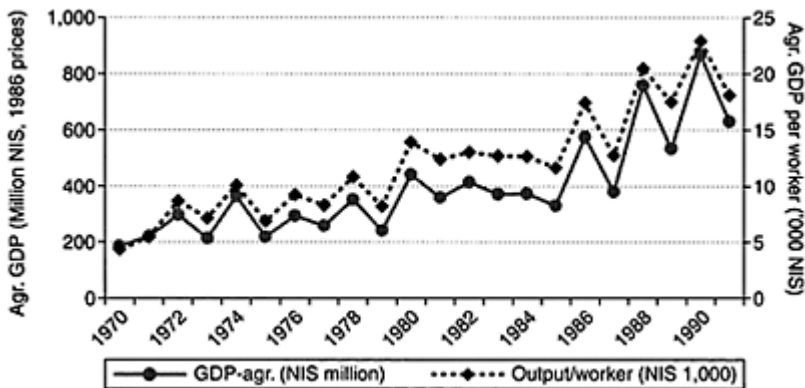
*Agricultural output and labour release, 1970–1979*

Israeli agricultural policy in the WBGs played an important role in influencing Palestinian labour release in two different ways. On the one hand, it directly influenced the outflow of labour by allowing growth in agricultural productivity, particularly in the 1970s. On the other hand, it constrained Palestinian capital accumulation in the 1980s and thereby indirectly affected the size of labour release.

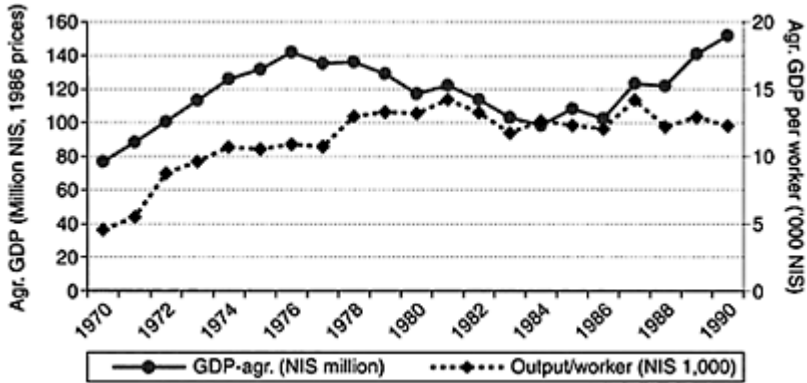
Between 1970 and 1978, Israeli policy tended to encourage the expansion of WBGs agricultural production as a means to pacify the Palestinian population economically. The Israeli Agricultural Department provided credit to farmers, encouraged the introduction of drip irrigation and the use of machinery and fertilisers, and allowed agricultural exports to Jordan. The number of workers per tractor dropped from 1,291.7 to 65.8 in the Gaza Strip between 1969 and 1975. In the West Bank, the fall was from 240 to 24.4 for the same years (Kahan 1987:134). The use of fertiliser per dunum increased from 2.3 kg in 1968–1969 to 9.5 kg in 1979–1980 (Benvenisti and Khayat 1988:12). Agricultural output doubled between 1970 and 1980 in the West Bank and increased by 70 per cent in the Gaza Strip between 1970 and 1977. Agricultural value added per worker also tripled in the West Bank (from NIS 5,000 to NIS 15,000) and more than doubled in the Gaza Strip (from NIS 4,500 to NIS 10,000) over these periods (see Figures 5.4 and 5.5).

The process of technological upgrading that led to an increase in labour and land productivity caused a fall in the demand for workers, both of farmers and of wage earners. A total of 18,800 left agriculture between 1970 and 1980, as can be calculated from Table 5.2. The fact that the Gaza Strip released more wage labour to Israel than did the West Bank can be attributed to the fact that land tenure in the former is skewed more towards large farm owners than towards family-based agriculture (Table 5.1). This facilitated mechanisation and tied labour demand to seasonal periods.

However, the release of labour during this period was not simply due to rises in labour productivity. The initial integration into the Israeli labour market between 1970 and 1973 contributed to the rising cost of wage labourers in the domestic economy and a corresponding fall in demand for them. As can be seen from Figure 5.6, daily agricultural wages doubled



*Figure 5.4* Agricultural output and labour productivity in the West Bank, 1970–1991 (source: World Bank (1993, vol. 4, annex 4, table I)).



*Figure 5.5* Agricultural output and labour productivity in the Gaza Strip, 1970–1991 (source: as Figure 5.4).

between 1970 and 1975 (from NIS 6 in the WBGS to NIS 12 in the Gaza Strip and to NIS 14 in the West Bank). Moreover, the domestic demand for wage earners decreased in the WBGS as farmers intensified their use of family labour. As workers left agriculture to go to Israel, women, the elderly and children (the 'latent' labour supply sources; Chapter 2) increased their participation in agricultural farming (Awartani 1988). According to fieldwork-based studies, families adopted a strategy of income diversification whereby one family member would work in Israel, while other members increased their involvement in local production (Tamari 1989; Graham-Brown 1989).

Labour release was also influenced by the pattern of agricultural production. Apart from not allowing land reform, Israeli policy pushed Palestinian agriculture towards cash and seasonal crop products, particularly vegetables and drip-irrigated crops. This process was particularly dominant in the Gaza Strip. In the Gaza Strip, 58.6 per cent of the land was irrigated, compared with 5.1 per cent in 1991 in the West Bank (Table 5.3).<sup>20</sup> The area of irrigated land increased by 46 per cent in the Gaza Strip between 1966 and 1991, while in the West Bank it fluctuated (calculated from Table 5.3). Irrigated land provided over 60 per cent of total agriculture area and income in the Gaza Strip in 1984 (Awartani 1994:22). In the West Bank, it represented less than 8 per cent of agricultural area (Table 5.3) but 24 per cent of agricultural income (Awartani 1994:21–22). Irrigated products, which were in demand in Israel, had an enhancing effect on seasonal labour demand and migration, as well as in tying Palestinian production to Israeli markets.

At the same time, Israel discouraged Palestinian investment in permanent crops such as olives, grapes and citrus that required long-term investment, work and attachment to



the land. Citrus production represented 79 per cent of total output and 80 per cent of exports in 1979.<sup>21</sup> Yet credits were given to investment not in citrus fruits and field crops, but in dripirrigated vegetables (UNCTAD 1993b; World Bank 1993, vol. 4:16). Moreover, Israel was more lenient towards imports of Palestinian vegetables than towards other crops. As can be seen from Table 5.3, agricultural production, particularly in the Gaza Strip, shifted from rain-fed crops towards irrigated products between 1966 and 1984 and after 1991. The area of land allocated to fruit production in the Gaza Strip fell from 129,000 to 103,000 dunums between 1978 and 1992, while the size of vegetable-planted areas more than doubled, increasing from 29,800 to 61,500 dunums over the same period (Table A11). In terms of products, output per dunum for vegetable-planted areas was the highest among all agricultural products in both the Gaza Strip and the West Bank.<sup>22</sup> It is estimated

*Table 5.3 Size of cultivated land in the WBGs, 1973–1998 ('000 dunums)*

<i>Cultivated land size, of which</i>	<i>West Bank</i>				<i>Gaza Strip</i>			
	<i>1973</i>	<i>1984</i>	<i>1991</i>	<i>1998</i>	<i>1966</i>	<i>1984</i>	<i>1991</i>	<i>1998</i>
Irrigated areas	82.0	101.0	90.0	118.8	75.0	108.5	110.5	127.6
% of total area	4.1	6.1	5.1	7.0	45.0	62.0	58.6	62.5
Rain-fed land	1,941.0	1,538.0	1,704.0	1,557.6	91.0	66.5	77.5	76.6
% of total area	95.9	93.9	94.9	93.0	55.0	38.0	41.4	37.7
Total	2,023.0	1,703.0	1,794.0	1,675.4	166.0	175.0	188.0	204.2

Sources: World Bank (1993: annex 4, table XII); UNCTAD (1993b: table 3.2); ICBS (1989, 1994, SAI: table 13.4); PCBS (1999b: table 1).

that in 1990, over 85 per cent of the vegetable-cultivated area in the Gaza Strip used modern techniques of drip irrigation, compared with 65.9 per cent in the West Bank. Among tree orchards, only 48 per cent relied on modern techniques in the Gaza Strip and 17.6 per cent in the West Bank (UNCTAD 1993b: 107).

Rising productivity in agriculture and the shift towards irrigated production had a mixed effect on capital accumulation and labour release. On the one hand, it encouraged the intensification of family labour and caused the demand for wage earners to become tied to seasonal periods. It released labour and contributed to the fall in the number of farmers as a result of increased competition. The number of farmers in the West Bank fell from 34,000 to 25,800 between 1970 and 1985 (Table 5.2). On the other hand, Palestinian agricultural growth became more sensitive to water and labour costs, and to Israeli policies more generally.

### *Constraints on Palestinian agricultural growth, 1980–1992*

If labour release in the 1970s was due to an increase in productivity and the intensification of family labour, the falling share in WBGs agricultural employment after

1980 was a result of the constraints imposed by Israel on Palestinian agricultural growth. The political changes that took place with the arrival of Likud to power in Israel in 1977, and the economic recession that hit Israel by the late 1970s, were argued to have been the major reasons for the shift in Israeli policies away from helping WBGS agriculture (Kahan 1987:15). Yet the growing potential of the WBGS local production to compete with Israeli goods was also an underlying reason behind these constraints (World Bank 1993, vol. 4).

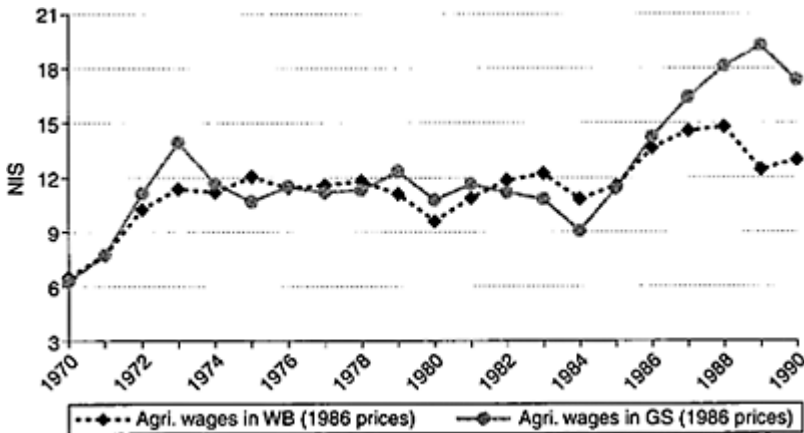
As is shown in Table 5.2, the release of labour from agriculture continued at a steady pace until 1987, while wages equalised on the two sides of the Green Line (Figures 5.3a, b, c). Yet in contrast to the pre-1979 period (when agricultural output grew by over 4 per cent per annum), agricultural output fell in the Gaza Strip in the period 1980–1987 (see Figures 5.4 and 5.5). In the West Bank, production fluctuated on a two-yearly basis, given its reliance on olive oil production, and grew at 3.2 per cent p.a. between 1980 and 1987 (compared with over 6 per cent in the pre-1979 period; Arnon *et al.* 1997:172). Meanwhile, labour productivity and real agricultural income fell, thereby reducing interest in agricultural investment and employment. The income of hired workers fell by over 39 per cent in the Gaza Strip and by 7.6 per cent in the West Bank between 1978–1980 and 1983–1985. Family income dropped by 9.2 per cent in the Gaza Strip and 31 per cent in the West Bank over the same period.<sup>23</sup>

The constraints on Palestinian capital accumulation were linked to Israel's water policy, which had a direct effect in increasing production costs. As explained above, Israel restricted the water supply to Palestinians while increasing it to settlers. In the Jordan Valley in particular, where most West Bank irrigated and fertile land is found, Palestinians were allocated 36 mcm of water per year compared with 25 mcm for Israeli agriculture settlers in 1990 (Lavy 1997:7). The amount of water applied per hectare by Israeli farmers in the Jordan Valley was higher than the average used in Israel.<sup>24</sup> Moreover, the average price of a cubic metre of water for Israeli settlers was estimated at US\$0.21, compared with US\$0.16 for Palestinian farmers in 1990. By contrast, the cost of supplying water to Israeli settlers was of the order of US\$0.42, compared with US\$0.16 for Palestinian farmers (Lavy 1997:20). Palestinian farmers faced water costs that were at least 30 per cent higher than those for Israeli farmers inside the Green Line, or Jordanian farmers (Awartani 1994:24). The rise in water costs had a direct role in causing a shift away from citrus production, which in 1966 represented nearly half of irrigated land and agricultural output in the Gaza Strip (Roy 1995:225–227). Awartani (1994:24) estimated that water costs per dunum of citrus amounted to 67 per cent of the total cost of purchased inputs, compared with 10 per cent per dunum of land cultivated with greenhouse vegetables. Citrus output, the main source of income in Gaza's agriculture, fell from its peak of 232,000 tons in 1976–1977 to 119,000 tons in 1988–1989.<sup>25</sup>

Israel also restricted access to credit and technological upgrading. In contrast to the pre-1973 period, when the Israeli Agricultural Department in the Occupied Territories gave credit to farmers, facilitated marketing and provided education for the modernising of production, all credits were stopped after 1977 (Benvenisti 1984; Kahan 1987; UNCTAD 1993b). Agriculture represented less than 0.8 per cent of total development budgets in the Gaza Strip between 1984 and 1997 (Roy 2001:196). Moreover, given the absence of banks in the territories, farmers had only informal access to credit, often via

large landowners, or through the Jordan-Palestinian Joint Committee (JPJC). Up until 1984, this committee channelled less than US\$31 million in support of Palestinian agricultural projects, which represented less than 8 per cent of its total budget. Other local credit institutions provided technical assistance, and up until 1990 it allocated around US\$3 million a year, which was not enough to make a substantial change in investment or output (UNCTAD 1993b:62). In Israel, credit to agriculture represented 177 per cent of total agricultural product in 1984 (Kislev *et al.* 1989).

The first Intifada, which erupted in December 1987, marked a turning point for Palestinian agriculture, as access to Israel became more difficult. Agriculture in Gaza absorbed 16,700 persons in 1993, double the number in 1987, and equivalent to the total number of jobs lost in Israel over this period (see Tables 5.2 and A6). West Bank domestic agriculture created 7,600 new jobs over the same period, but workers continued to have access to the Israeli labour market, albeit at reduced levels (Tables 5.2 and A4). Domestic wages meanwhile dropped (Figure 5.6). This trend continued into the 1990s, indicating that agriculture had become a reservoir of low-productivity labour.



*Figure 5.6* Real daily agricultural wages in the West Bank and Gaza Strip, 1970–1990 (sources: calculated from ICBS (1975, 1980, 1985, 1994, SAI: tables 27.22/23/24) and Bank of Israel (2000: table A.23)).

### The peace process, agriculture and labour reserves, 1993–2000

The Oslo peace process promised to improve the conditions in the Palestinian rural sector, but failed to alter the pattern of structural change that had occurred over the previous 25 years, namely the dependency on Israel. As is explained in Chapter 7, the Economic Protocol to the Oslo peace agreement signed in 1994 created a customs union

agreement between Israel and the WBGs, promising the freedom of movement of goods and capital. With regard to agriculture, article VIII of the Economic Protocol (EP) allowed Palestinian agricultural trade with other countries, lifted the ban on investment and allowed the Palestinians to run their agricultural plans. It promised that 'there will be free movement of agricultural produce, free of customs and imports taxes, between the two sides, subject to the following exceptions and arrangements'.

The EP stipulated six agricultural items that were not to be given unrestricted access to Israel until 1998 (VIII.10). These included poultry, eggs, cucumbers and tomatoes, the last of which represented 26 per cent of Palestinian exports to Israel in 1986–1987.<sup>26</sup> Israel also kept various non-tariff barriers imposed on the entry of all Palestinian goods, such as imposing veterinary and sanitary conditions, and requiring all Palestinian exporters to obtain Israeli certificates proving the safety of their products (VIII.3–9). Furthermore, Israel kept the right to inspect all goods or personnel in its area (VIII.9). Trucks seeking to enter Israel or to move between the West Bank and the Gaza Strip also needed to obtain security clearance for their owners and their drivers. These regulations compromised *de facto* the freedom of Palestinian agricultural produce to the Israeli market.<sup>27</sup> They contributed to locking Palestinian agriculture into being a reservoir of labour.

The outlet provided by Oslo had mixed effects on Palestinian agriculture. The EP, being a result of the Oslo agreement, did not give the Palestinians full control over the land, thereby limiting from the outset their ability to conduct land reform or major agricultural investment. By 2000, the elected Palestinian authority had functional jurisdiction over 93 per cent of the population but not over the land or water resources. It had direct control over less than 18 per cent of the land in the West Bank and 70 per cent of that in the Gaza Strip (Area A—Table 3.3). The Palestinian authority succeeded in enabling many Palestinian families in Area A to register their land and to divide it according to inheritance laws, thereby affirming private property. The effects on agricultural redistribution and production, however, remain limited, given the small size of Area A and the lack of Palestinian territorial contiguity in the WBGs.

In terms of agricultural production, Palestinian farmers tried to take advantage of the limited opportunity available by increasing investment and productivity. Agricultural co-operatives, of which there were 113, played an important role in improving credit access to small farmers, providing subsidised inputs as well as improving agricultural infrastructure (see PARC 2002). Investment in agriculture also increased, as a result of aid from the European Union. The European Union channelled a total of €341 million to the WBGs between 1995 and 1999.<sup>28</sup> Yet production continued to shift towards export-oriented items and goods with easy access to Israel. These included in particular seasonal vegetables and cut flowers, both heavily irrigated goods. The area given over to cut flowers more than tripled between 1994 and 1997 (from 202 dunums to 952 dunums), as did the income they provided. The value of vegetable products nearly doubled over the same period (from US\$134,000 to US\$216,000; PCBS 2003). Meanwhile, the production of field crops levelled off and the WBGs continued to be an importer of grains. The value added provided by the agricultural sector as a whole increased, albeit at fluctuating rates (see Figure 5.7).

However, the scope for agricultural growth and sustainability was seriously constrained by Israel's control of water resources and market access, as well as by its

closure policy. Imposed since 1993, this policy prevented Palestinian goods and people from moving into or out of Area A of the West Bank and Gaza Strip, thereby depriving agriculture of international markets as well as of local markets. Between 1994 and 1999, over 443 days of closure were imposed on the WBGs (before the 2000 Intifada), thereby causing a fall in output. Output grew biannually, increasing in years with few days of closures (Figure 5.8). Moreover, security restrictions at check-

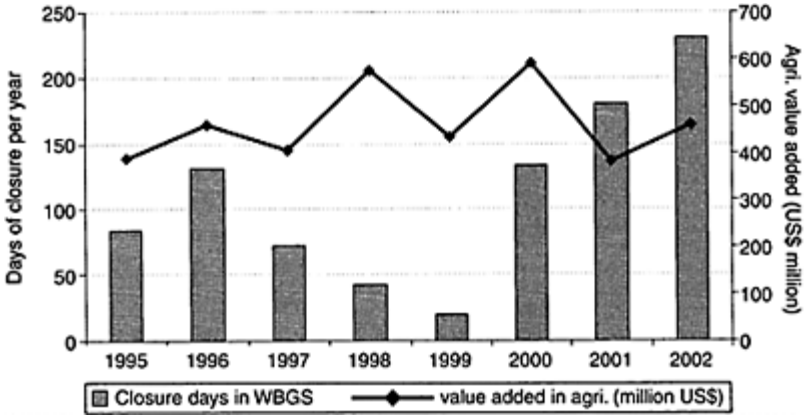


Figure 5.7 Agricultural output in WBGs and Israeli closures, 1995–2002 (source: PCBS (2003)).

Note

Closures in 2000 refers to the period October to December.

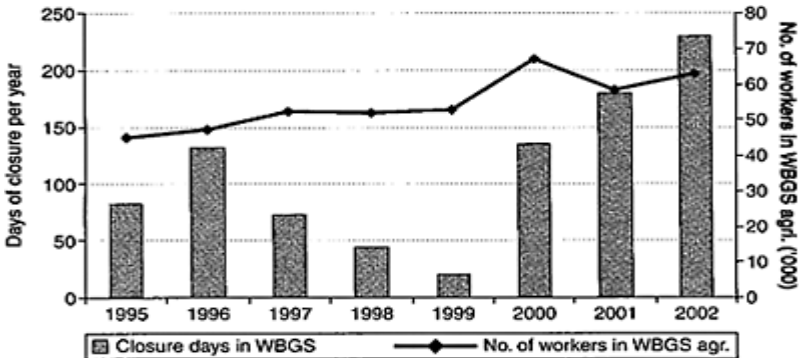


Figure 5.8 Palestinian employment in WBGs agriculture and Israeli closures, 1995–2002 (sources: as Figure 5.7).

## Note

Closures in 2000 refers to the period October to December.

points increased transaction and waiting costs, and often led to the degradation of products before they reached their destination. In absolute terms, agricultural output fell by 8 per cent in 1997–1998 compared to its level in 1992.<sup>29</sup> Exports fell by 40 per cent between 1994 and 1998, with agricultural goods representing less than 15 per cent of total exports in 1998 (UNSCO 2000a). The share of agricultural products in total exports fell from 27 per cent to 22 per cent between 1995 and 2000 (MAS 2001:94). Citrus production in 1997 was only 73 per cent of its level in 1993, while Israel's citrus exports to Gaza increased by 32 per cent over the same period (Roy 1999a:75).

These developments had a direct effect on agricultural employment (Figure 5.8). As is shown in Table 5.2, agricultural employment continued to increase, particularly in the Gaza Strip. The sector remained important to women, as nearly a third of all active women continued to be employed in it, compared with 9–12 per cent of all men (PCBS 2003). Meanwhile, the number of agricultural engineers continued to grow, as a total of 1,241 agricultural engineers were counted in the 2000 Census, two-thirds of whom were in the Gaza Strip (PCBS 2003). However, the capacity of agriculture to grow and absorb the Palestinian labour force remained tied to access to outside markets, including Israel. In the Gaza Strip, the share of agriculture in total domestic employment increased from 5.7 per cent in 1997 to 20.3 per cent in August 2000. In the West Bank, it fell from 16 per cent to 13 per cent over the same period, as workers continued to have access to the Israeli labour market.<sup>30</sup> Wages in agriculture remained the lowest wages in the economy, being less than 70 per cent of the average wage in the WBGS and half of the wages paid in Israel.<sup>31</sup> WBGS agriculture was locked into being a labour reservoir, unable to be an engine of growth for the Palestinian economy as a whole.

### **What is behind the restrictions on Palestinian agriculture?**

The result of Israel's agricultural policy was to make Palestinian agriculture dependent on Israel and to limit Palestinian capital accumulation. The question that remains to be addressed is why Palestinian agricultural growth was stalled, particularly after 1980. The experience of settler states in other countries, such as South Africa or Zimbabwe, reveals that colonial states have often restricted the expansion of indigenous agriculture in order to protect their own settler agriculture or to facilitate the supply of cheap indigenous labour to white employers (Chapter 2).

In the Palestinian context, the restrictions put on Palestinian agricultural growth and exports suggest that Israel was concerned with protecting its sector from any type of competition. The nature of Israeli protection of its agriculture, be it in terms of subsidisation of water and other costs or in terms of access to markets, weakened the ability of Palestinian agriculture to compete with Israeli products. Yet Israel's protective agricultural policy preceded the occupation of the West Bank and Gaza Strip and was unrelated to Palestinian agriculture as such. It touches all agricultural imports, including

those from Europe or the United States, with which Israel has signed separate free trade agreements. Rather, Israel's protection of its agricultural sector is linked to its ideological aim of achieving self-sufficiency and maintaining control over the land (Aharoni 1991; GATT 1997).

So far as the supply of cheap labour is concerned, it is difficult to establish how far Israeli agricultural policy was interested in releasing Palestinian labour *per se*, as settler farmers in other places were. Palestinian workers represented no more than 17 per cent of total employment in Israeli agriculture between 1969 and 1993 (see Table 5.4). They were concentrated mainly in seasonal employment, where they represented 33–40.7 per cent of all agricultural wage earners between 1979 and 1991, but by 1993 this share had dropped to less than 22 per cent (Table 5.4). While Israeli farmers undoubtedly benefited from seasonal wage-workers, this was not the prime or initial objective of Israeli policy towards Palestinian agriculture.

On the other hand, restrictions on Palestinian agricultural growth in the WBGS limited capital accumulation in the Palestinian sector. They also enabled the Israeli agricultural sector to have access to a market of over 2 million Palestinians in the 1980s. The Occupied Territories absorbed 20 per cent of total Israeli exports in 1982. In cereals, dairy products and meat, Israel accounted for 50–80 per cent of the Palestinian agricultural market (Awartani 1988:146). Various Palestinian firms suffered from Israeli protectionist policies and could not expand into agro-business, particularly in the dairy sector (UNCTAD 1993b).

While the Israeli economy benefited from the release of Palestinian labour from agriculture and other sectors, and from the market for agricultural goods in the Occupied Territories, the restrictions on Palestinian agriculture came mainly from Israel's interest in the land and water

*Table 5.4 Agricultural employment in Israel (in thousands), 1969/70–1993*

	1969–70	1979/80	1985/86	1991	1993
Grand total	89.8	87.7	87.0	64.3	68.8
Employers and self-employed*					
Jews	46.5	46.0	44.9	33.8	33.4
Non-Jews	12.0	12.2	6.2	4.2	4.3
Employees	31.3	29.5	35.9	26.3	31.1
Jews	18.0	13.8	14.2	12.4	17.4
Non-Jewish Israelis	8.3	5.1	7.1	5.1	6.9
WBGS workers	5.0	10.6	14.6	8.8	6.8
% of WBGS in total employees	16.0	35.9	40.7	33.5	21.9
% of WBGS in total employment	5.5	12.0	16.8	13.7	9.9

Source: ICBS (1994, 1989, *SAI*: table 13.9).

Notes

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\*‘Employers and self-employed’ refer to co-operative and kibbutz members. ‘Non-Jewish Israelis’ refers to Israeli-Palestinians.

resources in the WBGS. The control of water resources helped agricultural development in the settlements and increased the water supply to Israelis, to the detriment of Palestinians. Israeli occupation curtailed the scope for WBGS agricultural expansion and diverted Palestinians away from their land by confiscating it and restricting the cultivation of permanent crops (such as olives or citrus) that would strengthen the inhabitants’ ties to their land. At the same time, Israel’s military control of the WBGS’s land allowed it to consolidate its territorial claims.

### **Conclusion**

The mobilisation of Palestinian labour to Israel has been the result of structural factors that have determined the nature of economic incentives making people cross the Green Line. The initial integration of the Palestinian economy into a more capital-intensive Israeli economy provided an initial incentive for people to work in Israel, as wages were double those available in the domestic economy. However, by 1975 wages on the two sides of the Green Line had equalised and wages were not a motivating factor.

Labour release from Palestinian agriculture was tied to Israel’s territorial priorities and agricultural policy in the WBGS. It was the outcome of two main mechanisms. During the 1970s, the release of labour was the result of improvement in agricultural productivity levels, while after the 1980s it was the outcome of the constraints put on agricultural growth. The release of labour was particularly large in the Gaza Strip up until 1987. It might have been larger in the West Bank had the agricultural structure been more drastically altered through land reform and free access to outside markets. Yet restrictions on capital accumulation and competition from Israeli settlers and Israeli protected goods led to fluctuations in agricultural growth and continued the process of labour outflows, albeit at lower levels than in the pre-1987 period. By 1992, the share of Palestinian employment in agriculture had fallen by half compared with 1967, but agriculture continued to hold labour reserves, particularly in the Gaza Strip. The WBGS rural sector failed to become a sustainable engine of growth or to reduce its dependence on Israel. Access to the Israeli labour market meanwhile became more curtailed for those living in the Gaza Strip than for those in the West Bank. The extent of labour release remained tied to the level of Israeli demand and to restrictions put on the access of Palestinian goods and labour to the Israeli economy. The next chapter explores the nature and limitations of this demand.



## 6

# **The absorption of Palestinian labour into the Israeli economy**

This chapter analyses the mechanisms of Palestinian labour absorption in the Israeli economy. It explores the structural factors underlying Israeli demand for WBGS workers. The limited available literature on the subject has argued that this demand is segmented and relatively inelastic (Farjoun 1980; Semyonov and Lewin-Epstein 1987; UNCTAD 1995; Angrist 1995, 1996). If we look at the macro level, Palestinian workers did not constitute more than 7 per cent of the workforce employed in Israel. However, on a sectoral level, particularly in construction, they represented over a third of the workforce employed in construction in the 1980s, as discussed in Chapter 4.

This chapter sheds new light on the importance of Palestinian labour in the Israeli economy and the determinants of its absorption. It shows that Israeli demand for Palestinian workers is a function of political, territorial considerations as well as of the economic benefits WBGS workers brought to the Israeli economy at large, and to the construction sector in particular. The reason for concentrating on this sector stems from its importance for Palestinian labour as well as for Israel's economy and the ideology of settlements. As mentioned in Chapter 4, Israeli construction absorbed over 50 per cent of all Palestinian workers employed outside the WBGS economy. The intake of Palestinian workers contributed to the containment of Israeli construction costs while allowing Israel to realise its mission of integrating Jewish immigrants by building houses and settlements. Although Palestinian labour intake fluctuated after 1993, Israeli labour regulation and geographic distribution of construction works helped perpetuate the demand for Palestinian workers despite the entry of overseas workers into the Israeli labour market in the 1990s. As is demonstrated in this chapter, the absorption of Palestinian workers remained a function of economic factors, including labour costs, the inflow of immigrants and construction growth, as well as of the Israeli territorial priorities of redefining the 1967 borders by incorporating Palestinian land into Israel's domain.

The first part of this chapter analyses the nature of Israeli regulation of Palestinian labour entry into Israel. The second examines the segmentation of Israeli demand for WBGS workers, while the third part explores the structure of labour absorption in the Israeli construction sector.

### **The regulation of labour flows from the West Bank and Gaza Strip**

The Israeli state and the Zionist movement have traditionally been wary of Jewish reliance on Palestinian workers (Kimmerling 1983b; Shafir 1989, 1999; Shalev 1992;

Ram 1999). Before the creation of the State of Israel in 1948, the Zionist labour movement had propagated the idea of protecting 'Hebrew labour' and of excluding cheap Palestinian labour from the Israeli economy in order to provide employment to Jewish immigrants. Despite its predominance, the Zionist labour movement only succeeded in excluding Palestinian labour from a few Jewish urban labour markets (Shalev 1992). It failed to eliminate the reliance of the Jewish construction and agricultural sectors on Arab labour. In 1936, Palestinian Arabs represented 35 per cent of all workers in the Jewish agriculture sector, 25 per cent in the Jewish transportation and ports sector, and 12 per cent of those employed in Jewish construction (Kimmerling 1983b:50). With the creation of Israel in 1948, the government imposed various institutional constraints to protect Jewish workers from competition from non-Jews, namely from Israeli-Palestinians.<sup>1</sup> Israeli-Palestinians, however, represented 17–20 per cent of all workers in Israeli construction and 23 per cent of those in agriculture in the 1960s.<sup>2</sup>

The occupation of the WBGS in 1967 again raised the question of how to deal with the availability of more Palestinian workers. The Israeli labour market was already segmented into three main ethnic groups, namely the European Jews and their descendants who tended to occupy the higher occupational skills in the economy; Oriental Jews, who are generally less skilled and educated than European Jews; and Israeli-Palestinians (Semyonov and Lewin-Epstein 1987; Klinov 1989, 1999). The last two tended to dominate in the lower-skilled occupations. WBGS workers were considered a potential threat to Israeli workers, given their lower levels of education and skills (Chapter 4). However, the labour market regulatory framework imposed by the Israeli government on the employment of WBGS workers was instrumental in enabling Israeli employers to take advantage of the Palestinian labour supply, and at the same time prevented it from displacing Israelis.

### *Formal channels of entry*

In 1968, Israel made it obligatory for WBGS workers seeking employment beyond the Green Line to register with the Employment Service of the Israeli Ministry of Labour. These offices, which were managed by the Israeli civil administration in consultation with the Israeli Ministry of Labour, allocated WBGS workers to jobs for which no Israeli alternative was available. Moreover, the basic conditions for hiring a WBGS worker were made the same as those for hiring an Israeli. In principle, officially recruited Palestinian workers were to be paid wages equal to those given to Israelis of similar skills and occupation. Israeli employers also had to pay the same social security contributions as those they were obliged to make for legal Israeli workers. Up until 1991 workers paid up to 11.6 per cent of their gross wages to the Israeli social security system, while employers paid 20–27 per cent of gross wages, depending on the sector (Farsakh 1999). In practice, however, WBGS workers were defined as day labourers rather than monthly wage earners, which meant that they were not entitled to the same amount of collective benefits as those given to Israelis (such as a month's holiday, recreation and educational activities in the service sector, etc.) and could be fired easily. Palestinian workers were also not allowed to join the Histadrut (the Israeli Federation of Labour, i.e. the main trade union) or to be defended by it, despite the fact that 0.8 per cent of gross wages of legal WBSG workers in Israel were deducted in its name.

Israeli institutional regulations thus discriminated against WBGS workers. Moreover, they influenced the supply of workers to certain areas, since they made the cost to the Israeli employer of hiring a legal Palestinian worker in an Israeli settlement in the West Bank or Gaza Strip lower than the cost of hiring him or her for jobs beyond the Green Line. Workers employed in the settlements on the West Bank and Gaza Strip were not regulated by the Employment Service. Employers hiring workers in settlements were not obliged to provide them the same social contributions as those given to workers in Israel. Only in 1993 did Israeli legislation rule that construction sites on Israeli settlements in the WBGS were obliged to pay workers the minimum wage. It did not rule that they were to have the same social rights, such as pension schemes or end-of-service benefits, as those employed beyond the Green Line (Kav Laoved 1997; Farsakh 1999).

On the other hand, Israeli regulations have also enabled the government to reap direct financial benefits from WBGS workers employed legally in Israel. This is because the contributions paid by WBGS workers (and by their employers) were not automatically transmitted to the Palestinian contributors.<sup>3</sup> It is estimated that the Israeli treasury collected a total sum of at least US\$1.2 billion out of WBGS wage contributions between 1970 and 1993 (Farsakh 1999).<sup>4</sup>

### *'Informal' channels of entry*

Despite the importance of Israeli regulations, the majority of WBGS workers continued to be recruited informally, or illegally, in Israel, particularly as long as borders were kept open across the Green Line. It has been estimated that as many as 40–60 per cent of all WBGS workers employed in the Israeli economy between 1970 and 1987 were not registered at the Employment Service (Abu-Shokor 1987; DATA 1995). The recruitment of WBGS workers passed via three informal channels, all of which helped to contain Palestinian labour costs.

Employers hired workers directly through street labour markets (where pools of workers wait for day jobs), through subcontracting arrangements and through labour contractors. Recruitment through a subcontractor meant that workers were hired by a firm undertaking subcontracting work for a larger company. Labour contractors, by contrast, were individuals or agencies whose aim was to put employers and workers in contact with each other. Typically, labour contractors were themselves workers who came with a team of workers whom they recruited from their village or neighbouring areas (Tamari 1981; Portugali 1993). On the other hand, Palestinian subcontractors, particularly dominant in the construction sector, were often labour contractors who had managed to create their own construction contracting firm. They provided the Israeli contractor with the workers, but were paid by amount of finished product they completed (such as a number of finished flats, number of metres of walls built, etc.), not by the number of workers they provided. They did not simply live off commissions, as labour contractors normally do. According to Portugali (1993:78), 65 per cent of all Palestinian workers in the mid-1980s were recruited informally, mainly through some subcontracting arrangement.<sup>5</sup>

From the employers' perspective, informally recruited workers are more flexible and less expensive than formally recruited workers, since the employer does not pay them any of the social benefits to which workers hired via the Israeli Employment Service are

entitled. From the workers' point of view, the situation is less clear. Field studies reveal that workers recruited informally get higher daily *take-home* wages than legal workers (Abu-Shokor 1987; Khaleefeh 1996). However, they do not enjoy any social rights and they may be obliged to pay high fees to labour contractors (Abu-Shokor 1987; Sbeih 1994). On the other hand, Palestinian entry into the Israeli labour market became tied to labour contractors and subcontractors. These were effectively the job gatekeepers by virtue of their direct contact with both employers and workers. The informal channels of WBSG labour absorption could have posed a potential problem to the employment of Israeli workers, since it made Palestinian workers cheaper than Israelis. However, there is no evidence to substantiate such a possibility, as is explained later in the chapter.

### *Security and territorial considerations*

Palestinian labour absorption in the Israeli economy was also tied to the nature of Israel's territorial and security considerations. As shown in Chapter 4, WBSG labour flows continued to increase throughout the 1980s, facilitated by the freedom of movement maintained between Israeli and Palestinian areas until 1988. However, with the eruption of the first Intifada in December 1987, Israel took measures that physically restricted Palestinian labour mobility. It established checkpoints at exit crossings from the WBSG and imposed curfews for long periods. It also introduced the system of magnetic identity cards in 1988, which became a screening device for excluding 'political suspects' and 'ex-prisoners' from entry into Israel, particularly those from the Gaza Strip. Furthermore, after 1991 Israel applied a policy of closure towards the WBSG, ending *de facto* the open-door policy. This policy consists of barring the entry (or exit) of any WBSG person, worker or products into Israel for as long as the Israeli government deems necessary.

Israel's security measures, which sought to protect Israeli civilians from Palestinian suicide bombers, however, had serious territorial and economic implications. On the one hand, the policy of closure, checkpoints and curfews made labour mobility more clearly conditional on the Israeli state's attitude towards further integration between Israeli and Palestinian areas. On the other hand, Israeli territorial and security concerns did not eliminate the economic demand for, and supply of, Palestinian workers.

The Israeli work permit system was a key instrument used to reconcile economic demand for labour with security considerations. Imposed in 1991, this policy made access to Israel conditional not only on the acquisition of an employer request, but also on a security clearance from the Israeli military establishment. This security clearance was made a function of workers' age and marital status, and of Israeli-determined security criteria, which were not disclosed. In order to obtain a permit, a Palestinian worker needed to get security and tax clearance from eight different Israeli offices, a written request for his or her services on the part of the Israeli employer, and proof of the worker's registration at the employment office in Israel (PHRIC 1992:13). Moreover, permits were issued for short duration and were not automatically renewed. They were principally given to married men over the age of 28. Meanwhile, Israel imposed harsh penalties on employers hiring illegal workers. In March 1991, the Knesset approved legislation to fine employers US\$7,000 per illegal worker employed (PHRIC 1992:14). Illegal Palestinian workers found in places of work in Israel were fined US\$150-\$200, nearly half of their monthly salary. The legislation also offered to reduce the size of

social taxes paid by the employer and to subsidise one-third of the salary he would pay to a Jewish immigrant replacing a Palestinian worker (PHRIC 1992:13).

However, Israeli permit policy was more restrictive towards workers seeking to be employed in Israel itself than towards those seeking employment in the *settlements*. In contrast to those seeking employment in Israel, workers going to the settlements did not need to be married, could be 18 years old rather than 28 or older, and were not restricted in their working hours. Moreover, workers going to settlements avoided checkpoints and thereby long hours of waiting before getting to their place of work.

Security-determined arrangements had an effect in changing the *composition* of labour flows, but not in stopping them, as shown in Chapter 4. While the closure policy had a direct role in fluctuating flows and in reducing the transfer of Gaza Strip workers, permits were not always effective in reducing the demand for West Bank workers. Moreover, the fact that the permit policy has been more lenient towards workers seeking employment in the Israeli settlements than beyond the Green Line has meant that institutional arrangements facilitated the absorption of WBGs workers in certain geographical areas rather than others.

### **Israeli demand for workers from the West Bank and Gaza Strip**

Few studies have attempted to analyse the role of political and economic factors in determining Israeli demand for Palestinian labour. The first approach, led by the World Bank (1993) and Angrist (1996), considers Israeli demand for Palestinian workers a function of Palestinian wages. Angrist (1996) attempts to determine short-term Israeli demand for WBGs workers by analysing the labour and product market integration between Israel and the WBGs and by exploring Palestinian wage trends in the period 1980–1991. He finds that the wage premium for work in Israel has been volatile, especially after 1987, and that it is positively correlated with Palestinians' absence from their work in Israel. He argues that the premium for work in Israel is a function of labour supply. It increased after 1987 because of the fall in the labour supply that resulted from the restrictions imposed after the first Intifada. Angrist's analysis also suggests that Israeli demand for Palestinian labour is limited.

Angrist tries to determine Israeli demand elasticity in the light of supply shocks that are fundamentally politically determined. The supply shock he looks at is the reduction of days of work as a result of the Israeli curfews and closures that were imposed after 1987. He controls for this supply shock, which, he argues, did not lead to a shift in the Israeli demand curve for WBGs labour. Angrist argues that changes in wage differentials are a result of a movement *along* an Israeli demand curve for migrant workers, rather than a consequence of a shift in Israeli demand for this labour (1996:440–442). He also found that Israeli demand elasticity for WBGs workers ranged between  $-1.1$  and  $-2.2$ , suggesting, in the author's view, that it is not very elastic (1996:446).<sup>6</sup> However, he did not explain why this demand is limited, or why Palestinian workers concentrated in specific sectors, irrespective of the nature of demand elasticity.

The second approach to the analysis of Palestinian absorption in Israel concentrates on the economic position that WBGs workers took in the Israeli labour market. According to Semyonov and Lewin-Epstein (1987), the entry of WBGs workers did not lead to the

displacement of Jewish workers, but rather allowed them to move up the occupational ladder.<sup>7</sup> WBGS workers were in demand because they consolidated their position in low-skilled jobs and remained cheaper than Israeli workers. WBGS workers occupied this position as a result of two major factors. First, they accepted jobs that a diminishing number of Israelis were willing to take. Second, their income in comparison to that of Jews and to Israelis continued to fall rather than to equalise. As Table 6.1 shows, WBGS workers earned on average 70–90 per cent of what an Israeli in the same occupation would earn in 1981. By 1997, the average wage gap had widened and was of the order of 66 per cent (Table 6.1).<sup>8</sup> The wages of Palestinians remained close to the Israeli minimum wage (World Bank 1993, vol. 2:26).

There have been, however, only a few attempts to explain the segmentation of Palestinian workers in Israel and why they earn less than Israeli workers. Fischelson (1992) and Fischelson *et al.* (1993) have argued that WBSG workers earn less than Israeli workers because of differences in human capital attainment. WBGS workers are argued to be, on average, younger, less skilled and less qualified, even in comparison to Israeli-Arabs (Table A10). However, Kleiman (1992) found that human capital variables do not fully explain the segmentation of Palestinian labour.<sup>9</sup> In a study comparing the average wage of Palestinian workers recruited through official channels with that of Israeli workers, Kleiman (1992) found a 50 per cent gap. After accounting for the difference in occupational and demographic background, he still found a 20 per cent wage differential, which suggests that Palestinians are discriminated against by virtue of their ethnicity. Kleiman's analysis, however, is only broadly indicative of the magnitude of wage discrimination, since his data are based on average data and only concern workers recruited through the Israeli Employment Service.<sup>10</sup>

The segregation of WBGS workers by virtue of their ethnicity has been

*Table 6.1* Daily net income of WBGS workers as a percentage of daily gross income of Israelis and Jewish workers across occupational categories, 1975–1997

<i>Occupational category</i>	<i>1975: income of WBGS as</i>		<i>1981: income of WBGS as</i>		<i>1997: income of WBGS as</i>	
	<i>% of Israelis</i>	<i>% of Jews</i>	<i>% of Israelis</i>	<i>% of Jews</i>	<i>% of Israelis</i>	<i>% of Jews</i>
Skilled and semi-skilled	88.5	87.9	82.9	81.4	–	–
Unskilled	93.1	91.0	90.2	87.2	66.3	66.5
Agricultural	86.2	84.4	68.6	68.1	–	–

Sources: Semyonov and Lewin-Epstein (1987: table 5.1); ICBS (1998a: table 9); PCBS (1998b: table 41).

linked to the nature of the segmentation of the Israeli labour market. Echoing the arguments of the segmented labour market theory (Bonacich 1979; Dickens and Lang

1988; Fine 1998), a number of studies have argued that the Israeli labour market, like that in most industrial countries, is split into two sectors: primary and secondary (Lewin-Epstein and Semyonov 1993; Shalev 1992; UNCTAD 1995). The primary sector, which tends to be dominated by large and capital-intensive firms, is characterised by a strong trade union presence, security of employment and legal protection of workers' social rights. The secondary sector, by contrast, is a flexible sector dominated by small firms that do not protect workers' rights. WBGS workers came to dominate this precarious secondary sector because of their ethnicity as well as their unique legal and political status, which put them at a disadvantage compared to Israeli workers (Farjoun 1980; Semyonov and Lewin-Epstein 1987:97).

On the other hand, another line of argument, led by Portugali (1993:73), suggests that the segmentation, or the split, of the labour market is not the result of ethnicity as such, but rather the result of capitalist growth and its inherent contradictions with nationalist aspirations. Portugali (1991, 1993) argues that Palestinians became important because they formed the core of the industrial reserve army in Israel's capitalist development. Following a Marxian line of argument, he maintains that the essence of capitalist growth is the availability of floating and flexible labour that can move between sectors and places, as capital demands. In his view, though, Israel, by virtue of being a nationalist welfare state, has a tendency to protect its indigenous labour and thus tends to fix labour rather than to keep it mobile. Israeli nationalism has always attempted to attract Jews to come to the land and to secure their permanent installation in the country by offering them secure and stable jobs. In Portugali's view, this tendency to fix labour increases labour costs and jeopardises capitalist growth (1993:60–87). Only the integration of the flexible and cheap WBGS labour force into the Israeli economy enables Israeli capitalism to continue to grow. While Portugali's analysis risks falling into a functionalist line of argument, it is insightful in the attention it accords to the relation between Israel's economic interests and its national interests.

The analysis of Palestinian absorption into the Israeli construction sector provides a different insight into the arguments made so far, which have been based on a macro and general understanding of Israeli demand for Palestinian workers. It sheds new light on the interrelation between Israel's absorption of Palestinian labour and its territorial and demographic priorities. It shows that Palestinian workers played an important role in containing construction cost. At the same time, they allow Israel, through the use of cheap labour, to consolidate its claim over land, particularly around Jerusalem and along the Green Line, and thereby to redefine the 1967 borders.

### **The determinants of WBGS labour absorption in Israeli construction**

As discussed in Chapter 4 and shown in Table 6.2, WBGS workers represented 29–45 per cent of all employees hired in the Israeli construction sector between 1975 and 1992. Their numbers and proportion continued to grow following 1970, and exceeded the number of Israeli-Jewish workers from 1985 to 1992 (Table 6.2 and Figure 6.1). Disaggregate data on construction workers indicate that Israeli-Jews have tended to be predominantly skilled workers and professionals, while WBGS workers are semi-skilled and unskilled workers. The share of Jews among the non-professional and academic

categories was of the order of 24 per cent in 1997.<sup>11</sup> In terms of jobs, WBGS workers tend to predominate in what are defined as wet jobs, mainly skeleton structures, stone and bricklaying (Amir 2000; Bank of Israel 2000). WBGS and Israeli-Palestinian workers could have potentially competed for the same jobs, but the presence of WBGS workers did not seem to eliminate the number of Israeli-Palestinians. They represented 19.7–25.9 per cent of workers in Israeli construction between 1975 and 1993, while WBGS workers formed 28.6–45.7 per cent of the construction workforce over the same period (Table 6.2).

*Table 6.2* Distribution of workers by ethnic group in the Israeli construction sector, 1970–2002

<i>Year</i>	<i>Total ('000)</i>	<i>Israeli-Jews (%)</i>	<i>Israeli-Palestinians (%)</i>	<i>WBGS (%)</i>	<i>Foreign workers (%)</i>
1970	92.1	71.6	16.3	12.1	n.a.
1975	126.1	51.7	19.7	28.6	n.a.
1980	114.7	47.9	21.1	30.9	n.a.
1985	114.6	37.1	25.9	37.0	n.a.
1987	117.4	35.4	22.2	42.3	n.a.
1990	140.0	30.6	23.6	45.7	n.a.
1992	193.5	35.3	20.3	44.2	n.a.
1993	192.3	38.3	22.8	31.6	7.3
1995	222.3	38.1	25.3	15.0	21.6
1996	253.7	32.9	26.5	13.2	27.4
1997	259.5	31.2	25.3	16.9	26.6
1998	264.6	29.7	19.7	25.2	25.3
1999	234.0	28.2	18.0	28.9	24.9
2000	235.9	49.5*		24.8	25.7
2001	220.3	53.1*		13.2	33.7
2002	203.8	55.1*		9.7	35.2

Sources: ICBS, *SAI*, various issues: tables 16.15, 16.10; Bank of Israel (2003): table I.31; 2000: table 2.A.38; 1999: table 2B); PCBS, *LFS*, various issues, calculated from tables 20, 21.

Notes

\* Figures for Israeli workers for 2000–2002 also include Israeli-Palestinians.

The dominance of WBGS workers in construction is significant in view of the sector's importance to the Israeli economy and ideology of settlement. One of the Israeli state's objectives, as mentioned in its Declaration of Independence in 1948, has been the ingathering of the Jewish Diaspora (Kellerman 1993; Golan 1998). The Israeli construction sector has been key to the integration of the Jewish Diaspora immigrants as



well as to the growth of the Israeli economy. Construction output, defined as all residential and non-residential output built by Israeli contractors,<sup>12</sup> grew by 13.3 per cent per annum between 1949 and 1959 (Table 6.3), contributing to a real GDP growth rate of over 8.8 per cent per annum over the same period (Plessner 1994:11). Between 1989 and 1999, construction output grew by 10.9 per cent while GDP grew by 4.8 per cent (Table 6.3; Bank of Israel 2000:3). Since the 1970s, construction has represented more than 9–12 per cent of the country’s net domestic product. It also made up one-third of investment in fixed capital formation in the 1950s, 1970s and again in the 1990s (Plessner 1994:14; Bank of Israel 1999:63). Its growth had strong multiplier effects on the rest of the economy, particularly in the cement and defence industries (Rivlin 1992; Plessner 1994; Nitzan and Bichler 2002). The absorption of WBGS workers in Israeli construction since 1967 has been a function of the growth of the construction output, which itself has been dependent on state policies and levels of Jewish immigration.

### Construction output, Jewish immigration and Palestinian workers

The absorption of WBGS workers into the Israeli construction sector evolved over four main phases. During the first period, 1970–1973, the

*Table 6.3 Jewish immigration, construction output and workers employed in the Israeli construction sector, 1949–2002*

<i>Year</i>	<i>Total number of immigrants</i>	<i>Annual intake of immigrants</i>	<i>Average annual growth rates (%)</i>		
			<i>Construction output</i>	<i>Israeli workers</i>	<i>WBGS workers</i>
1949–1959	853,522	85,352	13.3	–	–
1960–1970	385,898	38,590	3.3	–	–
1970–1973	189,454	47,364	15.8	6.2	41.5
1974–1988	286,587	20,471	–3.9	–1.5	3.9
1989–1999	980,361	98,036	10.9	5.1	5.9
2000–2002	137,339	45,780	–4.07	0.54	–30.2

Sources: Calculated from ICBS (2000, 2003, SAI: tables 4.2, 16.1; 1998b: table 4); Bank of Israel (2000: table 2.A.37; 2003: table I.31).

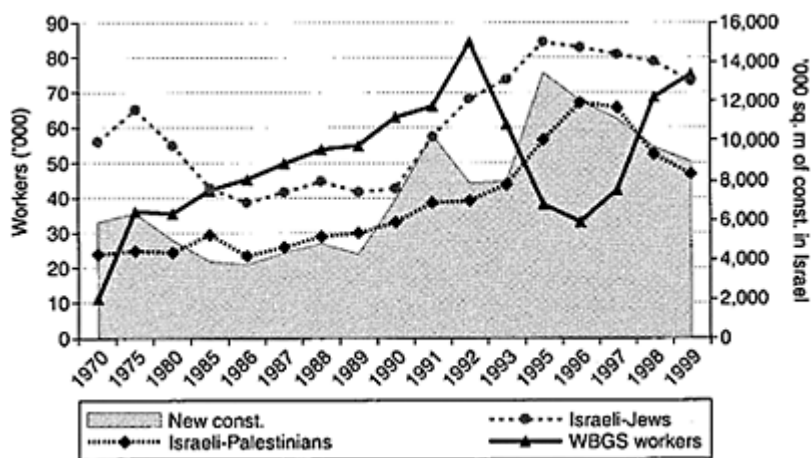
Note

Construction annual output growth refers to the annual increase in total buildings (both residential and non-residential, in square metres) whose construction has been completed.

number of WBGS workers grew by over 41 per cent per annum, stimulated by a construction boom of over 15 per cent per annum. It was accompanied by the absorption of over 189,000 immigrants in four years (Table 6.3). The correlation coefficient between immigration and WBGS labour intake was of the order of 0.95 during this period, indicating a strong positive correlation between WBGS employment in Israel and immigration.

The second period, 1974–1988, was characterised by a decline in the annual level of construction output, except for a short interval between 1980 and 1983.<sup>13</sup> The Israeli economy during these 15 years suffered from recession and episodes of hyperinflation. The annual intake of new immigrants also reached its lowest annual level ever since 1948, with fewer than 20,500 entering the country annually over a period of 12 years. Construction output fell by 3.9 per cent per annum on average during this period. Between 1974 and 1988, though, the number of WBGS workers continued to grow by 3.9 per cent per annum, facilitated by the lack of labour restriction across the Green Line. The number of Israelis, mainly Jews, in construction continued to fall, while the number of WBGS workers increased (Figure 6.1 and Table 6.3).

The third period, between 1989 and 1999, was marked by an intake of nearly a million new immigrants into Israel. This is the highest intake



*Figure 6.1* Growth of output and of workers in the Israeli construction sector, 1970–1999 (sources: Bank of Israel (2000: table 2.a.38); PCBS, *Labour Force Survey* (various issues: tables 20, 21); ICBS, *SAI* (various issues: tables 16.1, 16.15)).

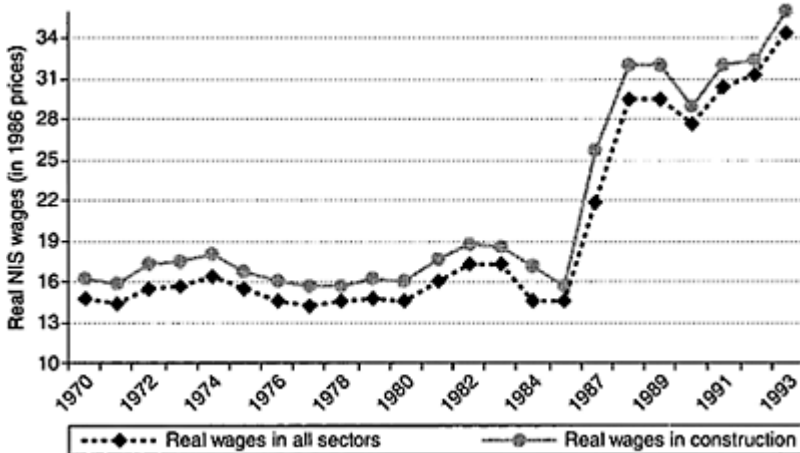
The scale on the left refers to number of Israelis (Jews and non-Jews) and of WBGS workers in construction. The right-hand scale refers to the size (in thousands of sq. metres) of new constructions (residential and non-residential) in Israel.

recorded in a decade since the establishment of the Israeli state in 1948 (Table 6.3). This intake led to a big boom in construction, particularly in 1990, 1992 and 1996 (Figure 6.1). Construction grew by an annual rate of 10.9 per cent over the whole period, inducing a rise in demand for Israeli and other workers. The absorption of WBGS as well as of Israeli workers grew by over 5 per cent per annum over this period, but the intake of WBGS workers was erratic as a result of security controls. It dropped sharply between 1995 and 1997, but after 1998 it increased, while the number of Israeli workers continued to drop (Figure 6.1).

The fourth period, 2000–2002, marked a downturn in construction output as well as in the intake of WBGS workers (Table 6.3). The restrictions imposed on labour mobility after the Al-Aqsa Intifada in the autumn of 2000 caused the number of WBGS workers to drop by 30 per cent, and the fall in annual intake of immigrants led the demand for construction output to fall by 4 per cent per annum. The total number of workers in the Israeli construction industry dropped from 235,900 to 203,800 between 2000 and 2002 (Table 6.2).

*Absorption of Palestinian labour and wage trends*

The absorption of WBGS workers in the construction sector, particularly until 1986, was important in helping to reduce construction costs. As can be seen from Figures 6.2 and 6.3 (see also Table A.13), the supply of WBGS workers in the construction sector was provided at a relatively constant real wage between 1970 and 1986, despite the continuous increase in labour intake. The wages of West Bank workers in particular remained around



*Figure 6.2* Real daily wages of West Bank workers employed in Israel in construction and in all sectors (1986 NIS prices), 1970–1993 (source: Table A13).



*Figure 6.3* Real daily wages of Gaza Strip workers employed in Israel in construction and in all sectors (1986 NIS prices), 1970–1993 (source: Table A13).

NIS 16 per day over this period, despite a 20 per cent growth in 1974 and in 1982. In the case of workers from the Gaza Strip, wages fluctuated more than in the West Bank, but remained around NIS 16. Between 1989 and 1993,<sup>14</sup> the real wages of GS workers in construction did not increase, while in the West Bank they fluctuated (Figures 6.2 and 6.3). This difference could be attributed to the fact that the supply of GS workers was more successfully restricted than the supply of WB workers (see Chapter 4). The rise of WB wages after 1991 could also be attributed to the shortages of labour in that year and to the boom in the Israeli construction sector.

The absorption of WBGS workers at relatively constant wages enabled the Israeli construction sector to increase its capital accumulation and profit margins. The Israeli construction industry is estimated to have grown by an annual rate of 2.3 per cent between 1970 and 1997 (Asali and Bar-Selaa 2000). According to Alperovich (1997) the cost of construction in Israel grew by less than 0.5 per cent per annum between 1968 and 1977, while the real price of housing increased by 4.6 per cent per annum over the same period. Between 1975 and 1988, the period of a major fall in the number of Israeli workers and the largest absolute intake of WBGS workers (see Figure 6.1), the cost of construction rose by only 0.16 per cent per annum, while the price of housing increased by 1.6 per cent p.a. Over this period, the investment in capital goods and machinery in construction fell by 9 per cent p.a. on average (Bank of Israel 1999). The increase in

investment in capital equipment that took place after 1993 was accompanied by WBGS labour fluctuations. Such investment remains low compared to the OECD average, and was concentrated on non-residential construction output (Bank of Israel 2003:991–995).<sup>15</sup> It did not replace the demand for labour.

What allowed WBGS wages to remain relatively constant until the mid-1980s was the absence of enough work options in the WBGS, as explained in Chapters 4 and 5. Moreover, Israeli regulations, as explained earlier, made the wages of WBGS workers less likely to grow in line with Israeli workers' wages. The wages of the latter continued to be protected by collective bargaining agreements, by the trade union (Histadrut) protection system and by a cost-of-living allowance (COLA) that adjusts wages to rises in price levels. None of these protections was provided to Palestinian workers.

### *Labour recruitment in construction*

The absorption of WBGS workers also depended on the organisational structure of construction and the pattern of labour recruitment. In the 1970s, Israeli major para-public construction firms, which handled the bulk of construction works, hired workers via the Employment Service (Golan 1998). By 1997, the sector had been privatised and consisted of 5,700 contracting companies entitled to participate in official biddings. These firms were divided into three main categories depending on the size of projects that they were entitled to build.<sup>16</sup> The largest firms included the old para-public firms such as Solel Boneh, which belonged to the Histadrut Corporation and was privatised in the early 1990s. Large firms have strong connections to the Ministry of Housing and of Labour and thus tend to be given priority in getting the largest projects. Their workforce has included WBGS workers as well as Israeli and foreign workers since 1990.<sup>17</sup>

The Israeli construction sector, like that in other countries, is characterised by a decentralised structure where production is mainly based on subcontracting arrangements (Ofari 1991; Van der Loop 1996). Typically, once a firm wins a bid (be it for a house, a complex of houses, a building, a road, etc.), it subcontracts the various building components of this project to other companies, which can be Israeli, Israeli-Palestinian or from the WBGS. While the leading contractor has its own body of construction workers for whom it is responsible, the bulk of construction workers are provided via the subcontracted companies.

According to limited surveys (Amir 2000) and my own fieldwork (see Chapter 8), WBGS workers are particularly in demand in what are considered to be elementary or 'wet jobs'. These are usually performed by groups of low-skilled labourers who are not salaried employees, but rather are organised by subcontractors. These jobs include the building of concrete skeletons, the casting and plastering of building walls, and tiling. The total cost of these jobs in Israel is on average 55 per cent of the total construction cost (excluding the price of land) (ICBS 1998b). According to Amir's (2000) survey, conducted on 36 medium-sized and large housing construction companies, firms subcontracted such work to Palestinian firms or individuals, while supplying them with all the material and heavy equipment. The subcontractor is then responsible for the work and is paid by measurable units of physical output (such as floor surface, volume of cast concrete, etc.). Payments to subcontractors were estimated to make up a quarter of total residential construction costs (Amir 2000).

Three important elements emerge from this structure. First, Palestinians have consolidated a niche in the Israeli construction labour market as furnishers of elementary work. They participate in this market not simply as workers or labour contractors, but also as owners of small construction firms that undertake skeleton work as well as subcontract part of it. Second, the fact that WBGS workers are supplied mainly via labour and construction subcontractors frees the leading Israeli contractor from direct financial or legal responsibility for the bulk of the workforce. Subcontractors ensure a flexible and cheap supply of labour that can be dismissed in times of slack demand without incurring any transaction or other costs for the Israeli firm. Moreover, they perpetuate the circular pattern of Palestinian labour flows, as workers remain bound to their subcontractor, which takes them to where there is work and returns them to their villages on a daily basis. Third, WBGS workers are key to ensuring capital accumulation in the construction sector. The profit that subcontractors make relies principally on the productivity of labour hired and the wage they pay them, not on the cost of other inputs (see Chapter 8). Workers' wages are paid on the basis of a pre-defined hourly rate, and not per amount of finished work.

### *Role of the state in construction*

The state's intervention in the Israeli construction sector also plays a key role in perpetuating WBGS labour absorption. While the form of the state's involvement has changed over the years, its intervention has remained guided by three main objectives: to attract Jews from abroad to immigrate to Israel, to keep direct Israeli public control over the land, and to disperse the population in areas under its control in order to maintain maximum control and security over the land (Golani *et al.* 1992; Kellerman 1993; Golan 1998). The way in which the state meets these objectives has affected the size and geographic concentration of WBGS labour absorption.

### *Land, labour and capital costs*

The Israeli state has a direct role in influencing the cost of construction output, of which Palestinian labour, capital and land are central components. Israeli regulations did not allow Israeli constructors to borrow freely from national banks because of capital control imposed until the early 1990s.<sup>18</sup> The relative difficulty of accessing capital as compared to labour explains in part why the Israeli construction sector became highly labour-intensive and dependent on the more flexible WBGS workers, and why it failed to upgrade technologically before the early 1990s (Bar-Nathan *et al.* 1998; Bank of Israel 2003).

The state's land policy has also a direct impact on the contractors' choice of where to build. The state's control of 94 per cent of the land meant that it had a monopoly power on land-lease allocation, and thus in directing the private sector's construction investment. The Israeli Land Department and the Ministry of Construction and Housing are the only entities that release land for construction. They determine the size and price of the land to be leased for construction sites, as well as the cost of the infrastructural works (sewage, water and electricity supplies, connecting roads, etc.) (Needham and Verhage 1998). Unlike in most countries, where land is often privately owned and its

price is not included in construction bids, construction companies in Israel need to provide an attractive land-lease price on top of their cost-effective residential or non-residential construction price. Only in areas defined as peripheral or developmental are land lease-prices lower than prices of land leased in areas of high demand such as Tel Aviv.

Official land-lease price policy has been central in directing construction investment in areas that the Ministry of Housing wants to develop, such as the settlements or peripheral areas (see Map 6.1).<sup>19</sup> In the Southern and Northern development areas as well as in West Bank settlements, land-lease prices are typically lower than in other areas. Given that settlement land is under military control, it does not enter official bidding and it is released on the basis of government discretion. Israeli contractors in the settlements do not bear any land costs, and receive subsidies for their infrastructural land development costs (FMEP 1997).

### *Immigration and geographic distribution of Israeli houses*

The Israeli state's immigration and settlement policy also affected the growth of construction and thereby the demand for WBGS workers, particularly in areas within, or adjacent to, the Occupied Territories. Until 1975, the state took the lead in providing accommodation to Jewish immigrants, providing 40–50 per cent of all construction undertaken in Israel in the period 1948–1975 (ICBS 1998b). Between 1975 and 1985, the publicsector contribution in the building sector dropped to 18–21 per cent of all residential projects. In 1998, it still provided 23 per cent of residential constructions in Israel. The heavy involvement of the public sector in residential construction reflects the priority that the state gives to settling Israelis on the land. This sector continued to be the main initiator of new housing at times of massive immigration, such as in 1991–1992. During these two years, when over 200,000 immigrants were absorbed into the country, public-led housing represented 60 per cent of all newly built apartments (calculated from Tables 6.4 and 6.5).



*Map 6.1* Regional districts, Israel  
(source: based on FMEP database).

In 1985, Portugali's study showed that the majority of WBGS workers were employed in the Jerusalem and Tel Aviv metropolitan areas. Between 1970 and 1985, 38–47 per cent of public-led housing projects were in these two metropolises and in the Central District that lies between them (calculated from Table 6.4), and 55–66 per cent of privately initiated houses were also in these three areas (calculated from Table 6.5). Since the 1980s, Israeli urban planning has encouraged construction growth in Jerusalem, the Central District and the settlements in the West Bank (Benvenisti 1984; Kellerman 1993),



which are all within easy reach for WBGS workers. In 1985, the 'National Outline Scheme (NOS/31) for the Geographical Distribution of 7 million Inhabitants in Israel' was adopted

*Table 6.4* Israeli publicly constructed dwellings by regional distribution, 1970–2002

<i>Year</i>	<i>Total number</i>	<i>Jerusalem (%)</i>	<i>Tel Aviv (%)</i>	<i>Central (%)</i>	<i>WBGS (%)</i>	<i>Haifa (%)</i>	<i>Northern (%)</i>	<i>Southern (%)</i>
1970	21,320	14.4	15.7	14.4	n.a.	14.8	16.5	24.2
1975	25,840	11.5	7.8	20.2	n.a.	9.4	22.8	28.2
1980	26,830	21.4	6.9	16.1	n.a.	10.0	19.3	26.2
1985	3,950	20.0	9.6	17.5	13.7	8.4	11.4	19.5
1990	19,550	12.3	3.1	13.5	4.7	9.1	13.6	43.9
1991	61,660	7.0	0.9	11.2	10.8	8.2	19.2	42.6
1992	21,300	5.8	3.1	5.1	23.5	10.3	19.6	32.7
1993	6,650	20.6	0.9	19.7	6.6	25.7	8.0	18.5
1994	11,130	19.0	2.3	27.1	5.4	9.8	6.3	30.0
1995	27,700	6.5	0.9	48.8	6.8	5.3	9.9	21.9
1996	19,440	21.1	2.9	15.5	5.3	7.4	16.7	31.1
1997	15,700	13.5	0.1	23.9	6.4	3.8	17.8	34.5
1998	9,720	3.7	1.7	24.5	17.9	3.8	14.2	34.2
2000	14,714	13.3	0.2	29.0	18.8	4.8	12.9	21.0
2002	6,763	11.7	3.0	32.6	6.6	4.7	11.5	29.8

Source: ICBS, *SAI*, various issues: tables 16.4, 16.5 and 22.5.

Note

The data refer to number of dwelling units whose construction has begun. Jerusalem data also include construction in Israeli settlements around the eastern part of the city.

*Table 6.5* Israeli privately constructed dwellings by regional distribution, 1970–2002

<i>Year</i>	<i>Total number</i>	<i>Jerusalem (%)</i>	<i>Tel Aviv (%)</i>	<i>Central (%)</i>	<i>WBGS (%)</i>	<i>Haifa (%)</i>	<i>Northern (%)</i>	<i>Southern (%)</i>
1970	15,700	14.0	10.1	35.6	n.a.	13.5	21.3	5.5
1975	20,870	6.4	22.4	34.5	n.a.	20.7	12.9	3.1
1980	36,070	9.3	24.1	32.9	n.a.	15.2	12.5	5.9

1985	14,620	6.4	15.9	23.4	0.5	35.5	10.8	7.6
1990	22,830	6.4	16.5	31.0	4.2	19.4	9.7	12.8
1991	22,040	7.9	17.1	24.5	5.0	23.3	11.4	10.9
1992	22,120	6.5	14.4	29.7	6.1	22.1	9.9	11.4
1993	29,150	4.2	13.8	38.9	6.2	17.5	9.6	9.9
1994	32,430	6.6	15.0	39.7	2.1	13.4	11.7	11.5
1995	34,920	6.4	15.0	35.2	1.6	16.9	11.6	13.2
1996	36,500	4.8	11.8	35.6	1.8	18.5	14.8	12.7
1997	35,410	7.8	12.2	28.6	2.5	18.4	12.1	18.4
1998	33,200	7.2	12.3	28.7	6.5	17.8	9.9	17.6
2000	31,063	6.1	14.1	34.1	6.3	10.7	18.8	9.8
2002	24,712	7.2	13.6	30.1	2.3	11.4	21.8	13.6

Source: as Table 6.4.

Note

The data refer to number of dwelling units whose construction has begun. Jerusalem data also include construction in Israeli settlements around the eastern part of the city.

by Israel's National Planning Board, and in 1992 it was revised in the wake of the intake of ex-Soviet immigrants (Garon 1992:12).

The National Outline Scheme (NOS/31) stated that the Israeli national urban objective was to create a more balanced distribution of the population and of immigrants in the country. In 1990, 60 per cent of the population was still living on 9 per cent of the land, focused around the Tel Aviv, Central and Jerusalem Districts. Tel Aviv District had a total population density of 6,659 inhabitants per sq. km compared with fewer than 914 in Haifa or 1,064 in the Central District in 1998 (ICBS 1999, SAI: table 2.4). The 1992 revised version of the National Outline Scheme (NOS/31) intended to accommodate the intake of over 1 million new immigrants over a period of five years and to double Israel's population to 8 million inhabitants by 2015 (Garon 1992). It sought to optimise the absorption of this immigration-led population growth by shifting the economic and demographic weight of Israel away from the coastal areas and towards the Central District (see Map 6.1). This shift away from the coastal areas was to take place through three complementary policies.

First, the scheme proposed to expand the peripheral areas, particularly in the north and south, and to connect them to the centre of the country. Second, the development plan for the Jerusalem-Tel Aviv Intermetropolitan region envisaged

relocat[ing] the suburbanisation process in the Tel Aviv metropolitan area from the coastal region towards the rocky hills in the east of the central region, ensuring good access from the new residential areas to the two metropolitan centers [of Jerusalem and Tel Aviv].

(Shahar 1992:60)

These include the expansion of settlements around Jerusalem as well as those close to the Green Line. Third, in December 1990 the Ministerial Cabinet on Immigrant Issues approved the 'Hill Axis-Stars Plan', which called for the expansion of an area of 500,000 dunums along the Israeli side of the Green Line. These include areas in the no man's land that Israel confiscated in 1967. The plan proposed to build 12 new 'stars', or Israeli towns, and to create 'a massive settlement framework along the "Green Line", which will function as an integrated regional system and will include sites for housing, workplace, industry etc....while relating to the settlement system adjacent on the hill axis to the east' (Dunsky and Golani 1992:87). These settlements to the east refer to the Jewish areas in the West Bank. The 'Hill Axis-Seven Stars Plan', in other words, intends to consolidate the integration of the West Bank settlements within Israel's economic and geographic space, and thereby to modify the 1967 demographic and territorial demarcations.

The pattern of construction over the past ten years testifies to the success of the Israeli policy of shifting the construction and economic weight of the country away from the coast and towards the centre of Israel. Fifty per cent of total construction output between 1990 and 1999 took place in the Central District, Jerusalem (including its 13 settlements) and the settlements in the WBGS. Both the public and the private sectors were heavily involved in these areas. As Table 6.4 indicates, the second largest number of publicly initiated new dwellings were built in the Central District. Jerusalem remained important, being the site of 21 per cent of publicly initiated projects in 1993 and in 1996. For privately initiated housing, the largest number was in the Central District, followed by those built in the Northern region. Road construction in Jerusalem and WBGS settlements represented 20 per cent of total road works in Israel between 1995 and 2000 compared with 25 per cent in the Central District over the same period.<sup>20</sup> The construction of Route 6 in the Central District, which was integrated into the 'Hill Axis-Seven Stars Plan', was particularly important in connecting Beersheva in the south, and northern towns, with towns and settlements that are 20 km from Jerusalem and 30 km from Tel Aviv. Given the porous borders along the Central District of Israel with the WBGS, it was relatively easy for Palestinian workers to continue to work beyond the Green Line despite the increase in Israeli regulation of WBGS labour flows in the 1990s.

Moreover, the growth of settlements facilitated the absorption of WB workers. While the settler population in the West Bank (excluding East Jerusalem) represented less than 3 per cent of the total Israeli population throughout the 1990s,<sup>21</sup> construction in the West Bank settlements represented 18–23 per cent of total publicly initiated Israeli construction in the years 1992, 1998 and 2000 (Table 6.4). These three years coincided with major turning points in Israeli-Palestinian negotiations to settle the conflict over the land, namely the Oslo process and the final status negotiations that started in 1998 (see Chapter 7). As is explained in Chapter 3, between 1993 and 1999 more than 2,500 new houses per year were built in the settlements and over 192 km of new bypass roads were constructed that connected the settlements on the borders with Jordan to those within the heart of the West Bank and to Israel's metropolitan areas and Central District (see Map 6.1). While the private sector's participation in the construction of settlements remained weak compared to its lead in housing construction in the Central and Tel Aviv areas, still over 5 per cent of total private-sector investment was concentrated in the settlements of the West Bank and over 6 per cent in Jerusalem in the period 1991–1993 as well as in 1998 and 2000 (Table 6.5). As is explained in Chapter 3, construction in settlements, as

in other peripheral areas, benefits from various government incentives such as bonuses for accelerated construction, soft loans and governmental guarantees to buy unsold houses (Fialkoff 1992; Eldor and Evans 1992). Their growth stimulated absorption of WB workers in particular, given their proximity to Palestinian towns and villages, and the fact that Israeli regulation made them more accessible than jobs beyond the Green Line.

### *Foreign workers*

Despite the niche that Palestinian workers had managed to create in the Israeli construction market by the 1980s, the arrival of foreign workers in the 1990s is argued to have precipitated a shift of Israeli demand away from WBGS migrant workers (Amir 2000; Bartrum 1998). The number of permits issued to foreign workers increased from 30,000 in 1994 to over 96,000 in 1997 (IMOL 2000). Coming mainly from Eastern Europe and South-East Asia, these workers are reported to accept lower wages than Israelis or Palestinians (Gesser *et al.* 2000; Amir 2000). By 1998, a total of 150,000–250,000 overseas workers, with and without permits, were estimated to be employed in Israel (Kav Laoved 2000; Gesser *et al.* 2000). This is nearly double the number of Palestinian workers, 120,000, employed in Israel in that year (see Table A4). Data on overseas workers with permits reveal that 42–50 per cent of formally hired overseas labourers worked in the construction sector in the 1990s.<sup>22</sup> This is similar to the share of WBGS workers in Israel. According to the survey conducted by Amir (2000), overseas workers tend to concentrate in low-skilled construction jobs, thus having the potential to replace WBGS workers.

However, owing to the absence of detailed data on the total number of foreign workers and on their skill and educational backgrounds, it is difficult to establish to what degree they are substitutes for Palestinian workers. Available figures indicate that the growth of construction was strong enough to stimulate the demand for all kinds of workers (see Tables 6.3 and 6.2). Moreover, the intake of foreign workers was tied to the extent to which Israel imposed restrictions on Palestinian mobility. As can be seen from Table 6.2, the proportion of foreign workers increased nearly fourfold between 1993 and 1996, while the proportion of WBGS workers only amounted to half of the proportion of foreigners in 1996 and 2000 (13.2 per cent versus 27.4 per cent respectively in 1996). This was a period marked by intensive closures. In 1998 and 1999, the flow of West Bank workers recovered, while the number of foreign and Israeli workers dropped. Palestinian and foreign workers each represented a quarter of all employees in the Israeli construction sector during these two years (Table 6.2). While the Palestinian workers did not reoccupy the key role they had held in the 1980s, they remained an important component. Their employment remained a function not so much of the intake of foreign workers, but of their accessibility to Israeli construction sites, which became more difficult after 2000. After 2001, Palestinian workers represented less than 13.3 per cent of all construction workers, while foreign workers occupied a third of all jobs (see Table 6.2). A few studies suggest that foreign workers tend to be rather complementary to Palestinian workers, as they concentrate in different geographic areas and occupy new niches in the construction sector (painting as opposed to skeleton works, which remains in Palestinian hands).<sup>23</sup>

Apart from geographic and occupational complementarity, two main factors can explain the continuous demand for West Bank workers in Israel despite the entry of foreign workers into the Israeli labour market. First are labour costs. Here, it is important to distinguish between those employed in the settlements and those employed beyond the Green Line. Available data indicate that it is cheaper for an Israeli employer to hire an overseas worker through official channels (i.e. with a permit) than a Palestinian worker, since Israeli regulations deprive overseas workers of social security benefits to which legal Palestinian workers in Israel are entitled (Kav Laoved 1997). However, foreign workers are not cheaper than Palestinians who are employed in Israeli settlements in the WBGS, for whom such benefits are excluded.<sup>24</sup> Available data on wages, which include the salary of formally *and* informally recruited workers, do not assert that foreign workers are cheaper than Palestinians. The average hourly wage of a WBGS worker was of the order of \$2.5 in 1997 (PCBS 1998b), while foreign workers are reported to have earned an hourly wage of \$2.4–\$3.5 (Amir 2000:9). On the other hand, Palestinians employed in the settlements earned on average \$2.2 per hour in 1998.<sup>25</sup> In other words, they are cheaper than Palestinian workers in Israel, but not necessarily more expensive than foreign workers. Moreover, the cost involved in getting a Palestinian to work in the settlements is lower than that involved in getting him or her to work in Israel. Workers going to the settlements do not have to queue for hours on checkpoints or travel long distances to get to their place of work. From an Israeli employer's point of view, a Palestinian worker remains attractive, particularly for jobs on settlement construction sites, since the transaction cost of his employment is lower than that of a foreign worker.

The second factor limiting the ability of foreign workers to substitute for WBGS workers is tied to the way the Israeli government tried to meet conflicting economic and security demands. The decision to allow the intake of foreign workers in the 1990s came as a result of the intensification of the closure policy. The Israeli Association of Contractors and Builders pressurised the government to provide its member companies with alternative foreign workers to replace the WBGS workers who could no longer reach the building sites. The Israeli Ministry of Labour regulated closely the supply of overseas workers with the Israeli Association of Contractors and Builders, but this association directed overseas labourers mostly towards large construction firms (Amir 2000). Many smaller firms were thus deprived of such workers or had to revert to illegal channels of recruitment, or continued to employ Palestinian workers. Most firms, both large and small, prefer to work with Palestinian workers and contractors, especially since these speak Hebrew and have often established longstanding relations with Israeli firms (see Chapter 8 for further details).

The Israeli government has also been reluctant to create a large dependency on foreign workers. In 1999, the Israeli Ministry of Labour reduced the number of permits issued to overseas workers to 70,172, down from 96,000 in 1997 (IMOL 2000). It also increased its penalties and raids on illegal private recruitment firms and illegal migrants (Kav Laoved 2000). From a general economic point of view, foreign workers are likely to be more costly than Palestinian workers since the state has to provide them with basic accommodation and social services that it is not obliged to provide to WBGS workers. Unlike workers from the Occupied Territories, foreign workers do not go home after the end of a day's work. From a political point of view, the demand for both types of workers

will depend on the nature of territorial links that Israel decides to have with the WBGS, as is explained in the next chapter.

### **Conclusion**

The absorption of WBGS workers in the Israeli economy has been a function of the economic contribution they have made to the Israeli labour market and capital accumulation, particularly in the construction sector. The size and position of Palestinian labour absorption have been dependent on the way the Israeli state tried to take advantage of the economic opportunities offered by the supply of WBGS workers.

Israeli regulations facilitated the entry of WBGS workers in a way that did not pose a threat to Israeli workers. Israeli demand was segmented and biased towards semi-skilled and unskilled workers employed in low-paying jobs. It became dependent on the availability of a flexible WBGS labour force, particularly in the construction sector. Before the 1990s, WBGS workers were able to consolidate their position in this sector, partly owing to their comparatively low costs. Until 1986, they were absorbed at a relatively constant wage, thereby enabling Israeli employers to save on construction costs. The pattern of labour recruitment and the role of subcontractors have also been central in ensuring the steady supply of a flexible Palestinian labour force, on which the sector became dependent for important elementary tasks. Meanwhile, state immigration and construction policies have contributed to continuous absorption of the WBGS workers.

Palestinian concentration in the Israeli construction sector is an example of how market forces interact with Israel's territorial and political concerns. The absorption of WBGS workers remained easy as long as Israel kept its 1967 borders with the Occupied Territories open. After 1988, Israeli security restrictions caused major fluctuations in labour flows, but they did not bring to an end the demand for Palestinian workers, despite the arrival of overseas workers after 1993. Rather, Palestinian labour flows became more skewed towards West Bank workers, and their absorption into Israel became more clearly a function of Israel's strategic considerations regarding future economic and territorial links with the Occupied Territories. These territorial considerations are explored more clearly in the next chapter.

## 7

# Labour flows and the Oslo peace process

Labour flows from the Territories are no doubt the cornerstone in the economic relation between Israel and the Territories. The alternative to it is the export of goods produced by workers. The desired trade arrangement between Israel and the Territories will be, in many respects, *derived* from the number of Territories' workers employed in Israel.

(Ben-Shahar 1995:93; emphasis added)

It would seem that the legal and the economic Protocols in [the Oslo] Agreement serve primarily political purposes which reverse their usual roles. Rather than bringing two distinct and independent legal and economic systems closer together, they separate them from one another. They are not designed to impose reciprocal limitations on the independence of each system.

(Fassberg 1996:169)

This chapter analyses the changing pattern of Palestinian labour flows to Israel since the initiation of the Israeli-Palestinian peace process in 1993. This process has fundamentally altered the legal and political landscape of the Palestinian-Israeli conflict, bringing about important changes in their economic relations, as well as in the pattern of labour migration.

The available literature on Palestinian-Israeli economic relations since 1993 generally overlooks the labour question. Rather, it has concentrated on explaining the economic record of the Palestinian economy and on assessing the extent to which the WBGS succeeded in separating from Israel. According to a number of authors, the 'peace process' perpetuated the structure of integration that had been imposed on the Occupied Territories since 1967 (El-Musa and El-Jafari 1995; Arnon and Weinblatt 2001). According to others, it led to a *separation*, rather than integration, of the WBGS from the Israeli economy (Kleiman 1994, 1999; Fassberg 1996; Fischer *et al.* 2001; World Bank 2002; IMF 2001; Jong 1998; Kanafani *et al.* 1998; Kanafani 2001). For Roy (1995, 1999a, 2001), the Oslo Accords enhanced the process of de-development of the Palestinian economy. Within the available literature, there is also a debate as to the extent to which political factors have influenced economic outcomes. While not all define what they mean by political factors, many view the rise of Palestinian suicide attacks against Israelis and the Israeli closure policies as the main political causes that are leading to a separation of the Palestinian economy from the Israeli economy (Kleiman 1994, 1999;

Halevi 1999; IMF 2001). Arnon *et al.* (1997), Kleiman (1999) and Amir (2000) have further argued that these political factors have ended the prospects for WBGS labour flows.

The aim of this chapter is twofold. First, it analyses the changing pattern of Palestinian labour flows to Israel since 1993 and challenges the view that they have come to an end. It shows that Palestinian migration has remained important but has varied by location, as West Bank workers have been far more able to access the Israeli economy than workers from the Gaza Strip. This difference in labour mobility is the outcome of the political and economic changes brought about by the Oslo process. It is reflective of a process of boundary redefinition that indicates that the Gaza Strip is separating from Israel while the West Bank continues to be integrated into it, albeit in a fragmented way. These contrasting developments compromise the prospects of viable Palestinian independence from Israel.

Second, the chapter argues that a process of 'bantustanisation' of the WBGS has been materialising since 1993. This is a term borrowed from South African apartheid history to describe how the Palestinian areas are being transformed into *de facto* population reserves that Palestinians cannot leave without the possession of a permit issued by the Israeli military authorities. These reserves have remained dependent on the Israeli labour market, but they have not always been able to gain access to it. They remained structurally dependent on Israel from a legal, economic and security point of view, while failing to achieve Palestinian economic and political independence. While this process of 'bantustanisation' might not have been explicitly pre-planned, it has been a consequence of *territorial* and *labour* developments that have consolidated since Oslo. It captures better than other terms used so far the combined reality of territorial fragmentation *and* population control that have been taking place since 1993.

The first part of the chapter analyses how the Oslo peace process determined the political and territorial realities that were going to impinge on Palestinian labour flows. The second part explores the extent to which the Economic Protocol, which defines the post-1993 economic relations between the WBGS and Israel, predetermined the pattern of labour migration. The third part defines the characteristics and causes of the 'bantustanisation' process by focusing on the dialectic of land and labour relations since 1993.

### **The Oslo peace process**

The famous handshake between the Israeli Prime Minister, Yitzhak Rabin, and the PLO chairman, Yasser Arafat, on the White House lawn on 13 September 1993 marked a turning point in the Palestinian-Israeli conflict. It inaugurated the beginning of a peace process between an occupier and an occupied population in which Israel, for the first time, recognised the Palestinians' right to self-determination and the PLO as their representative. In return, the Palestinians reiterated their acknowledgement of Israel's right to exist.<sup>1</sup> At the inauguration speech, Yitzhak Rabin also publicly expressed, for the first time, the Israeli state view that Israelis and Palestinians 'are destined to live together on the same soil in the same land'.<sup>2</sup> The Oslo peace process was about negotiating how this land was going to be shared.



The Oslo peace process consisted of a series of agreements referred to as Oslo I (the Declaration of Principles, DOP) and Oslo II (the Interim Agreement).<sup>3</sup> The aim of these accords was to devolve Israeli rule over the WBGS over a period of five years and to establish a Palestinian National Authority, which was given legal responsibility, but no sovereign identity, to govern the Palestinian people. This authority was going to negotiate with Israel a final status agreement, which was discussed during the Camp David II negotiations in July 2000.<sup>4</sup>

The Oslo peace process, however, did not end Israeli occupation of the West Bank and Gaza Strip, but merely reshaped it. It cites UN resolutions 242 and 338 as its only legal references, without mentioning the Fourth Geneva Convention, or the very term 'occupation'. The founding principle of the negotiations was to separate final status issues, which would settle the Palestinian-Israeli conflict, from what were defined as interim period issues. These relate to defining the *mechanisms* by which Israeli rule over the WBGS would be devolved. The bulk of the Interim Agreement concentrates on establishing the prerogatives of the Joint Israeli-Palestinian Committees which will implement the transfer of authority from the Israeli Civil Administration, which managed the WBGS between 1981 and 1993, to the newly elected Palestinian National Authority. The Oslo Accords intended to create an infrastructure of close co-operation between the two parties, especially on security matters. Among its first clearly stated stipulations is the creation of a Palestinian police force, which will ensure public order and will co-operate closely with the Israeli side on security issues (DOP, article VIII, X; Oslo II, chapter 2, article XIII). At the same time, the Oslo Accords avoid any connotation of Palestinian territorial sovereignty, and thus statehood, so as not to pre-empt the final status negotiations for ending the Israeli-Palestinian conflict. The five issues that are excluded from the Interim Agreement were the status of Jerusalem, the settlements, borders, security arrangement and refugees (DOP, article V). These five topics relate directly or indirectly to the heart of the Palestinian-Israeli conflict, i.e. the land question.

### *The territorial fundamentals*

As is discussed in Chapter 3, Israel has held important territorial and strategic interests in the WBGS. Between 1967 and 1993, Israel maintained direct military occupation over the land and sought to integrate parts of the WBGS into its 1967 territory while instituting a legal, economic and social separation between Israelis and Palestinians. By 1993, it had declared over 39 per cent of WBGS to be state land and created over 134 Jewish settlements, which accommodated more than 259,300 Jewish settlers (including those in East Jerusalem) (Chapter 3, calculated from Tables 3.1 and 3.2). While these settlements were illegal from the point of view of international law, they presented a demographic and territorial reality that needed to be addressed.

The Oslo Accords, though, went around the territorial hurdle rather than attempting to solve it. The Interim Agreement concentrated on defining the legal, economic and institutional framework for the transfer of authority from the Israeli civil administration to the Palestinian National Authority. It was particularly creative in the way it institutionalised the contradictory process of societal separation and territorial integration that Israel created between 1967 and 1993 (see Chapter 3).

On the one hand, the Oslo Accords transferred to the Palestinian National Authority (PNA) the *civilian*, or *functional*, jurisdiction over 93 per cent of the Palestinian population living in the WBGS. By 1995, the Palestinian National Authority thereby became responsible for running the civilian affairs (birth and death registers, educational, economic and social welfare policy, etc.) of the overwhelming majority of Palestinians, as well as determining Palestinian economic policies. On the other hand, the Oslo Accords did not transfer to the Palestinian authority full *territorial* jurisdiction. After the initial Israeli withdrawal from Jericho and Gaza in May 1994, the West Bank and Gaza Strip were divided into three areas, A, B and C. Area A came under the PNA's territorial and civilian jurisdiction. It included the major urban Palestinian centres. Area B included 450 Palestinian villages and other built-up areas in which the Palestinian Authority had to co-ordinate with the Israeli authority on issues of land, water and security. In Area C, the PNA had no jurisdiction, for it came under full Israeli territorial and functional jurisdiction.

Thus, although article IV of the Declaration of Principles maintained that the 'two parties view the West Bank and the Gaza Strip as a single territorial unit whose integrity will be preserved during the interim period', the Interim Agreement did not specify how this integrity will be maintained in view of Israel's continuing occupation. According to the agreement, Israel should have undertaken three redeployments over a period of five years, at the end of which the PNA would have achieved maximum control over the WBGS, save for areas to be addressed in the final status negotiations (i.e. Jerusalem and the settlements), as well as the vaguely defined 'military installations' (Hammami and Tamari 2001). Yet by July 2000, when the final status negotiations were held at the Camp David summit, Israel controlled not only the 2.6 per cent of the West Bank on which the settlements were built, but also another 58.4 per cent of the land, land that came under Area C. In the Gaza Strip, Israel was in control of 30 per cent of the area (see Map 7.7, also Table 3.3). Area A represented 18 per cent of the West Bank, while Area B constituted 21 per cent.

### **The Economic Protocol**

The devolution of Israeli rule focused not only on the demarcation of territorial and functional jurisdictions, but also on the future of economic relations, as expressed by the Economic Protocol of the Interim Agreement (EP).<sup>5</sup> In the preamble to this Protocol, the two parties stated that they 'view the economic domain as one of the cornerstones of their mutual relations with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace'. It was not clear, though, as Watson (2000:158) noted, 'whether the purpose of the protocol is to establish economic union or to pave the way for economic separation' between the Palestinian and the Israeli economy.<sup>6</sup> The question of Palestinian-Israeli labour relations proved to be a contentious issue with serious implications for the future of economic separation or integration between Israel and the WBGS.

### *The question of labour*

Chapter 2 has shown that labour, together with trade, provided the main pillars of integration between the Israeli and WBGS economies in the pre1993 period. The EP did not eliminate the labour pillar, but sought to alter its role in fostering economic links. From the outset of the negotiations, though, the Palestinian and the Israeli negotiators did not share the same view as to the most appropriate economic union to be formed between them, and what role labour might play in it.

The Palestinian side wanted to establish a free trade area between the WBGS and Israel. Such a union would help the Palestinian economy diversify its links with the rest of the world, while at the same time reduce its dependence on Israel. However, the Palestinian negotiators also wanted to maintain the free access of Palestinian workers to Israel,<sup>7</sup> a guarantee not always maintained in free trade agreements. While Palestinian negotiators and the international donor community wanted to reduce the WBGS's reliance on the Israeli labour market, they knew that such a reduction could not be done abruptly (World Bank 1993; Fischer *et al.* 1994).

The Israeli negotiators were opposed to a free trade agreement. Politically, it would have implied recognition of borders between Israel and the WBGS, which were not to be discussed in the interim period (DOP, article V). The Israeli officials were only willing to accept a trade border between Israel and the Gaza Strip, where they argued that 'geographic and political considerations made it feasible' (Kleiman 1994:335). They did not want any trade borders between Israel and the West Bank, indicating thereby Israel's willingness to separate from the Gaza Strip but not from the West Bank. However, the Palestinian negotiators refused to let the Gaza Strip be treated differently from the West Bank.

Moreover, Israel argued that a free trade agreement would not necessarily guarantee free Palestinian labour flows to Israeli areas (Arnon and Weinblatt 2001:296).<sup>8</sup> While the Israeli economic experts on the negotiating team believed that a common market would provide the best economic solution for the WBGS and Israel, the idea of 'a common market was precluded if only by Israel's unwillingness to commit itself to employing workers from the Territories in unrestricted numbers' (Kleiman 1994:354). Israel wanted to maintain the access of Palestinian workers to Israel in order to avoid a serious deterioration in Palestinian living standards (Ben-Shahar 1995:92). However, it wanted to reserve to itself only the right to decide which Palestinians, and how many, would be entitled to work in Jewish areas (Kleiman 1994:352). The Israeli negotiators wanted to reduce the access of Palestinian workers to Israel, for political and security reasons. The group of economic experts advising the negotiating team recommended reducing the number of Palestinian workers to fewer than 70,000, thereby paving the way for a change in the pattern of economic links between the WBGS and Israel (Ben-Shahar 1995:92).

### *A hybrid customs union*

The outcome of the negotiations was the establishment of a hybrid customs union (Kanafani *et al.* 1998; Kanafani 2001). This union introduced elements that would provide the WBGS with a sphere of autonomy, until final agreement on territorial boundaries was reached. The hybrid customs union allowed for the free movement of goods and capital between the two economies, but without imposing reciprocal limitations on each of them. It maintained the Israeli customs tariff system while at the

same time allowing the WBGS to diversify its trade partners and to establish its own customs and trade policy on a limited number of items. These items were to be traded with third parties,<sup>9</sup> some of which do not trade with Israel. Meanwhile, the EP entitled the PNA to determine its own fiscal and social policies, and to define its own economic policy, thereby giving it an autonomous scope for economic decision making. While the EP did not give the PNA the right to issue its own currency, it entitled it to have its own monetary authority which would monitor Palestinian and foreign banks in operation in the WBGS. The EP also allowed the transfer to the PNA revenues cleared on goods imported via Israel and destined to the WBGS.<sup>10</sup> These were not transferred to the Palestinian economy before 1993, and were estimated to form 3 per cent of the GDP of the WBGS. After 1995, revenue clearance represented over 60 per cent of the PNA's total revenues (Naqib 1996:26; Khadr 1999:113).

With regard to labour, though, the EP did not promise freedom of movement. It simply stated that 'both sides *will attempt* to maintain the normality of movement of labour between them, subject to each side's right to determine from time to time the extent and the conditions of labour movement into its area' (article VII, italics added). It was hoped that the peace process would attract an influx of foreign capital, induce a growth in trade and stimulate a rise in domestic investment and industrial growth that would enhance the WBGS's employment generation capacities and thereby reduce WBGS reliance on the Israeli labour market. There was an assumption that the flow of Palestinian labour-intensive goods would replace the flow of workers to Israel (Fischer *et al.* 1993, 1994; Kleiman 1994; Diwan and Shaban 1999).

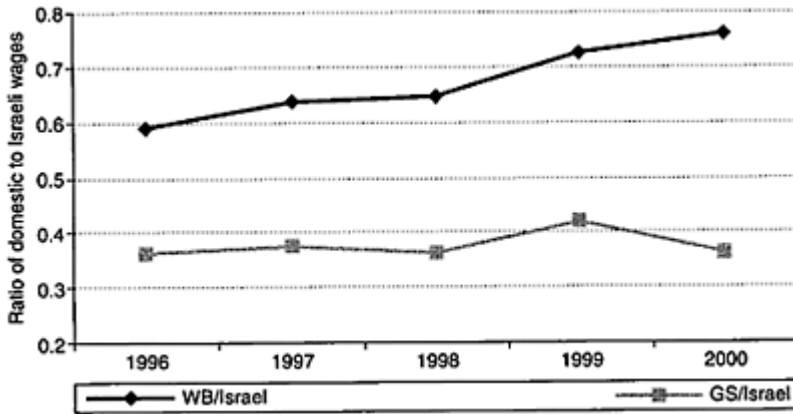
It is important to note that the EP's optimism about changing economic relations was based on two underlying assumptions. First, it was assumed that trade and labour flows would go unhindered without first resolving fundamental political and territorial questions. The ambiguity as to whether the EP sought to separate, or integrate in a new form, the Palestinian and the Israeli economies stems largely from the fact that Israel insisted that the EP, as part of the Interim Agreement, would not carry any territorial connotations or pre-empt any notion of territorial sovereignty. The EP assumed that borders would be opened and that factor mobility would be a function of economic considerations only.

Second, the EP assumed that future Israeli-Palestinian trade and labour relations could be independent for power considerations. Various articles attempted to convey a sense of reciprocity and equality between the two parties (see the preamble to the EP, the preamble to Oslo I, and article XI of Oslo I), but the Interim Agreement did not change the imbalance of power relations, nor did it strengthen the weaker party. Nothing in the agreement signed, whether in the EP or other protocols of the Interim Agreement, ensured that Israel would abide by its promises, or that an international body or mechanism would be created to monitor, and arbitrate on, the implementation of the accords.

### Separation or integration?

Contrary to most expectations that peace would bring prosperity (Fischer *et al.* 1993, 1994), the Palestinian economy did not improve its performance after 1993. Although the financial sector developed and non-building investment increased by 150 per cent between 1994 and 1999 (IMF 2003: 22),<sup>11</sup> growth remained volatile and tied to access to the Israeli economy and its policy of closures. Between 1994 and 1999, Israel imposed a total of 443 days of closure on the WBGS, which amounted to two and a half months a year of interrupted access to Israel and outside markets (UNSCO 2001). Real GDP in the WBGS grew by 2.3 per cent per annum between 1994 and 1999, implying a decline in income per capita in view of the population growth rate of 4 per cent (IMF 2003:22).<sup>12</sup> It grew by over 3.3 per cent per annum since 1997, but its growth remained precarious (IMF 2001:5). GDP per capita in the WBGS fell by 18 per cent between the start of 1995 and the end of 1996, which were years of frequent border closures (Diwan and Shaban 1999:28). It reached an estimated level of \$1,850 in August 2000, but by January 2001 it had fallen to less than \$1,630, approximately equivalent to the level in 1994 (World Bank 2001a: 8). Poverty affected 23.2 per cent of the total Palestinian population in 1998, touching 46 per cent of those living in the Gaza Strip compared with 15.4 per cent in the West Bank (World Bank 2001b: 17). Real GNI per capita, which includes income from Israel and abroad, was 30 per cent lower in the Gaza Strip than in the West Bank.<sup>13</sup>

The Palestinian economy continued to need the Israeli labour market, especially as the labour force had been growing at more than 4.1 per cent per annum since 1993 (see Tables 4.1 and A3). Wages in the Israeli economy were 30 per cent higher than wages in the West Bank and double those earned in the Gaza Strip, maintaining thereby a strong incentive for people to seek employment outside the domestic economy (see Figure 7.1). While the WBGS economy managed to create a total of 162,100 new jobs between 1995 and 2000, this was not enough to absorb 62,000–145,000 workers employed in Israel plus an average of 26,000–65,000 annual entrants into the labour force (calculated from Tables A4 and A7). The installation of the PNA represented a means of absorbing some of the labour force, but it did not solve the WBGS employment challenge. In the Gaza Strip, the public sector absorbed 26–32 per cent of the labour force, while in the West Bank it absorbed 13–15 per cent of the labour force between 1996 and 2000 (MAS 2001: xix). The nature of jobs created in this sector, though, did not enhance productivity or income levels in the economy. It is estimated that a total of 123,000 public-sector jobs were created by August 2000, half of which were in the police force (MAS 2001:165). Unemployment remained high all through the 1995–2000 period, particularly in the Gaza Strip, where it ranged between 15.1 per cent and 32.5 per cent in 1995–2000, typically being higher than unemployment in the West Bank, which fluctuated between 7.2 per cent and 19.6 per cent (Table A.7). Meanwhile, trade failed to become a vehicle for growth. The export of goods did not replace the need to export labour. The WBGS's attempts to diversify their trade and integrate into the regional or the global economy remained limited. Israel still provided a market for 96 per cent of Pales-



*Figure 7.1* Ratio of domestic to Israeli-earned wages for male Palestinian workers, 1996–2000 (source: PCBS (1996–2000), *Labour Force Surveys, Annual Reports*: tables 39–42).

#### Notes

WB/Israel: West Bank wages as a ratio of wages in Israel; GS/Israel: Gaza Strip wages as a ratio of wages in Israel.

tinian exports and was the source of 76 per cent of the WBGs's imports in 1998. Palestinian exports to Israel remained volatile and small, representing less than 22 per cent of total trade with Israel (Astrup and Dessus 2001:5). The trade deficit was of the order of 48–57 per cent of GDP between 1995 and 1999 (calculated from MAS 2001: xvii, 127), higher than in the pre-1993 period (see Chapter 2). Meanwhile, trade between the Gaza Strip and the West Bank fell,<sup>14</sup> as closures and Israeli policy restricted the mobility of goods and people between the two areas.

#### *Difficulty of access to Israel*

The experience of the Oslo years revealed that the Palestinian economy could not reduce its reliance on the Israeli economy, but Palestinian labour could no longer access it easily. With regard to labour flows, four major developments occurred, and are indicative of a redefinition of labour links between Israel and the WBGs.

First, Palestinian labour flows have become increasingly volatile since 1993. As explained in Chapters 4 and 6, flows fell to fewer than 62,300 workers in 1996 (Tables 7.1 and A4). After 1997, they increased, and by August 2000 had surpassed their level in 1992, reaching a total of 145,400 workers. (According to PCBS data, 25 per cent of all WBGs workers—a total of 28,000 persons—employed in Israel and Israeli settlements are

*Table 7.1* Palestinian workers employed in Israel and in Israeli settlements in the WBGS, 1992–2004 (figures in thousands)

Year	Average permits given for work in Israel and settlements				Total workers (with and without permits)			
	Total West Bank workers	Percentage to settlements	Gaza Strip workers	Percentage to settlements	Total WBGS	West Bank workers	Gaza Strip workers	WBGS
1992	–	–	–	–	69.4	–	–	115.6
1994	26.2	15.4	25.7	5.1	51.9	–	–	–
1995	26.8	32.4	17.3	7.5	44.1	62.2	3.6	65.8
1996	26.9	33.8	18.7	10.1	45.6	52.3	10.0	62.3
1997	26.9	28.6	23.6	10.6	50.5	68.4	14.2	82.6
1998	27.5	33.1	27.1	13.7	54.6	96.0	24.0	110.0
1999	27.6	34.4	29.2	13.3	56.8	108.3	26.7	135.0
2000	23.0	42.6	23.5	14.9	46.5	115.8	29.6	145.4
2001	n.a.	n.a.	2.9	2.2	–	66.0	2.5	66.2
2004	n.a.	n.a.	1.6	1.6	–	53.0	1.6	54.6

Sources: PCBS (2000); Palestinian Ministry of Labour (2000), *Work Permits to Israel and Settlements*; Israeli Employment Service (1992), *Labour Data Base*; UNSCO (2000b, 2002).

Notes

Figures refer to yearly averages, except for 2000 where they refer to mid-year numbers. Figures on permits for work in settlements refer also to permits for work in Israeli industrial zones.

East Jerusalemites holding Israeli ID.) After January 2001, though, the number fell to less than 66,000 (Table 7.1).

Second, Palestinian labour mobility became more firmly conditioned by the permit regulations and security controls introduced in 1988 and 1991, discussed in Chapter 6. The permit policy regulated the mobility not only of workers, but also of businesspersons and goods seeking to get out of the confines of Palestinian areas. The closures brought to a halt not only searches for employment in Israel, but also all imports and exports of goods out of or into the WBGS. As can be seen from Figures 7.2 and 7.3, both unemployment levels in the WBGS and accessibility to the Israeli labour market were inversely related and closely followed the pattern of Israeli closure policy.

Third, employment in Israeli settlements has grown in importance. Table 7.1 indicates that 29–42 per cent of official permits given to West Bankers since 1995 were for work in Israeli settlements. In the Gaza Strip, less than 15 per cent of permits were given for work in such locations, but trends have been moving upwards until 2000. Unfortunately, no accurate data are available on the number of illegal workers employed in the settlements,

as many workers conceal their employment in such locations. However, there is reason to believe that the actual number of West Bank workers employed in settlements has continued to rise and is higher than reported figures.<sup>15</sup> As is explained in Chapter 6, Israeli regulations have



*Figure 7.2* Share of unemployment and of workers in Israel in the total West Bank labour force, 1993–2001 (sources: PCBS (2002: tables 1–3); UNSCO (2001)).

Note

The right-hand scale plots the number of days of closure per year, while the left-hand scale plots the percentage of those unemployed and those employed in Israel.



*Figure 7.3* Share of unemployment and of workers in Israel in the total Gaza Strip labour force, 1993–2001 (sources: as Figure 7.2).

Note

See note to Figure 7.2.



made access to Israeli settlements far easier than access to Israel. In a situation of closures, it is easier for workers to get jobs in settlements near where they live than to have to cross the Green Line. The labour force surveys reveal that the number of West Bank workers employed in Israel and the settlements has increased since 1997 (see Table 7.1). If we assume that a third of those workers (legal and illegal) are employed in settlements,<sup>16</sup> then an estimated 35,000 WB workers would have been employed in such illegal settlements in mid-2000, compared with 80,000 in Israel. After 2000, 45–50 per cent of all workers going to the Israeli economy were working in Jerusalem and its 13 settlements (calculated from UNSCO 2002:9).

Fourth, the Israeli labour market has become more accessible to WB than to GS workers. This situation contrasts with the pre-1988 period, when GS workers relied more heavily on the Israeli labour market than West Bankers (Chapter 4). As can be seen from Table 7.1, WB workers have continued to flow to Israeli jobs without having permits, while GS workers could not access their work *despite* the possession of such a permit. Despite the harshness of Israeli measures against the Al-Aqsa Intifada in 2001 and the intensification of the closure policy, 66,000 West Bankers still worked in the Israeli economy, mostly in the settlements, compared with only 2,500 Gaza workers (Table 7.1 and Figure 7.2). The continuous flows of WB workers, either to Israel or to the settlements, reflect a continuous integration between the Israeli and the West Bank economies, albeit an unstable one. Meanwhile, the drop in GS workers reflects a process of separation between the GS and Israeli economies.<sup>17</sup>

### A process of ‘bantustanisation’

The pattern of labour transfer to Israel since 1993 indicates that the Palestinian economy neither separated from, nor integrated on more equal terms with, the Israeli economy. Rather, it is suggestive of a process of ‘bantustanisation’. This is a process by which the WBGS has been turned into *de facto* ‘population reserves’, out of which Palestinian inhabitants are not guaranteed free access to Israel or even to local markets.

The term ‘bantustanisation’ is borrowed from the South African apartheid literature. It refers to the confinement of native Africans, who were defined as ‘Bantu’, into designated geographic areas, or reserves, which they could not leave without a permit issued by the white authorities. First created in 1913, these reserves grouped the native blacks in only 13 per cent of the total South African land area. Between 1951 and 1970, four major Acts<sup>18</sup> were enacted by the white South African Parliament, which transformed the reserves into ten Bantustans, or homelands. These were polities which intended to separate the indigenous black population from settlers’ areas, to prevent their urbanisation process from spilling into the white towns, and to allow a minimum of native economic development that would alleviate black poverty while keeping the black population as suppliers of cheap labour for settlers (Hills 1964; Roger 1976; Crush *et al.* 1991; Posel 1997).

The Bantustans were intended to prepare the ‘natives’ for political independence from white South Africa, while preventing them from competing economically with it. They were given ‘self-government’ rights and responsibilities, and were allowed to define their own economic policies and to run their civilian and functional affairs. They also received

subsidies in order to develop their economic resources, particularly industry. A Bantu Investment Corporation was created to provide and channel investments into black areas, and 25–40 per cent of the Bantustans' government revenues came from the white South African government (Rogers 1976:64). The source of authority and scope of jurisdiction of these Bantustans, though, did not emanate solely from the indigenous population or through a popular vote, but rather from the white South African government and Parliament. Yet they remained economically dependent on the white economy, where the majority of native working men continued to be employed.<sup>19</sup> Moreover, they had to co-ordinate with the settler authorities on security matters, as well as on political and economic affairs. In 1974, a Bantustan citizenship was created, and by 1976 four out of ten Bantu had been granted independence. They continued to be controlled by pass laws that determined their right to work in, reside in and move out of their areas and into white settler or other native areas. The pass laws had various similarities with Israel's permit policy, which was imposed on the Palestinians after 1991, as outlined in Chapter 6.

The term 'bantustanisation' has rarely been used in the Palestinian literature. In describing the outcome of the Oslo process, the terms 'cantonisation' or 'segmentation' are more commonly used to emphasise the territorial fragmentation of the WBGS (Jong 1998; Usher 1999; Hammami and Tamari 2001). A few writers have gone so far as to compare the outcome of the Oslo agreement to an apartheid system (Bishara 1998, 2001; Giacaman and Lonning 1998; Butenschon 1998; Davis 2003). Bishara (1999:62–63) defines the Palestinian bantustan as

a 'place' that lacks sovereignty and at the same time is not part of Israel. It is neither one nor the other. Its people do not have the right to enter to...neighbouring countries...they are even more restricted than in the Bantustans of South Africa where at least you could travel to work.

There are three reasons why the term 'bantustanisation' comes closer than other concepts to describing the developments in the WBGS since Oslo. First, it is more encompassing than the word 'cantonisation' which confines the analysis to its *territorial* dimension and does not capture the *economic* component of this fragmentation. Second, the term is better capable of capturing the unequal power dimension in Palestinian-Israeli relations, both in its economic—particularly labour—aspects and in its territorial and legal facets. Third, it indicates that a new economic and political *structure* is being created between Israel and the WBGS that compromises the prospects for viable Palestinian independence, given the territorial, demographic and legal changes that have been consolidated since 1993.

While borrowed from the South African apartheid literature,<sup>20</sup> the term is not used here to suggest that history is repeating itself. The process of 'bantustanisation' in the WBGS is distinct from the case of South Africa in so far as the Israeli state's motivation behind labour control and its policy of territorial domination is different. Unlike white South Africa, Israel is not interested in the economic resources of the WBGS *per se*, nor has it created specific 'bantustans' to help sustain the supply of cheap labour that would ensure economic growth in the settlers' sectors. Palestinian labour, while important in Israeli construction, did not represent more than 7 per cent of the overall Israeli labour force, whereas 'natives' in South Africa formed more than 65 per cent of the working

population (Dubow 1989; Standing *et al.* 1996). Moreover, although there are similarities between the Israeli and South African policies of social separation and economic integration between ‘natives and settlers’, Israel’s primary concern was to achieve maximum supremacy over Palestinian *land* while excluding the population. Apartheid South Africa sought to dominate, rather than negate, the indigenous population as a means to guarantee the settlers’ supremacy over the country’s economic and political resources. Furthermore, the pass-law system was introduced to control the indigenous economically, while in Israel the permit system was principally introduced to enhance Israeli *security* against Palestinian resistance and suicide bombers. However, despite the differences in intentions, the ‘bantustanisation’ of the WBGS has been the *outcome* of the geography of Israeli occupation, as exemplified by its land and settlement policies. Even if the labour dimension of the process of ‘bantustanisation’ was not explicitly envisaged by Israel (the way it was in South Africa’s apartheid system), the territorial fragmentation of the WBGS since 1993, the Israeli permit system, and closure policies have all contributed to the creation of disconnected Palestinian population reserves that have the characteristics of ‘bantustans’.

### **Explaining the process of ‘bantustanisation’**

The process of ‘bantustanisation’ has been the consequence of two structural factors. It is the outcome of the way the Oslo Interim Agreement has been implemented, and of the roles of closure and of political factors in particular. It is also the result of the structure of the Interim Agreement, especially the way it dealt with the issue of transfer of authority from the Israeli administration to the Palestinian authority, and with labour and land matters.

#### ***Closures and political imperatives***

There is general agreement that Israeli closure policy played a key role in explaining the economic outcome in the Interim period (Diwan and Shaban 1999; Fischer *et al.* 2001; Halevi 1999; IMF 2001; Kleiman 1999; Roy 1999a, b; Sabbagh 1998; Samara 2000; Arnon and Weinblatt 2001). First used in 1991,<sup>21</sup> the policy of closure consists of preventing Palestinians goods and personnel, be they businesspeople or workers, from leaving the territorial confines imposed by Israeli army checkpoints. It has been intensified since 1993, as Israel has used two types of closures: internal and complete closure. The latter prevents the movement of goods and persons out of the WBGS, while the former restricts mobility *within* the West Bank as well as between it and the Gaza Strip.

Closures contributed to the process of ‘bantustanisation’ in so far as they consolidated the fragmentation of the WBGS. In a situation of closure, Israel’s control over Area C, which cut through Palestinian-controlled Areas A and B, meant that no Palestinian can reach his or her place of work, either in Palestinian areas or in Israel, without passing through an Israeli checkpoint. Between 1994 and 1999, Israel imposed a total of 443 days of closure on the WBGS (UNSCO 2001:2). This meant that no goods or person could exit or enter the Palestinian territories for an average of three months a year.<sup>22</sup>

The policy of closure indicated that political considerations were central in determining the economic outcome of the agreement. According to Kleiman (1994, 1999), Halevi (1999) and Amir (2000), closures have been a security measure geared to protect Israelis from suicide bombs. They were imposed as a *consequence* of Palestinian political opposition to the Oslo process, and applied after a Palestinian suicide attack or whenever there was a threat of one.

However, political considerations have been important not only in the *implementation* of the EP, but also in its very *conception*. As was mentioned in Chapters 4 and 6, closures were already imposed prior to 1993. If the Economic Protocol wanted to ensure that political considerations did not get in the way of economic resolutions, it needed to find a way to deal with security concerns. As Kanafani (2001:288) puts it, 'The trade regime in the EP was designed solely to serve passing political purposes...while the political design was obscure, partial and inherently temporary, the EP exhibited the same characteristics in the economic arrangements.'

Part of the obscurity in determining the nature of the political design behind the EP, and of the Interim Agreement more generally, stems from the problem of defining the political interests at stake. Kleiman (1994,1999), Halevi (1999) and Amir (2000) tend to define political interests in terms of Israel's security considerations. While valid in partly explaining Israel's closure policy, such a definition is narrow and does not explain why the Gaza Strip suffered more acutely than the West Bank from such policies. On the other hand, Abdel-Raziq (1994), El-Musa and El-Jafari (1995), Roy (1999a, 2001) and Samara (2000) tend to conceptualise Israel's political concerns in terms of securing economic and political hegemony over the WBGS. El-Musa and El-Jafari (1995:29) argue that the economic protocol 'reflects...the continuing occupation during the interim period and Israel's insistence on protecting its own producers and maintaining, insofar as possible, its dominant share in the Palestinian markets'. Another perspective, held by Arnon and Weinblatt (2001:303), Roy (1999b:x) and Abed (1999:32), defines political considerations in terms of questions of political sovereignty and unequal power relations. In these authors' line of thought, the recourse to closures and the devastating effect that they have had stem from the EP's failure to handle first questions of political sovereignty.

A structural textual analysis of the Oslo Accords indicates that the seeds of 'bantustanisation' were already sown in the articles of the Interim Agreement and its Economic Protocol. This process has been a result of the way political considerations permeated the negotiations and their outcome.<sup>23</sup> These considerations are not simply confined to unilaterally defined security concerns, but, more importantly, encompass the larger question of territorial control and Israel's concern to protect its territorial interests as outlined by the Allon and Drobless Plans (see Chapter 3).

### ***'Bantustanisation' of Palestinian land***

The Interim Agreement has facilitated the 'bantustanisation' of the WBGS from a legalistic and territorial point of view. By failing to end the occupation, it caused the source of Palestinian jurisdictional authority to be the Israeli military, not solely the Palestinian people or international law. Article 1.1 of Oslo II has stated that all transfer of authority will take place from the Israeli military government and its civil administration to the Palestinian Council (or its representative, the PNA). Usually when an occupation

ends, its administration is dismantled and the occupier does not have a say in the way the new elected authority runs the affairs of its population. The Interim Agreement, though, has not dismantled the Israeli civil administration, nor has it dismissed Israeli legislation that has been in effect between 1967 and 1993. Articles XVIII.4 and 5 in Chapter 3 clearly specify that the PNA cannot change Israeli legislation without joint consultation with the Israeli authorities. The Oslo process has actually legitimised the fact that Israel is the source of authority, and tied the scope of Palestinian jurisdiction to Israel's territorial and political priorities.

Territorially, the Oslo process paved the way for the 'bantustanisation' of WBGS in four major ways. First, it set the stage for separating the West Bank from the Gaza Strip and for treating territorial claims in each differently. The Oslo Accords talk about Israeli *withdrawal* from the Gaza Strip, but only about *redeployment* in the West Bank.<sup>24</sup> The difference in terms is important, since withdrawal implies the end of occupation whereas redeployment entitles Israel to reinstall itself in any area whenever it deems it necessary. Moreover, Israel chose to demarcate its borders with the Gaza Strip more clearly than those with the West Bank, thereby facilitating the bifurcation of the Gaza Strip from the West Bank that Roy (1999a) emphasises. It establishes two main border entries into the Strip, at Erez and Karni, firmly patrolled while bare-wiring the frontiers with Israel. This separation was further consolidated by the fact that Israel established only one of the two safe passages between the Gaza Strip and the West Bank stipulated in article X of Annex I in Oslo II, in October 1999. However, it was soon closed again, thereby cutting any links between the two areas.

Second, the division of the WBGS into three zones was bound to induce a process of 'bantustanisation' of Palestinian areas, given that Area C cuts through Areas A and B and represented 59 per cent of the West Bank (excluding East Jerusalem) land by 2000. Area C divided the West Bank into three major parts that are further cut into smaller population reserves as a result of the bypass road system and the four major settlement blocks. The centre of the West Bank is cut from the south through the Jerusalem metropolitan settlement block and the Etzion block along the Green Line. The north is nearly split from the centre by Area C, which connects the Shomron settlement block with the one along the Jordan Valley (see Map 7.1). The Gaza Strip is cut by three smaller settlement blocks that accommodated less than 7,000 settlers in 1993 (Table 3.1). The fact that the Interim Agreement does not deal with three key territorial issues, namely borders, settlements and Jerusalem, meant that Israel had the sole power to determine the mobility of workers between Palestinian areas, as well as to areas defined as 'Israeli', even if by international law they were not defined as such.



Map 7.1 Projection of the West Bank final status map presented by Israel, Camp David, July 2000 (source: Palestinian Academic Society for the Study of International Affairs (PASSIA)).

Third, the 'bantustanisation' of WBGS land was consolidated by the way that the Oslo agreement actually legitimised Israel's claim over WBGS land. Article XI.c of Oslo II states that only Israel territorially controls Area C. Article 16 of Protocol III (para. 3) clearly states, 'The Palestinian Council shall respect the legal rights of Israelis (including corporations owned by Israelis) relating to Government and absentee land located in areas under the territorial jurisdiction of the Council.' In other words, the Palestinian authority accepted Israel's claim over Palestinian land, even over that which lies in Area A. Articles 22 and 27 from Protocol III confirm this right with regard to all other lands (including bypass roads).

Fourth, the Interim Agreement recognises sole Israeli jurisdiction over Israeli settlements and settlers, from a territorial as well as from a functional point of view (DOP, article V; and articles XVII, XVIII in Oslo II, Protocol III). By signing up to it, the Palestinian negotiators accepted the presence of settlements, rather than preparing for their dismantling. More importantly still, the agreement asserted that the 'Palestinians and settlers' requirements are not irreconcilable' (Aronson 1996:36), something that international law and the Geneva Convention clearly disclaim, as discussed in Chapter 3. Furthermore, the Oslo Interim Agreement did not ensure that settlements would not expand in the interim period. As explained in Chapter 3, the settler population (including settlers in East Jerusalem) increased from 258,300 to 370,000 between 1992 and 2000 to reach a total of 410,000. The major growth of settlements has been in the Jerusalem metropolitan area and along three other settlement blocks (see Chapter 8). This expansion shatters the Palestinian territorial contiguity in the WBGS.

### *The labour article in the Economic Protocol*

The 'bantustanisation' of the WBGS is intrinsically tied to regulation of labour movements. As indicated in Chapters 4 and 5, the Palestinian economy had substantial, if at times hidden, labour reservoirs, especially given the rapid growth in its labour force and low participation rates. The EP, however, did not protect the WBGS from turning into *de facto* labour reserves. Apart from falling short of protecting economic growth and trade prospects from political and territorial considerations, the EP actually participated in locking the WBGS into a labour reserve economy by failing to guarantee the freedom of labour movement within the WBGS and towards Israeli areas. Article VII of the EP, which should define the modality of labour transfer to Israeli areas in the interim period, is particularly vague with regard to the controls *already* in place that have been regulating the pattern of labour flows since 1991, namely the question of closure and permits.

The first issue covered by article VII concentrates on the question of freedom of movement. As discussed earlier, it is not committed to such a freedom. It simply states that 'the normality of labour movement shall be maintained', but it does not define what normality of labour movement means, nor does it explain how such normality will be maintained. If anything, the first paragraph of article VII recognises the right of Israel to limit labour flows and to define the conditions under which workers are entitled to enter the Israeli areas. Moreover, it is the only place within the EP where the concepts of *closure* and *borders* are insinuated.<sup>25</sup> It stipulates that 'If normal movement is suspended temporarily by either side, it will give the other side immediate notification and the other side may request the matter to be discussed in the Joint Economic Committee (JEC).'

The second issue of concern in article VII relates to the regulation and recruitment of labour flows. Paragraph 1 of article VII confirms that the regulation of WBGs employment in Israel will continue to be carried out via the Israeli Employment Service, and in accordance with Israeli legislation. The paragraph also gives the Palestinian side the right to organise labour flows to Israel via the creation of its own employment offices, which should co-ordinate their efforts with those of the Israeli Employment Service. The details of this co-ordination are not specified, though. More importantly, the article does not discuss four issues central to the regulation of Palestinian employment: the question of work permits; the question of right of entry into Israel; the issue of workers recruited through illegal channels; and Palestinian employment in Israeli settlements.

The third question covered by article VII relates to the deductions made from the wages of legal Palestinian workers employed in Israel. This question forms the bulk of the labour article, and represents its main positive contribution (VII.2–VII.9). The seven paragraphs dedicated to this issue guarantee the right of legal workers to the social benefits to which they contributed. The article also discusses the transfer of these benefits to Palestinian individuals and institutions. Israel agreed, for the first time, to transfer sums collected by the Israeli social insurance institutions to Palestinian national insurance bodies, once these are created. Such an acknowledgement was particularly important in view of the substantial funds that these contributions represent (see Chapter 6). Israel, though, only agreed to transfer to Palestinian national institutions sums collected *after* 1994, thereby keeping the pre-1994 contributions in its Treasury (Farsakh 1999).

The fourth point in article VII relates to the question of implementation. In principle, the JEC should have been the body responsible for ensuring the implementation of the EP, including labour issues (VII.10, 11). However, article VII does not specify the agencies to be involved in the implementation process (ministries, committees, etc.), nor does it define the logistic of co-operation and arbitration between the Palestinian and the Israeli sides on labour matters (agenda, regularisation of meetings, procedures).<sup>26</sup> The vagueness with which article VII relates to the implementation of labour-related issues between Israel and the WBGs contrasts with the specific tasks that the JEC was given for implementing trade-related questions (see article III.16).

### *The institutionalisation of Israeli security considerations*

The ‘bantustanisation’ of labour flows has also been caused by the way the Oslo agreement protected Israel’s unilaterally defined security considerations. Article VII of the EP is not a self-regulating document, for its implementation is tied up with resolutions taken in other parts of the Oslo agreement, namely the Protocol on Redeployment and Security Arrangements (PRS) and the Protocol on Civil Affairs (CAP). The PRS is important, for it discusses the entry of persons into Israeli areas, which includes Area C. Article IX clearly states that Israel alone has the right to close its crossing points, prohibit or limit the entry of persons into its areas, and determine the mode of entry. On the other hand, the Protocol on Civil Affairs (CAP) is also central, since it defines the modality of the transfer of authority between Israel and the PNA, and actually supersedes the EP in being the reference document on labour matters. It made access to Israel determined not by the economic interests of both sides, but rather by what the military establishment in Israel defines as ‘security’.



The CAP supersedes the EP in four major ways. First, it handles the issue of permits, without which workers cannot enter Israel *and/or the settlements* (article 11.2). The EP only talks about workers in settlements in relation to income taxes. Their recruitment and employment are not discussed. The Protocol on Civil Affairs clearly specifies that the granting of *permits* is the prerogative of the Joint Civil Affairs Co-ordination and Co-operation Committee (the CAC) (CAP, I.c.3 and 4), not the JEC or the Ministries of Labour. Article 11 specifies that Israel will issue the necessary permits upon receipt from the Palestinian side of details of workers seeking jobs in Israel and the settlements (article 11.3).

Second, the CAP handles the issue of the *transfer of authority* on labour issues from the Israeli civil administration to the PNA (articles 11.1 and 11.2). This includes the organisation of labour flows as well as the transfer of the offices and prerogatives of the Israeli employment offices in the WBGS. The CAP, with its implementing agency, the CAC, was empowered to prepare the details of this transfer. The function of the Palestinian side was reduced to providing lists of Palestinians seeking employment and of those with social rights in Israel (CAP, 11.2, 11.3).

Third, article 11 of the CAP refers to the social rights of workers in Israel (paragraphs 4, 5, 6). It reiterates Israel's commitment to maintaining social benefits currently granted to workers, but also specifies that it will provide a list of all WBGS employees who have health and pension rights in Israel. This represents a detailed duplication of the stipulations of article VII of the EP. Although the CAP mentions that 'issues relating to the placement and rights of Palestinians employed in Israel are dealt with in Article VII of Annex V [the Protocol on Economic Relations]', it does not explain how the two articles can be harmonised in practical terms.

Fourth, and in contrast to the EP, article 11, paragraph 5 of the CAC clearly establishes a specific Joint Labour Committee, whose task was to organise the implementation of employment-related issues. The Labour Committee was responsible for the organisation of labour flows to Israel (the number of permits granted, information about workers), as well as handling matters relating to workers' rights in Israel (article 11, paragraphs 2, 3, 4). It was formed of representatives of the Palestinian and Israeli Ministries of Labour, the Israeli civil administration, and security officials. It was accountable to the CAC and not to the JEC.

Once the CAP established itself as the reference document on labour issues, access to Israel ceased to be an economic question and was determined purely by Israeli military considerations. The 1991 Israeli measures were thus further legitimised, rather than amended on the basis of 'reciprocity, equity and fairness'.

### **Implications and conclusion**

The Oslo Accords thus did not end Israeli occupation of the WBGS. Apart from not questioning Israel's territorial and demographic claims, it affirmed the redefinition of the 1967 borders. As Jong (1998:103) has put it, the Palestinian negotiators 'ended up accepting *de facto* Israel's Allon Plan and its intention to separate the Palestinian population of the West Bank and Gaza Strip from their territorial assets and resources'. Although article V.4 of the DOP stipulated that 'the two parties agreed that the outcome

of the permanent status negotiations should not be prejudged or pre-empted by Interim Agreement reached in the interim period', the economic and territorial facts suggest otherwise. By the time the final status negotiations were about to be concluded, the boundaries between what is defined as Israeli and what is Palestinian became more difficult to demarcate economically and territorially. The pattern of labour flows and territorial control in the interim period indicates that Israel has been consolidating its integration with some parts of the West Bank while preparing its separation from the Gaza Strip. They reveal a reality of 'bantustanisation' that compromises the 'territorial integrity' of the WBGS.

The question that remains to be asked is why Israel chose to integrate the former rather than the latter. Chapter 3 has revealed that the West Bank has carried more political and economic weight than the Gaza Strip. Since the Drobless Plan of 1978 and the Camp David Agreement in 1979, Israeli governments have envisaged consolidating their control over the West Bank rather than the Gaza Strip. When the first Intifada erupted in 1987, Israeli policy makers showed signs of readiness to separate from the Gaza Strip more easily than from the West Bank (Jarbawi 1999; Shafir and Peled 2000). Shimon Peres, in a speech at a UNESCO conference in Grenada in December 1993, just three months after the signature of the Declaration of Principle in Washington on 13 September 1993, spelt out the Israeli vision for a final status solution to the Israeli-Palestinian conflict. He envisaged that the Gaza Strip would progressively evolve into a Palestinian state while the West Bank would develop into an autonomous polity composed of Palestinians and Israeli settlers (Aronson 1996). The final borders and political character of this polity (a state or an autonomy, part of Israel or part of Jordan, or independent, etc.) were still to be defined.

Israeli political proposals during the interim period for resolving the territorial conflict with the Palestinians did not eliminate the spectre of the WBGS 'bantustanisation'. While they helped move the Israeli political establishment and polity away from the opposition of many to the idea of a Palestinian state, their conceptualisation of such a state was empty of central notions of independent sovereignty. The Beilin-Eitan Charter (Bipartisan Plan) in 1997, which sought to bridge the gap between Labour and Likud visions for a political solution with the Palestinians, stipulated that there will be no uprooting of settlements on the 'western land of Israel', nor any retreat from the Jordan Valley. It agreed to the creation of a Palestinian entity but not specifically the formation of a state. The Alpher Plan of 1994 envisaged incorporating 70 per cent of settlers into Israel, which would have left the Palestinians with control of over 89 per cent of the West Bank, while the Netanyahu/Allon-plus Plan of 1997 and the Sharon Plan of 1997 envisaged incorporating over 95 per cent of settlers and 60 per cent of the West Bank into Israel.<sup>27</sup> In each of these cases, the Palestinians would not have been given a contiguous territorial entity.

The final status map that Israel presented to the Palestinians in Camp David II in July 2000 and the Barak Plan in December 2000 testify to the formation of four major Palestinian quasi-'bantustans'. While the Camp David II and Barak Plans promised Israel's retreat from 90 per cent of the West Bank, Israel still kept itself in control of Jerusalem and of major bypass roads, and it planned to integrate 85 per cent of settlers into its state (see Map 7.1) (FMPEP 2001a). While the final boundaries between the Israeli and the Palestinian states would not have conformed literally to the Allon Plan prescribed

in 1967 and the Drobless Plan in 1978, they remained within its major line of demarcation. Areas around the Green Line and around Jerusalem would have been integrated into the Israeli state, while Palestinian international borders would have been clearly demarcated in the case of Gaza but not in the case of the West Bank. The Jordan Valley would have been a demilitarised zone in which Israeli troops would be stationed for three years before being replaced by an international observer force. While the Barak Plan promised the establishment of a Palestinian state in the WBGS, it remained unclear how this state would be contiguous and viable, given that it is cut into four major Palestinian enclaves with no guaranteed access between them. Moreover, it was not clear how viable the separation from Israel could be on an economic level.

According to Shlaim (1994:32), the Oslo Accords are guilty of 'creative recalcitrance', of formulations that intended to be vague and subject to various interpretations that would give Israel a free hand in doing what it wants. However, the analysis of the Interim Agreement's labour and land articles undertaken in this chapter reveals that Israel clearly consolidated its territorial claims over the WBGS. More alarming still, a redefinition of boundaries and a process of 'bantustanisation' of the WBGS have taken shape. While the economic and labour dimension of this process might not have been explicitly pre- envisaged, the way the agreement conceptualised and implemented territorial and security concerns inevitably led to such an outcome. The fieldwork analysed in the next chapter sheds further light on the underlying dynamics of this process of 'bantustanisation'.

## 8

# The 'bantustanisation' of the West Bank

## Insights from fieldwork data

The massive Israeli housing construction [in the West Bank] will erase the old demarcation line, but will create scores of new demarcation lines between homogeneous Jewish and Arab localities, a tribal map of alienated islands. The main meeting points will be in the marketplaces, factories, and building sites. Encounters in these places will be characterised by a clear hierarchy that prevails where the Jews are dominant and the Arabs subservient. This hierarchy of superiors and inferiors, a 'horse and rider' coexistence, will prevail throughout greater Israel, but its ugly significance will be truly perceived only in the metropolitan patchwork of tribal enclaves.

(Benvenisti 1984:62)

### Introduction

This chapter presents primary data on Palestinian employment in Israeli settlements in the West Bank, collected in the summers of 1999 and 2000. Its aim is to illustrate the structural interdependence between Israel's confiscation of Palestinian land and its use of Palestinian labour to realise this endeavour.

The primary data collected are particularly unique for their concentration on Palestinian labour flows to Israeli settlements in the West Bank. No study to date has explored the causes of Palestinian employment in the settlements and how it differs from employment inside the Green Line. This issue acquires a particular importance in view of the economic and territorial developments that took place following the Oslo peace process, and which were analysed in the previous chapter. The fact that the fieldwork was conducted just before the Al-Aqsa Intifada erupted, on 29 September 2000, provided a last chance to understand the dynamics of Palestinian labour migration in such a specific context.

The fieldwork sheds light on two interrelated issues. First, it explores the dynamics of labour migration to the settlements by discussing the mechanisms of labour release, transfer and absorption, which, as discussed in Chapter 1, are central to a comprehensive explanation of any migration process. Second, it provides a microcosmic illustration of the 'bantustanisation' process discussed in Chapter 7. While the fieldwork was not originally conducted with the primary objective of testing for such a phenomenon, the

data collected shed light on how the intrinsic link between Israeli land policy and Palestinian labour migration led to the fragmentation of Palestinian areas, turning them into population reserves dependent on the Israeli economy.

The first section of this chapter reviews the nature of the data collected as part of the fieldwork. The second section discusses the territorial reality of ‘bantustanisation’, while the third section identifies the economic mechanisms making the Palestinian areas structurally dependent on work in the settlements.

### **Data collected**

The fieldwork concentrated on Palestinian workers and subcontractors employed in the Israeli settlement construction sector.<sup>1</sup> The reason for choosing construction stems from its role in absorbing over 50 per cent of all Palestinian workers employed in the Israeli economy (see Chapter 4). The data collected also shed light on two main elements that contribute to the ‘bantustanisation’ process. First, they show the territorial means by which the West Bank has been fragmented into disconnected Palestinian population enclaves and into patches of settlement areas that Israel wants to incorporate into its 1948 borders. Second, they explore some of the reasons that cause Palestinians to work in the settlements rather than in Israel or in the West Bank.

#### *Data on settlements*

The first set of data collected were on settlement construction. Data from official and para-public sources<sup>2</sup> were analysed in order to identify the territorial and demographic implications of the growth of settlements for the release of labour and the redefinition of boundaries between what is Israeli and what is Palestinian. This survey of settlements allowed me, in turn, to locate two construction sites that were used as case studies. The first case study revolves around the settlement of Ariel, which is the second largest settlement in the West Bank (with 14,400 inhabitants in 1998) (Map 8.1). It lies on the western side of the West Bank, over the rich western aquifer water resources, halfway between Nablus and Ramallah at the intersection of Road no. 5 (the Trans-Samaria Highway), which crosses the West Bank from east to west, and Road no. 60, which divides it from North to South. All final status maps for resolving the Israeli-Palestinian conflict—Camp David II 2000, Taba 2001 or the Geneva Initiative 2003—envisaged incorporating Ariel into Israel. The second case study looks at the settlements of Nili and Keryat Sefer, which are situated on the West Bank side of the Green Line, and subject to annexation in any final status agreement (see Map 8.2). Like 75 per cent of all settlements, they had a population of fewer than 600 inhabitants each in 1994, thus revealing the microcosmic mechanism of creating new facts on the ground.

#### *Data on subcontractors*

The second stage of the fieldwork involved a survey of 30 Palestinian subcontractors working in the settlements and in Israel. Palestinian subcontractors occupy an important role in the construction sector, since they are the suppliers of unskilled and semi-skilled

workers as well as the furnishers of 'wet construction jobs', which represent 55 per cent of construction costs. Yet no study so far has explored their role and characteristics. The survey of subcontractors assesses the extent to which construction in the settlements is more profitable, and thus more attractive to firms, than in Israel. A total of 30 subcontractors were selected by a snowball mechanism (one subcontractor leading to the other).<sup>3</sup> They were interviewed through a detailed questionnaire.<sup>4</sup>

### *Data on workers*

The third survey involved 90 male construction workers employed in the settlements *and* in Israel, who were interviewed in depth with a detailed questionnaire. The aim of the survey was to explore the reasons underlying the shift from employment in the West Bank or Israel to employment in the settlements, in particular the role of permits, closure and wages.

The sample of workers was chosen by a snowball method from two Palestinian areas. Thirty workers were from the town of Salfite, which is a major agricultural town on whose land the settlement of Ariel was built. All these workers were employed in the settlements around the Salfite District, including on the Ariel site under investigation. Thirty-four workers were interviewed from the refugee camp of Jalazon, situated in the Ramallah District. These were working in the settlements of Nili and Keryat Sefer as well as in other settlements. The reason for choosing this refugee camp stems from the fact that it presented interesting contrasts with Salfite. As shown in Chapter 4, 30 per cent of West Bank workers employed in the Israeli economy came from rural areas, while another 15 per cent came from refugee camps in the 1990s.

The 30 other workers interviewed, 15 from Salfite and 15 from Jalazon refugee camp, were employed in Israel, mainly in Melabus (in Hebrew called Pitah Tikva) and in Modiin, in the Central District of Israel, along the Green Line. Workers employed in Israel were interviewed in order to draw parallels and contrasts with workers in the settlements and to explore how Israeli security considerations contributed to the segmentation of Palestinian employment between the settlements and Israel.

### *Problems and limitations*

During the fieldwork, three major technical difficulties were encountered that restricted the choice of case studies and affected the nature and quality of the data collected.

The first major problem was to find workers employed in the settlements who were willing to be interviewed. At the time of the survey, the Palestinian National Authority had defined Palestinian employment in the settlements as illegal, and thus many people were reluctant to talk about their experiences. This difficulty limited the choice of survey techniques available to me, especially as no sampling frame on workers in the settlements was available. I could not rely on random sampling, but rather reverted to a snowball method for choosing my interviewees. This method was the only means available to access the population and establish a sense of confidence. In the choice of contractors, the same method was used, since there was no register of contractors employed in the settlements. Secrecy was also a major problem, as many respondents were reluctant to

provide me with precise information, particularly with regard to questions concerning construction costs.

The second major difficulty related to the freedom of movement between places. Getting into the settlements and Israel, as well as finding Israeli and Palestinian contractors willing to be interviewed, was difficult and time-consuming. Moreover, in September 2000 the Al-Aqsa Intifada erupted, which made mobility quite difficult and dangerous.

The third problem I faced related to how to deal with the definitions used by the Israeli and the Palestinian sources. Israeli sources do not use the Arabic names of places or refer to the same boundaries of districts as are used by Palestinian and international sources. The confusion around demarcations of Jewish and Palestinian areas was particularly pronounced in the case of Jerusalem, as different Israeli and Palestinian sources exclude or include settlements that are territorially situated within the West Bank, and not in East Jerusalem. These discrepancies and overlaps are in themselves, though, reflective of the process of boundary redefinition taking place in the West Bank. However, the data presented here distinguish between settlements in Metropolitan Jerusalem and those of Municipal Jerusalem, and maintain a consistency of spaces.

In terms of explanatory power, it is important to note that the fieldwork concentrates on explaining the micro-determinants of commuting migration within a specific context, which is the drive for settlements' growth. However, the sample size is small and the findings cannot be generalised to explain the more complex dynamics of Palestinian employment in the Israeli economy more generally, and especially beyond the Green Line. Three main limitations need to be noted.

First, the fieldwork does not explore the role of foreign workers in potentially replacing Palestinian workers. Restrictions of both time and resources prevented a survey of foreign workers that would have helped assess how their employment complements, or substitutes for, that of Palestinian workers (at the level of skills, tasks, sectors, geographic concentration).

Second, the smallness of the samples of workers and subcontractors does not allow for a comprehensive analysis of the dynamics of subcontracting in construction, especially as it was not possible to obtain a representative sample of the various firms and of their different production costs. The survey does not cover a sample of Israeli-owned constructors, which would have explored their relation to Palestinian subcontractors and how they make their choices to work with Palestinian or foreign subcontractors. Moreover, it was not possible to obtain information about construction cost breakdown in more than the two construction sites used here or to obtain more precise information from Palestinian and Israeli firms on their patterns of recruitment and production. The available data, however, remain valuable in providing an indication of the role of Palestinian labour in containing production costs in the settlements.

Third, the fieldwork revealed the need to complement quantitative data with qualitative data. In describing their work experiences over the past 15 years, or talking about their complex and evolving relations with the Israeli employer or subcontractor, the pattern of subcontracting, and relations with other employees, workers brought valuable and diverse qualitative data about the changing dynamics of Palestinian dependency on Israel, at both the economic and the social level. The information, however, was not

amenable to codification and posed a challenge in terms of how to use and present the data.

That said, the data presented have not been collected hitherto, and they remain valuable in so far as they describe the mechanism of labour migration to the settlements. The data shed light onto how Israel created the conditions for using Palestinian labour in an attempt to annex Palestinian territories and redefine the 1967 boundaries, leading thereby to a process of 'bantustanisation'.

### The territorial reality of 'bantustanisation'

The role of settlements in the 'bantustanisation' of the West Bank can be gauged from the data presented in Table 8.1. This table, which concentrates on Israeli public-sector construction in the districts of Jerusalem, the Centre and the West Bank,<sup>5</sup> shows three important developments.

First, the table indicates the numbers of houses under construction in what the Israeli Ministry of Housing considers to be 'Metropolitan Jerusalem'. The number of houses under the column headed 'Jerusalem (Municipal)' refers to the houses being built in East and West Jerusalem. As can be seen, 10–26 per cent of all houses initiated by the public sector between 1990 and 2000 were in Jerusalem, mainly in the eastern part of

*Table 8.1* Israeli housing units initiated by the Ministry of Construction and Housing in Jerusalem, the Central District and the settlements, 1990–2000

<i>Year</i>	<i>Jerusalem (Municipal)</i>	<i>Percentage in total public<sup>a</sup></i>	<i>Metropolitan Jerusalem<sup>b</sup></i>	<i>Centre</i>	<i>of which in Modiin</i>	<i>WBGS</i>	<i>of which around 'Jerusalem'</i>	<i>of which close to Centre</i>
1990	4,582		5060	4,035	–	640	478	162
%		24	(9)	100	–	100	75	25
1991	10,032		11,547	11,563	–	4,696	1,515	3,181
%		17	(13)	100	–	100	32	68
1992	3,047		4,119	2,926	–	4,282	1,072	3,210
%		15	(26)	100	–	100	25	75
1993	1,218		1,446	1,906	–	408	228	180
%		20	(16)	100	–	100	56	44
1994	2,675		4,019	3,939	575	571	344	227
%		25	(11)	85	15	100	60	40
1995	3,193		3,702	14,781	4,878	1,812	1,509	303



%		12	(32)	67	33	100	83	17
1996	5,118		5,777	5,332	880	1,052	659	393
%		26	(11)	83	17	100	63	37
1997	2,783		2,355	4,827	1,655	1,160	572	588
%		17	(17)	66	34	100	49	51
1998	978		2,201	2,869	1,571	1,842	1,323	519
%		10	(57)	45	55	100	72	28
1999	1,166		2,028	2,386	478	1,341	862	479
%		13	(43)	80	20	100	64	36
2000/1–5	792		1,522	2,089	522	894	730	164
%		15	(48)	75	25	100	82	18

Sources: Israeli Ministry of Construction and Housing (2000: table A.7:7); ICBS (1993, 1998, *SAI*: tables 16.4, 16.5).

Notes

a 'Percentage in total public' refers to the share of housing units in Municipal Jerusalem in total publicly led housing projects in all of Israel,

b Absolute figures refer to the number of houses in Municipal Jerusalem *and* in areas outside East Jerusalem that the Israeli Ministry of Construction and Housing considers to be part of 'Metropolitan Jerusalem'. The percentage figures provided in parentheses refer to the share of Israeli houses in West Bank settlements outside Municipal Jerusalem in total number of houses initiated by the public sector in 'Metropolitan Jerusalem'. The definitions used by the Ministry of Construction for Jerusalem and the Centre district do not correspond to the ones used by the ICBS.

the municipal city (column A). Construction in the West Bank in areas that the Ministry of Construction and Housing considers to be part of 'Metropolitan Jerusalem' but which, according to international law, are not (such as Ma'ale Adumim in the Ramallah District and settlements in the Bethlehem District) represented more than 43 per cent of all construction in Metropolitan Jerusalem since 1998 (column B). This growth is indicative of how Israel is consolidating its claim over what it defines as the 'indivisible and eternal capital of Israel'.

Second, Table 8.1 shows the percentage and number of publicly initiated houses in the Central District of Israel, with special emphasis on a newly established city, Modiin. Modiin did not exist before 1994, but after that date it represented between 17 per cent and 55 per cent of all publicly initiated houses in the Central District. The city of Modiin is particularly important as it lies on the Israeli side of the Green Line and is on the border with a number of smaller settlements in the West Bank, such as Keryat Sefer and Nili. Modiin was created as part of the Israeli government plan to expand the metropolitan area of Jerusalem and Tel Aviv, lying as it does 20 km from each of them. It is central in the government project to shift the demographic and economic weight of the country towards the Central District, as well as to incorporate within Israel the

settlements in the West Bank that are near the Green Line, as outlined in the National Outline Scheme (no. 31) and the 'Hill Axis-Seven Stars Plan' (see Chapter 6).

Third, Table 8.1 indicates that the share of publicly led housing projects in West Bank settlements close to the Central District in Israel represented more than 68 per cent of all public projects in Israeli settlements in 1991 and 1992. Since the signing of the Oslo I Accords, between 49 per cent and 83 per cent of all construction in the settlements were in Ramallah and Bethlehem Districts, in areas that Israel defines as 'Metropolitan Jerusalem'.

The importance of these construction trends lies in their implications for the redefinition of boundaries. The expansion of housing along the Green Line indicates how Israel is expanding its demographic and territorial boundaries *into* the West Bank. The emphasis on settlement growth *within* and *around* Jerusalem effectively cut the West Bank into two unconnected segments, north and south. This cut has been further entrenched with the system of bypass roads which further fragment the Palestinian population into smaller 'tribal enclaves' (see Map 3.4).

The territorial and demographic aspect of the 'bantustanisation' process is further illustrated in Table 8.2. This table shows the geographic distribution of settlements in 1998 in the five West Bank districts and in the Gaza Strip. It indicates the size of the land they control and the total population they inhabit in comparison to the total Palestinian population living in the district. According to ARIJ (2000), Israel managed in 30 years to create a Jewish built-up area of 150 sq.km, which is 40 per cent of the

*Table 8.2 Settlements in the West Bank and Gaza Strip, 1986 and 1998*

<i>Jewish Settlement Regional Council</i>	<i>Number of settlements</i>	<i>Israeli-built area (km<sup>2</sup>)</i>	<i>Situated within Palestinian district of:</i>	<i>Israeli population</i>		<i>Palestinian population, 1998</i>	<i>Ratio of Palestinian to Israeli, 1998</i>
				<i>1986</i>	<i>1998</i>		
Shomron	49	33.1	Nablus and Northern WB	23,000	54,200	726,893	13.4
<i>of which Salfite</i>	<i>12-16</i>	<i>11.1</i>	<i>of which Salfite</i>	<i>12,257</i>	<i>25,200</i>	<i>46,668</i>	<i>1.9</i>
Benyamin	43	39.3	Ramallah and Central WB	21,100	70,200	205,448	2.9
Gush-Etzion	20	15.0	Bethlehem area	4,600	26,320	132,090	5.0
Har Hevron	18	8.0	Hebron and Southern WB	4,300	10,470	390,272	37.3
Jordan Valley	18	27.4	Jordan Valley	2,700	3,800	31,501	8.3

Jerusalem <sup>a</sup>	11	22.7	East Jerusalem annexed by Israel in 1967 <sup>a</sup>	103,900	168,100	211,030	1.3
Total area of West Bank <sup>a</sup>	171–175	123.0		159,600	333,090	1,697,234	5.1
<i>Percentage of settlements in total West Bank</i>		<i>2.17</i>		<i>13.00</i>	<i>16.41</i>		
Gaza	19	8.6	Gaza Strip	2,150	6,100	1,000,517	164.0
<i>Percentage of settlements in total Gaza Strip</i>		<i>2.4</i>		<i>0.34</i>	<i>0.61</i>		

Sources: ARIJ (1999) *Settlements Data Base*; FMEP (2001b); PCBS (1999a).

Note

a The Jerusalem settlements refer to those in East Jerusalem (including French Hill, Gilo and Rekhes Shuafat) which are considered part of Municipal Jerusalem. They exclude settlements defined by Israeli Ministry of Housing as being part of 'Metropolitan Jerusalem' (and thus exclude settlements such as Maale Adumim). Israeli settlement regional councils include local council settlements, but exclude Jerusalem. Figures on total population in Jerusalem and the total West Bank exclude 113,890 persons reported by the PCBS to be living in Jerusalem District but which are not within the confines of Israeli demarcation of the eastern part of the city.

The total Israeli built-up areas exclude settlements built in no man's land along the Green Line, which include four major settlements occupying an area of 3.9 sq. km. Data on Israeli built-up areas are taken from ARIJ.

size of the West Bank area inhabited by Palestinians (a total of 367.7 sq.km).<sup>6</sup>

Table 8.2 indicates that the largest Israeli settler population is concentrated in East Jerusalem. The ratio of the Palestinian to the Jewish population in Municipal Jerusalem is 1.3:1. The Ramallah District of the West Bank (which the Israeli government refers to as Benyamin) has the second largest settler population. The Jewish population more than tripled between 1986 and 1998. The district contains the largest settlement built so far, Ma'ale Adumim (22,000 inhabitants in 1998), as well as the settlements of Nili and Keryat Sefer explored in the fieldwork. These are within the metropolitan area of Jerusalem and Tel Aviv and are considered part of the settlements that Israel has decided to annex once a final peace agreement with the Palestinians is reached (see Map 7.1). The Shomron settlement block, in which Ariel is situated, is the second largest territorially (see Table 8.2). It extends over an area of 33.1 sq.km, and is particularly important because it controls one of the richest water reserves in the West Bank. It has also been singled out for annexation by Israel in any eventual final peace agreement (Map 7.1).

*'A tale of two towns': Salfite and Ariel*

The changing character of the Salfite District and the contrasting development of the Palestinian town of Salfite and the Israeli settlement of Ariel provide a microcosmic representation of Israeli territorial and demographic colonisation of parts of the West Bank, which is creating the process of 'bantustanisation'. In 1978, the district had an estimated Palestinian population of 30,000 inhabitants living in 23 Palestinian villages, one major town—Salfite—and no Israeli settlers. Between 1978 and 1992, a total of 12 settlements were constructed and a total of 24,000 settlers were living in them. Since the initiation of the peace process in 1993, at least four new settlements have been built (ARIJ 2000). The settler population in the Salfite District more than doubled between 1986 and 1998 (see Tables 8.2, A14 and A15). The ratio of Palestinians to Israelis in the district was 1 to 1.9, which is the lowest in the West Bank after Jerusalem (see Table 8.2).

The settlements in Salfite District were built on land confiscated from Palestinian households. An estimated 20.1 sq.km has been confiscated between 1978 and 1998, but in effective terms, Jewish built-up areas occupy 11.1 sq. km, or 5.4 per cent of the area (see Table 8.3). Settlements are connected to one another and to Israel through a system of two major bypass roads that eats away 1.8 per cent of the district's land (ARIJ, unpublished data). These roads include the Trans-Samaritan Highway, which connects the settlements along a Tel Aviv-Jordan Valley horizontal axis, and route N60, which connects settlements to Jerusalem (see Map 8.1). These two major bypass roads bring the Salfite/Shomron settlements

*Table 8.3* Palestinian and Israeli population in the Salfite and Ramallah Districts, 1998

	Area (km <sup>2</sup> )	Population			Labour force	E mployed popu- lation	Percentage working in			Perce ntage une mpl oyed in labour force
		1986– 1987 <sup>a</sup>	1998	Per centage change			West Bank	Israel	Settl ements	
<i>Salfite District</i>										
Palestinian area	202.06	22,890	46,688	204.0	12,192	10,171	59.4	28.5	12.2	16.6
Israeli built-up area	11.4	13,424	25,800	192.2	n.a.	n.a.	–	–	–	–
Salfite Town	35	4,838	7,100	146.8	1,983	1,629	–	–	–	17.9
Ariel (City)	4.01	6,500	14,400	221.5	n.a.	n.a.	–	–	–	–
Ratio of		1.71	1.81	–	–	–	–	–	–	–

Palestinians  
to Israelis  
in district

*Ramallah District*

Palestinian area	848.4	188,870	205,450	108.8	51,000	44,390	85.1	10.7	4.2	13.0
Israeli built-up area	26.5	22,669	52,588	232.0	n.a.	n.a.	–	–	–	–
Jalazon	0.4	4,936	6,139	124.4	1,566	1,319	–	–	–	15.8
Na'lin	0.4	2,107	3,361	159.5	844	728	–	–	–	13.7
Nili (Israeli settlement)	0.3	191	530	277.5	n.a.	n.a.	–	–	–	–
Keryat Sefer (Israeli settlement)	0.8	d.n.e.	7,866	–	n.a.	n.a.	–	–	–	–
Ratio of Pales- tinians to Israelis in district		8.33	3.91	–	–	–	–	–	–	–
Total West Bank	5,659	1,067,000	1,873,500	175.59	690,000	507,000	75.5	21.8	2.7	17.2

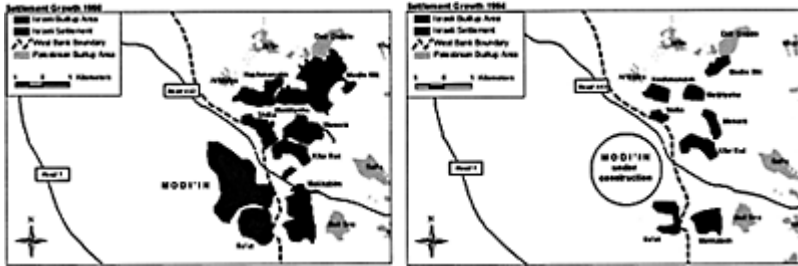
Sources: Benvenisti and Khayat (1988); FMEP (2001b); PCBS (1999c: table 22); PCBS (1999d: table 4).

Notes  
n.a.: not available; d.n.e: did not exist. Labour force figures refer to +10 population. Total population in the West Bank includes East Jerusalem, a Palestinian population figures refer to 1987 data while Israeli population figures refer to 1986.



3,361 inhabitants and a total area of 0.42 sq. km in 1998. Na'lin's 230 workers were mainly working in Israel or in neighbouring settlements, primarily on a casual basis (PCBS 1999c).

Nili is a secular suburban Israeli settlement of middle-income people who work mainly in Jerusalem or Modiin. In 1998, it had a population of 600, double its size in 1992. It has an elementary school but no hospital facilities. In 1990, Israel announced the creation of a new settlement, Keryat Sefer. In 1996, Keryat Sefer was reported to have a total population of 5,700 (FMEP 2001b). By 1998, the population had increased by nearly 40 per cent, reaching a total of 7,860. Both Nili and Keryat Sefer are considered satellite settlements for the city of Modiin. Map 8.2 shows the phenomenal territorial expansion of these two settlements and particularly of the town of Modiin.



*Map 8.2 Israeli and Palestinian construction along the Green Line, Ramallah District, 1998.*

*The surveyed sites*

*Ariel: consolidating Israeli presence*

The Ariel construction site used for one of the case studies consisted of two residential building projects for the University of Ariel, the only Israeli university in the West Bank. The project was part of the municipality's attempt to consolidate Ariel's image as a major Israeli city, one that will not be dismantled in any final peace agreement with the Palestinians. The building project was initiated by the university engineering office, a public-sector body, but its execution was subcontracted to various firms. The skeleton works (i.e. pre-casting the concrete walls and roof) in the two residential buildings were subcontracted to a Palestinian firm from Salfite (owned by Mr M.). The decision to subcontract the work to Mr M. was based not on a bid, but rather on a long-standing working relationship. Mr M. has been undertaking work for the Municipality of Ariel and the university for over ten years. His workers were all from Salfite and were included in the survey of workers.

*Nili and Keryat Sefer: creating more facts*

The Nili case study revolved around a construction of 135 new Israeli houses for a total budget of NIS 45 million (c. US\$9 million). The project was initiated by 20 Israelis, who moved into caravans on land from Na'lin village and demanded that the Israeli Ministry of Housing provide them with accommodation.<sup>13</sup> Amena, the construction arm of the Gush Emunim group,<sup>14</sup> pursued the demand on behalf of these 20 individuals with the Ministry. It won the bid for the 135 houses, which were going to double the size of the Nili settlement.

The Amena contracting firm subcontracted the work to two Palestinian contractors (Mr A. and Mr H.). Mr A. was from a neighbouring village and had been working in Nili for years before becoming the main contractor. In the Nili project, he was responsible for finishing skeleton work for the 135 houses. While doing the work alongside his workers, he also subcontracted some of the elemental works to two other, smaller Palestinian labour contractors. He did so because he was running short of time. Mr H. was the main subcontractor of the Amena contracting firm, which had various projects all over the 'Benyamin' district (i.e. the central West Bank) area. He has worked with Amena since 1992 and specialises in all outdoor construction activities (the outside walls of the garden, pavements, etc.). His workers were from the refugee camp of Jalazon.

The project at Keryat Sefer was undertaken by one of the largest Israeli construction firms working in the settlements and in Israel. It was the only Israeli firm that agreed to show me financial details of some of its construction projects. It has been the major contractor in Modiin and in 1997 won the bid from the Israeli Ministry of Housing for the construction of 228 units in Keryat Sefer. Workers employed on the site came from Na'lin, Ramallah and Jalazon. These workers were included in the survey of workers.

### **Palestinian employment in the settlements**

The data collected from the survey of workers shed light on the role of structural factors, such as Israeli labour and land policies, in explaining Palestinian employment in the settlements. Tables 8.4 and 8.5 are particularly revealing in showing that the Israeli permit policy had an effect in directing younger and less skilled workers towards the settlements.



*Table 8.4* Characteristics of WBGS workers employed in the Israeli economy compared with those employed on Israeli settlements, 1998 and 2000

	1998		2000	
	<i>WBGS workers in Israel and settlements</i>	<i>WB workers in settlements only</i>	<i>WBGS workers in Israel and settlements</i>	<i>WB workers in settlements only</i>
<i>Age distribution</i>				
15–24	26.7	40.2	24.9	43.4
25–34	35.8	38.5	24.0	34.6
35–44	20.1	14.8	23.3	17.7
45 and older	17.4	6.5	25.8	4.3
<i>Years of schooling</i>				
0–6	24.9	24.2	33.8	21.6
7–9	34.0	35.0	33.8	43.2
10–12	33.2	32.5	24.5	31.6
13	7.9	8.3	7.9	3.6
<i>Sectoral distribution</i>				
Agriculture	10.2	23.1	9.0	19.5
Industry	12.2	18.6	14.5	17.1
Construction	55.2	42.1	55.5	52.9
Services	22.4	16.2	21.0	10.5
<i>Occupation</i>				
Skilled	44.1	39.2	48.3	37.3
Unskilled	47.3	54.1	41.1	58.4
<i>Daily wage (NIS)</i>				
	100.5	76.5	111.2	n.a.
% of domestic wages	154.2	106.9	137.1	–

Sources: PCBS (1999), *Labour Force Survey*, no. 10, 1998, tables 9–15; PCBS (2001a: tables 5–11; 2001b).

Notes

'Skilled workers' refers to those defined as craft workers and machine and plant operators. as

defined by the PCBS. Data are taken from the third quarterly survey in 1998 and 2000.

*Table 8.5 Characteristics of workers from Salfite and Jalazon employed in the settlements and in Israel (fieldwork-based data), 2000*

<i>Workers' characteristics</i>	<i>From Salfite</i>	<i>From Jalazon</i>	<i>In Israel</i>
Mean age	29.1	29.4	36.1
Standard deviaton	5.9	7.61	7.7
Mean years of schooling	11.7	7.3	9
Standard deviaton	3.2	2.4	2.7
<i>Marital status</i>			
Married	63%	65%	93%
Single	37%	35%	7%
<i>Number of breadwinners in the household</i>			
Only one	67%	65%	63%
More than one person	33%	35%	37%
<i>Occupation</i>			
Skilled	44%	47%	74%
Unskilled	56%	53%	26%
Mean years of work	10.4	12.7	18.8
In settlements	7.4	3.7	
Total number	30	34	30

Source: Fieldwork.

Note

'Semi-skilled workers' refers to those defined as craft workers (stone layers, carpenters for scaffolding works, etc.).

Table 8.4, which is based on PCBS labour survey data, shows that over 40 per cent of all WB labour employed in the settlements were under the age of 24 compared with less than 30 per cent of those employed in the Israeli economy as a whole (thus including settlements) between 1998 and 2000. Over 54 per cent of Palestinians in the settlements were unskilled workers, compared with less than 49 per cent of those employed in the Israeli economy in 1998 and 2000. In terms of sectors, workers in the settlements tended to be more heavily concentrated in the industrial sector and in agriculture than those employed in the Israeli economy as a whole.

Construction absorbed the largest proportion of workers. The share of workers in settlement construction grew from 42.1 per cent to 52.9 per cent between 1998 and 2000. In terms of wages, Palestinians in the settlements earned 76 per cent of what their

brothers earned inside the Green Line in 1998. They earned only 7 per cent more than their brothers who were employed in the West Bank, suggesting that wages *per se* are not the determining factor pulling workers to the settlements. Moreover, these figures indicate that the labour market for Palestinians in the domestic West Bank and that in the settlements integrated, while they did not integrate with that in Israel.

The primary data collected on 94 workers from Salfite Town and Jalazon Camp confirm some of the characteristics of Palestinian employment in the settlements that are portrayed in official statistics (Table 8.4). Table 8.5 shows that workers in the settlements contrast with workers in Israel in being younger (averaging less than 30 years of age compared with 36 among those in Israel) and more unskilled (56 per cent versus 26 per cent). The mean number of years of schooling is higher than the national average for workers from Salfite but below it for workers from Jalazon. On average, over 63 per cent of workers were married and were the single breadwinner in their household. Workers in the settlements had on average worked 10.4–12.7 years, which is less than the number of years of work experience among those employed in Israel (18.8 per cent).

### **Explaining Palestinian employment in the settlements**

The fieldwork investigates three major questions that shed light on the mechanisms of labour release, labour transfer and labour absorption discussed in Chapter 1. These questions also expose some of the structural factors underlying the process of 'bantustanisation':

- 1 The relationship between land and work in the settlements.
- 2 The relationship between employment in the settlements and employment in other locations. Here, the data explore the role of policy instruments as well as of economic incentives in determining the 'choices' made by Palestinians to work in the settlements, rather than in the West Bank or in Israel. They thus provide an indication on the mechanism of labour transfer.
- 3 The relationship between Palestinian subcontractors and the absorption of Palestinian labour in the settlements. The field data shed light on the role of subcontractors in ensuring the absorption of Palestinian labour into Israeli construction and in helping to contain labour costs, as mentioned in Chapter 6.

#### ***Mechanism of labour release***

As explained in Chapters 1 and 4, the availability, or otherwise, of domestic sources of income is an important factor in explaining labour migration, including Palestinian commuting to the settlements. Table 8.3 shows that unemployment in 1998 represented 17.9 per cent of the labour force in Salfite Town and 15.8 per cent in the Jalazon refugee camp. It was lowest in Na'lin (13.7 per cent), suggesting that the closer workers are to the Green Line and to the Modiin settlement block, the lower the unemployment levels. Large unemployment pools provide an important material condition for making people seek employment outside the domestic economy.

The workers' relation to the land is also a central structural factor determining the extent of labour release. Workers from Jalazon do not own land, because they are

refugees. In the Salfite area, 87 per cent of all workers owned land, but agriculture has since long ceased to be a source of income (see Table 8.6). Workers tended to work the land only during the olive-picking season (a total of four to eight weeks a year). Products of the land were used not for sale but for consumption (84 per cent of responses). Twenty per cent of workers in Salfite and less than 9 per cent of workers from Jalazon had a 'non-land'-based secondary source of income to complement their wages from the settlements.

In answering the question of why Palestinians work in the settlements rather than in the domestic economy, workers have emphasised the lack of alternatives, be it in agriculture or other sectors. As can be seen from Table 8.7, 50 per cent of workers in Salfite worked in the settlements because it was the only work that they could find. Of the responses from Jalazon, 23.5 per cent mentioned the *instability* of work in the domestic economy as the main reason for seeking employment in the settlements. As one worker put it, 'in the Israeli economy there is always work, while in the West Bank you work one day and stop for three'. The closure policy, as explained in Chapter 7, further constrained domestic employment growth.

However, the release of labour to the settlements preceded the closure policy and was directly linked to diminishing access to the land. Local agriculture in Salfite District and the town itself contributed to the release of labour, as a result of its falling production and diminishing ability to employ labour. In the 1970s, the production and export of olive oil was the main activity in Salfite, particularly as the town had the largest number of

*Table 8.6 Access to land resources*

<i>Land</i>	<i>From Salfite</i>	<i>From Jalazon</i>	<i>In Israel</i>
Owning land	26 (87%)	None	8 (26%)
<i>Produces olives, which are used for:</i> consumption	25 (84%)	None	4 (13%)
as a secondary source of income	5 (16.6%)	None	4 (13%)
Lost land as a result of confiscation	3 (10%)	–	4 (13%)
Possess other sources of secondary income	6 (20%)	3 (9%)	6 (20%)
Total number	30	34	30

Source: Fieldwork.

olive trees in the district as a whole. Yet by the 1990s, the role of agriculture as an employer and income generator had diminished. It absorbed less than 9 per cent of all workers in the district as a whole, and its production had fallen by half compared to that in 1990.<sup>15</sup> The limited absorptive capacity of agriculture stems in part from Israeli agriculture policy. Palestinian olive producers could not export easily to Israeli and Jordanian markets because of quota and access restrictions. As explained in Chapter 5,

investment in agricultural projects needed Israeli approval, which was rarely given. Subsidised Israeli agricultural products also continued to invade local markets at cheaper prices, thereby undermining investment in local productions.

Israeli land confiscation and settlement policies also contributed to labour release. This is not so much because of the magnitude of the land confiscated, but rather because of its nature. According to Table 8.6, 10 per cent of the land-owning population surveyed in Salfite had lost land as a result of confiscation. Available figures from the Municipality of Salfite indicate that 4.2 per cent of the land in the Salfite District has been confiscated (see also Table A15). This is among the most fertile land. The 4,000 dunums that is under threat of confiscation in the district cuts through an arable area. The new road that is under construction in the district has taken over 22 per cent of land in Bruquin village and deprives neighbouring villages of the chance of initiating any massive irrigation or agricultural works.

Palestinians' access to their land was also curtailed as a result of Israel military enclosure. Twenty per cent of the land in Salfite District had been declared a closed military area and 10 per cent was military bases or was made up of untouchable nature reserves. Similar ratios are found in the Ramallah area. Under Oslo, the Salfite area is segmented into Areas A, B and C. Area C, which represents over 75 per cent of the district, is still under Israeli control (Map 8.1; ARIJ 2001b).

### *Mechanism of labour transfer*

Concerning the mechanisms of labour transfer, Table 8.7 indicates that 50 per cent of those from Salfite and 65 per cent of all workers in the Jalazon camp emphasise that higher wages in the settlements are the main motives for moving out of the domestic economy. This finding conflicts with PCBS data that reveal that wages in settlements were only some 6.9 per cent higher than in the West Bank (see Table 8.4). This difference could be attributed to two main factors. On the one hand, workers might have been inflating their wages to justify their work in the settlements, which was socially and politically stigmatised as unpatriotic. On the other hand, it is important to bear in mind that PCBS data do not distinguish wage levels by skills or by district, and thus might underestimate differences between areas. Moreover, PCBS labour surveys are answered not by the workers themselves, but by one of their family members, and thus might not be accurate.

The role of institutional factors in explaining the transfer of labour can best be seen when explaining why workers work in the settlements rather than *in Israel*. As can be seen from Table 8.7, over 56 per cent of workers from Salfite and 65 per cent of workers from Jalazon said that settlements were easier to access than Israel. They did not face difficulties in obtaining permits or in reaching work during times of closure. As can be seen from Table 8.7, checkpoints posed a problem to fewer than 23 per cent of workers, compared with 63 per cent of those employed in Israel. Closures caused more of a problem to workers in Israel than to those employed in the settlements (53 per cent of responses versus less than 43 per cent).

The impact of Israeli security measures on influencing labour transfer can also be grasped by exploring the responses of workers concerning present or past employment in Israel. A third of workers from Jalazon and from Salfite had worked in Israel before their

present work in the settlements (see Table 8.7). Fewer than 25 per cent of those who came from Jalazon and fewer than 7 per cent of those from Salfite worked in Israel

*Table 8.7* Reasons for working in the settlements and in Israel

	<i>From Salfite</i>	<i>From Jalazon</i>	<i>In Israel</i>
<i>Why work in settlements rather than in WB?</i>			
Wages	50%	65.0%	–
The only job available	50%	11.5%	–
Instability of domestic employment	0%	23.5%	–
<i>Do you sometimes work in WB?</i>			
Yes	33%	16%	33%
No	67%	84%	67%
<i>Why work in settlements rather than in Israel?</i>			
Easier access	56%	65%	–
Wages	0%	0%	–
The only job available	20%	29%	–
Stability	24%	6%	–
<i>Did you work in Israel before working in settlements?</i>			
Prior to 1993	33%	33.3%	80%
After 1993	6.6%	24.7%	20%
No experience in Israel	60.4%	42.0%	–
<i>Effect of Israeli security policies<sup>a</sup></i>			
Checkpoints negatively affect your work	23.0%	13.0%	63%
Closures negatively affect your mobility	43.0%	11.7%	53%
Total (no. of observations)	30	34	30

Source: Fieldwork.

Note

a Answers are not exclusive and thus do not add to 100.

after 1993.<sup>16</sup> This low percentage reflects the role of consolidated Israeli security measures in limiting Palestinian access to Israel after 1993, as explained in Chapter 6. Among those working in Israel, 80 per cent were employed beyond the Green Line *before* 1993. They have managed to secure a niche for themselves in the Israeli labour market, since they were older and had more work experience than workers employed in the settlements.

However, the transfer of Palestinian workers to the settlements was not only the outcome of wage differentials and institutional security measures. It also depended on the role of subcontractors. Workers could not merely rely on the possession of a permit in order to work in the settlements. They also needed a subcontractor who would hire them and apply on their behalf for the required permit. Table 8.8 shows that more than 60 per cent of workers in the settlements work for a subcontractor rather than for an Israeli firm. Thirty-five per cent of workers from Jalazon and 40 per cent from Salfite got their job by contacting the subcontractor directly. Table 8.8 also indicates that the majority of workers tended to work with the same contractor. For workers from Salfite, a mean of 5.7 years was spent with the same contractor, out of a mean of 7.2 years in the settlement as a whole. For workers from Jalazon, the average worker has been working for 2.5 years with the same contractor, out of a mean of 3.7 years' experience in the settlement as a whole. Workers in Israel do not show the same level of dependency on subcontractors (Tables 8.8).

*Table 8.8* Pattern of recruitment of workers to the settlements and to Israel

	<i>From Salfite</i>	<i>From Jalazon</i>	<i>In Israel</i>
<i>For whom do you work?</i>			
Palestinian subcontractor	66%	60%	0%
Israeli firm	23%	6%	100%
Others	11%	34%	0%
<i>How did you obtain your present job?</i>			
Through a Palestinian subcontractor	40%	35%	6%
Through friends	16%	41%	46%
Through other means	54%	24%	48%
<i>Since when working with the subcontractor</i>			
Mean years	5.7	2.5	—
Standard deviation	3.8	2.1	—
Mean years of work in settlements	7.4	3.7	—
<i>Foreign workers</i>			
Available on sites	33%	47%	73%
They pose a threat Palestinian employment	0%	7%	30%
Total number	30	34	30

Source: Fieldwork.

*Mechanism of labour absorption*

As explained in Chapter 6, Palestinian subcontractors provide a structural link between Palestinian workers seeking a job outside the local economy and Israeli construction firms in search of low-cost labour. Table 8.9 presents some general characteristics about the Palestinian subcontractors surveyed. The table indicates that the mean age of the subcontractors is 42.5, indicating that they are older than workers employed in Israel or in the settlements, and more educated. Thirty per cent of Palestinian subcontractors worked as labourers before establishing their subcontracting firm, and another 40 per cent were foremen working in Israeli firms for which they subcontract today. Seventy-nine per cent of subcontractors had their firms registered in Israel or the West Bank as a taxpaying entity. Thirty-three per cent specialised in skeleton works. They obtained the subcontracted work from an Israeli firm that won the bid contest. Table 8.9 also reveals that work in the settlements represented an important source of

*Table 8.9* General characteristics of Palestinian subcontractors

	<i>Palestinian subcontractors</i>
<i>Subcontractors' characteristics</i>	
Mean age	42.5
Standard deviation	4.8
Mean years of schooling	13.1
Standard deviation	4.2
<i>Previous occupation</i>	
Worker	30%
Foreman	40%
Engineer	30%
<i>Nature of the firm</i>	
Formal	79%
Informal	21%
Mean years of work as subcontractor	12.5
Standard deviation	6.5
Mean years of work in settlements	8.5
Standard deviation	3.0
<i>Specialised in</i>	
Skeleton works	33%
Finishing works	19%
Turnkey	48%
Total	30



Source: Fieldwork.

Notes

'Skeleton works' refers to scaffolding and wet jobs that relate to the crude structure of the building.

'Finishing works' refers to painting, tile posing, stone laying, etc.

'Turnkey' refers to the fact that a construction firm takes on skeleton and finishing works.

income for all the subcontractors interviewed. The mean number of years of work is 8.5, indicating that subcontracting firms started to work in the settlements *before* the signing of the Oslo Accords. Most firms, though, tended to diversify their work location, as 48.2 per cent of firms interviewed also worked in Israel and 30 per cent worked in the West Bank (Table 8.10).

In answering the question of why they work in the settlements rather than in Israel, 36.7 per cent of firms attributed their geographic

*Table 8.10* Palestinian subcontractors' work experience

	<i>Palestinian subcontractors</i>
<i>Where do you work?<sup>a</sup></i>	
Only in settlements	33.0%
Also in Israel	48.2%
Also in the West Bank	30.0%
<i>Why work in settlements rather than in Israel?</i>	
Nature of the work of the mother contracting firm	36.7%
Easier access	33.3%
Others	30.0%
<i>Where has the number of projects you are working on increased since 1993?<sup>a</sup></i>	
Settlements in the district	83.3%
Settlements all over the West Bank	16.7%
Israel	(26.7%)
West Bank	(33.3%)
<i>Why construction in settlements grew</i>	
Government policy	33.3%
Growing demand	46.7%
Growing reputation	20.0%
<i>Why construction in the Palestinian economy grew?<sup>a</sup></i>	
Growing demand	53.3%
Closure policy	35.0%

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*How do you usually obtain the job?*

Ex-employer	36.7 %
Contacts	26.7%
Bidding	23.3%
Others	13.3%

*Who has been your main contractor?*

Public firm	36.6%
Israeli private firm	26.7%
Israeli settler firm	36.7%
Total	30

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Source: Fieldwork.

Note

a Answers are not exclusive and thus do not add to 100 per cent.

concentration to the availability of work from the main Israeli firm that subcontracted them (see Table 8.10). A third maintained that Israeli regulations have made it easier to work in the settlements than in Israel. All subcontracting firms confirmed that the amount of work in the settlements has increased over the years, particularly in their district (83 per cent of responses), thereby affirming the intensification of the 'bantustanisation' process.

In explaining the reason behind the growth of settlement construction, the majority of subcontractors attributed it to growing demand (46.7 per cent of responses) (see Table 8.10). By growing demand, they mainly meant demand for their services by Israeli firms, not demand for houses *per se*. Only 33.3 per cent attributed growth directly to government policies. This low percentage could be attributed to the executive directors' reluctance to admit the government's role in inducing settlement growth, or could also be due simply to their unawareness of such policies. The role of the Israeli public sector in inducing construction growth in the settlements could be seen from the share of firms subcontracting work for the Israeli public or for para-public firms. As Table 8.10 reveals, 36.6 per cent of Palestinian subcontractors worked for publicly initiated Israeli projects, and another 36.7 per cent worked for para-public companies directly linked to Amena.

The absorption of Palestinian workers into the settlements has also depended on the ability of subcontractors to contain production (mainly labour) costs. Table 8.11 shows that two-thirds of all Palestinian subcontracting firms employ fewer than 50 workers. They thereby maintain a small and flexible labour structure. Moreover, most Palestinian subcontractors do not employ workers with permits only. Only half of their recruits tend to be permit holders, while the other half tend to sneak illegally to the place of work. This mixture helps to keep the cost of the workers low, and at the same time enables the firms to get rid of workers more easily.<sup>17</sup> On average, 63 per cent of subcontractors recruit workers from their place of origin, thereby reducing transport and risk costs while at the same time consolidating the tendency to concentrate the work in the area of origin.

The absorption of Palestinian workers into the settlements has also been a function of the way subcontractors have been able to cope with Israeli security measures. Table 8.11 shows that closures negatively affected the work of 55.6 per cent of Palestinian subcontractors, while permits increased the costs of production for 44.4 per cent of them. Those who argued that the effect of Israeli security considerations had been to make them take up contracts in the West Bank amounted to 25.9 per cent of the total. These subcontractors alternated their workers between construction sites in the settlements, Israel and the West Bank, depending on the period of closure, thereby reducing idle labour costs.

The effects of Israeli security measures on the entry of foreign workers

*Table 8.11* Characteristics of Palestinian workers employed by subcontracting firms as defined by the subcontractors

	<i>Palestinian subcontractors</i>
<i>Number of workers</i>	
Less than 10	36.0%
Between 10–50	30.7%
More than 50	33.3%
Permit holders	51.9%
Non-permit holders	48.1%
Recruited from place of origin	60.4%
Recruited from other places	29.6%
<i>Effect of Israeli security policies</i>	
Closures negatively affect your work	55.6%
Permits negatively affect your work	44.4%
<i>Did Israeli security measures induce you to work in the domestic economy of the West Bank?</i>	
Yes	25.9%
No	74.1%
<i>Effect of foreign workers</i>	
Had no effect, because they specialise in other activities	53.3%
are less efficient than Palestinian workers	33.3%
Had an effect, because they increased competition	20.0%
	46.7%
	26.7%

low wages	20.0 %
<i>Cost of workers in total production cost</i>	
100%	44.4%
80%	11.2%
30–40% of production costs	44.4%
<i>Material for construction</i>	
All inputs from Israel	51.9%
Secondary inputs from West Bank	48.1 %
<i>Do you subcontract further?</i>	
Yes	33.0%
More profitable	22.7 %
Pressure of time	10.3 %
No	67.0%
Total	30

Source: Fieldwork.

and the effect thereof on the absorption of Palestinian workers appear to have been limited: 53.3 per cent of firms reported that foreign workers did not displace Palestinian workers; 26.7 per cent of firms maintained that foreign workers increased competition in the sector; and 20 per cent argued that they had the effect of lowering the wages of Palestinian workers. The reason why foreign workers did not replace Palestinian workers lies in the fact that they specialise in other subsections of the construction sector (33.3 per cent of answers) and do not work in large numbers in the settlements. According to data collected from the survey of workers, fewer than 48 per cent of Palestinian workers in the settlements mentioned seeing foreign workers on their work sites (see Table 8.8).

#### *Palestinian labour and construction costs*

Palestinian workers have also helped contain construction costs. The share of workers' wages in total costs is not easy to establish, though. Firms have refused to provide me with figures on the costs of production and gave me only percentage estimates. According to Table 8.11, 44 per cent of firms needed to cover only their labour costs. They were provided with the material for work from the Israeli firm. Firms that bought their own secondary inputs, such as nails and wood for scaffolding, tended to buy the materials from the West Bank. The profit margins of the majority of Palestinian subcontracting firms thus depended on the difference between wages paid to the workers, the boss's own input and the total sum paid by the leading Israeli contracting firm per metre of finished work. Sixty-seven per cent of Palestinian firms did not subcontract further contracts they had obtained from an Israeli firm. This high percentage suggests that most firms rely on workers' productivity for determining their profit margins. Firms

that subcontract works tend to be firms that employ more than ten workers. Ultimately their profit margins depended on the productivity of workers hired directly by the subcontractor.

It is possible to get an idea of the role of Palestinian labour in containing production costs by comparing the cost of construction in the settlements with the cost of construction in Israel. One Israeli firm agreed to give me the cost breakdown for two of its construction projects: one in Modiin, inside Israel, and another in Keryat Sefer settlement in the West Bank. On the basis of the information provided, it is possible to see that the availability of cheap Palestinian labour contributed to making construction costs in the settlements lower than in Israel. Table 8.12 shows the cost per unit of square metre of a building project inside Israel (in Modiin) and in a settlement (Keryat Sefer). The cost of land and land development are separated from the actual cost of manual work, materials and overheads.

Table 8.12 shows that the cost of skeleton and finishing works, in which Palestinian workers dominate, is lower in the settlements than in Israel. The cost of skeleton works per square metre was NIS 460 in Keryat Sefer compared with NIS 605 in Modiin. This difference in costs is only partly attributable to differences in the cost of materials. Table 8.12 shows the costs of cement and concrete, the main materials used in 'wet jobs', where Palestinian workers concentrate. It indicates that the cost of cement and

*Table 8.12 Cost breakdown of an Israeli and a settlement construction project*

	<i>Modiin 78 units</i>	<i>Keryat Sefer 228 units</i>	<i>Costs of Keryat Sefer as percentage of costs in Modiin</i>
Budget (million NIS)	36	42	–
<i>Cost per unit sq. metre (in NIS)</i>			
Total project	4,336	1,814	41.8
Skeleton works	605	460	76.0
Finishing works	875	743	84.9
<i>Cost of material per unit cu. metre (in NIS)</i>			
Cement	338	319	94.4
Concrete	216	200	92.6
<i>Percentage costs of individual items in total costs</i>			
Skeleton works	14%	25.4%	–
Finishing works	20.2%	41.1%	–
Overhead*	5.6%	11.2%	–
Land costs	4.4%	n.a.	–
Development costs	3.5%	n.a.	–
Other costs	56.3%	n.a.	–

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#### Notes

The Modiin project is divided into two parts: A and B. Part B covers land development and bidding costs. The bidding costs include fees paid to the Israeli Ministry of Construction. For Keryat Sefer, the Ministry of Construction and Housing covered the land costs and major excavations works. a 'Overhead' refers to the cost of engineers and non-manual employees. The wages of workers do not enter the firm's accounts as part of overhead costs but as part of skeleton and finishing works costs.

concrete per cubic metre is lower in the settlements than in Israel (by 5.6 per cent and 7.4 per cent respectively). This difference is small but significant, given that we are talking about unit costs. It may appear inconsistent, given that all Israeli buildings must, by law, use the same type of cement manufactured in Israel. The difference in material costs, though, could be attributed to the fact that settlement sites use Israeli concrete that has been sold to them by Palestinian contractors. Although Palestinian cement and concrete producers buy the same material from Israeli wholesalers, they are willing to sell it at a lower price than Israeli retailers.<sup>18</sup> Yet the difference in material costs is not enough to explain why the cost of skeleton works in Keryat Sefer is only 76 per cent of the cost in Israel. Table 8.12 suggests rather that the difference in costs between the two sites, particularly of skeleton works,<sup>19</sup> is attributable to differences in labour prices between Israel and the settlements.

While the limited data available in Table 8.12 have to be interpreted cautiously, it suggests that Palestinian workers are in demand in the settlements in part because they help keep production costs low. Palestinian workers are able to play this role of cheap labour in part because Israeli security regulations have facilitated the creation of an unlimited supply of West Bank labour to the settlements. The structure of the construction sector, particularly its decentralisation into a multiplicity of competing subcontractors, has also created the conditions for keeping labour costs contained.

### Conclusions

The fieldwork provided insight into the understanding of Palestinian employment in the settlements. It showed that the pattern and scale of settlement expansion in the West Bank led to a redefinition of boundaries between what is Israeli and what is Palestinian in a way that is leading to the 'bantustanisation' of the West Bank: that is, its fragmentation into population enclaves that depend on an Israeli economy and yet cannot easily access it. Over the past two decades, the Salfite District in the West Bank has seen its demographic and territorial character change, as Israeli settlements expanded and encroached on Palestinian villages and towns. The Palestinians are losing their demographic dominance in the district, while the settlements of Ariel and others continue to use Palestinian labour from the area for the construction of their houses. Salfite has continued to be dependent on the settler economy, while being restricted from accessing the Israeli market beyond the Green Line. Its economic exchanges with other Palestinian towns, especially outside the district, while more difficult to document, have also become more limited. Unemployment levels have remained tied to access to the Israeli labour market, as the data from Na'lin further emphasise. Being on the Palestinian side of the

Green Line, this village managed to keep lower unemployment rates. The expansion of settlements near Na'lin, particularly Nili Keryat Sefer, gives further evidence of the way Israel is appropriating Palestinian land and redefining the 1967 border by using Palestinian labour.

As regards the dynamics of Palestinian employment in the settlements, the primary data collected here reveal that Palestinian men work in the settlements rather than in the domestic economy or in Israel mainly as a result of Israel's control on land, borders and labour access. Among the mechanisms of labour release, Israeli territorial policies played a role in pushing Palestinians off their land, but Israeli security considerations made it easier for workers to find employment in the settlements than in Israel. Among the mechanisms of labour transfer, wages appear to have played a role, but this role cannot be considered in abstraction from Israeli restrictions on labour mobility. The permit and closure policies have continued to have a major role in directing workers to the settlements. Moreover, Palestinian subcontractors have been central for ensuring the transfer of workers to the settlements. They ensured that Palestinian migration remained circular and that the supply of Palestinian workers was being absorbed in the Israeli construction sector at low cost.

It is important to note, though, that the fieldwork's findings do not allow for any sweeping generalisations to be made about the more complex dynamics of Palestinian employment in the Israeli economy, particularly beyond the Green Line. The smallness of the sample survey, the absence of detailed information on foreign workers and the relative lack of information about the structure of construction subcontracting and production costs put a limit on the kind of conclusions that can be drawn. That said, the fieldwork's contribution lies in its ability to shed light on the structural interdependence between Israel's territorial policies and Palestinian commuting migration. It reveals how Israel's territorial objectives have influenced the economic reality of Palestinian labour supply as well as relied on it. It provides an illustration of the structural factors that are determining the dynamic process of territorial fragmentation through the use of Palestinian labour. This process of 'bantustanisation' continues to unfold a dialectical relation of structural dependency between Israel and the West Bank, a relation whose final outcome is still to be defined.

## 9

# Epilogue

Palestinian labour flows to Israel have been the outcome of the dialectic of land and labour relations between Israel and the West Bank and Gaza Strip. They have been the result of the process of structural change that took place in the WBGS between 1967 and 2000. This process of structural change has been determined by the specificity of Israeli occupation and its implications for the economic development of the WBGS.

Israeli occupation has been characterised by a fundamental concern with how to create an Israeli territorial and political claim over the Occupied Territories in the face of a Palestinian demographic reality it did not wish to integrate into the Jewish polity. Israel's territorial interests in the WBGS framed the context in which labour flows took place. Its policy of economic integration has made labour migration an important vehicle for improving the standards of living in the WBGS. Its concern for Jewish demographic consolidation in certain areas of the Occupied Territories has conditioned the number and composition of Palestinian labour flows, despite Israel's attempt to keep demographic separation with the Palestinians a reality.

Labour force dynamics, land relations and evolving state interests underlie the causes of Palestinian labour migration. These three factors are at the core of the three intertwined but distinct processes that are intrinsic to any migration phenomenon: namely, the processes of labour release, labour transfer and labour absorption. Palestinian population and labour force growth have posed a serious challenge to the Palestinian economy as well as to the ability of Israeli occupation to pacify the population. It generated a strong demand for jobs that the domestic economy in the WBGS was unable to create, given the restrictions imposed on its growth by Israeli economic and territorial policies. Between 1970 and 1993, the Palestinian labour force grew by 2.8 per cent per annum while domestic employment in the WBGS grew at 1.8 per cent. Since the 1990s, Palestinian population and labour force growth rates have been among the highest in the world, at more than 3.5 per cent and 4 per cent per annum respectively, thereby creating further impetus for people to move to where they can find a job. Dependency ratio in 2005 stood at 6.3.<sup>1</sup>

The policy of economic integration has made the release and transfer of labour inevitable. Such transfer has been not simply a function of wage differentials between two economies of different size and development levels, but also an outcome of structural change that resulted from market and non-market forces, and transformed the Palestinian economy from an agricultural into a service-oriented and Israeli-dependent economy. Diminishing access to land, which was combined with restrictions on investment, has been a key mechanism in releasing workers and inducing them to search for work outside their economy. Israeli land policies, which took the form of territorial and water controls, land confiscation and settlement construction, contributed to the release of labour from Palestinian agriculture, as well as from the economy at large. On the other hand, capital



accumulation in agriculture, especially until the late 1970s, also stimulated labour outflows, as did the limitation on agricultural growth imposed through non-market and market mechanisms in the 1980s, such as trade and investment policies.

Israeli regulation of labour flows has also played a key role in determining the size and composition of labour transfer. The open-door Israeli policy that existed until 1988 allowed the smooth transfer of Palestinian commuters, but the permits and closures system imposed since 1991 has largely curtailed it. Although wage differentials and unemployment levels were high enough in the 1990s to stimulate migration, not every Palestinian who wanted or needed to work in Israel could do so. Labour and construction subcontractors have also been key intermediaries ensuring that labour is being released can actually be transferred. Palestinian subcontractors have been the 'gatekeepers' who have made possible the supply of Palestinian commuters to meet the demands of Israeli employers.

Israeli demand has been central in determining the absorption of Palestinian workers into the Israeli economy. WBGS workers were particularly important to the growth of the Israeli construction sector, as they contributed to its capital accumulation. Their low cost and flexibility compared to Israeli workers enabled them to occupy an important niche in the Israeli labour market, albeit in low-skilled occupations. Meanwhile, Israeli state construction and immigration policies were key in explaining the geographic distribution and persistence of Palestinian labour absorption, despite the introduction of harsh restrictions on labour access in the 1990s. In particular, Israel's territorial objective of expanding the construction of houses in specific Israeli areas adjacent to the West Bank, along the Green Line and in the settlements in the Occupied Territories, particularly around Jerusalem, has perpetuated the absorption of Palestinian commuters.

Palestinian labour flows have been an integral element in the Israeli-Palestinian conflict over land, and in its resolution. Among their most fascinating features is how they have influenced the outcome of the conflict as much as been shaped by it. The evolution of labour trends over the past three decades reflects the contrasting processes of integration and separation that have been going on between Israel and the WBGS. They have important implications for the prospect of the formation of a viable Palestinian state in two major ways.

First, they contributed to Israel's attempt to redefine its 1967 borders with the WBGS. Israel's construction of settlements and consolidation of a Jewish demographic presence, particularly in the West Bank, has been achieved through a reliance on Palestinian labour. While Israeli policy makers or constructors might not have had the clear intention of using Palestinian labour rather than Israeli or foreign workers to consolidate Israel's grip over the West Bank, the fact of the matter is that they did use Palestinian labour. Such a reliance on Palestinian labour was inevitable given the context of Israeli occupation, which integrated the WBGS economy while limiting its domestic employment growth. By default more than by design, Palestinian workers had no choice but to build Israeli houses. The fact that they dominated in the Israeli construction sector, as well as other sectors, is an outcome of the nature of Israeli regulation, the precarious nature of the building sector, and the evolution of the Israeli and Palestinian labour markets.

Palestinian labour migration mirrors the process of changing boundary relations between Israel and the Gaza Strip on the one hand, and Israel and the West Bank on the other. The first Intifada in 1987 marked the beginning of a process of separation,

particularly between Israel and the Gaza Strip. The Oslo process consolidated this separation as Israel demarcated its boundaries with the establishment of the Erez checkpoint, intensified its closure policy, and failed to guarantee the freedom of labour movement between Palestinian and Israeli areas. Meanwhile, Israel kept its borders with the West Bank porous and continued the expansion of settlements, which further incorporated Palestinian land into the Israeli domain. During the Oslo years, the access of Gaza Strip workers to Israel was curtailed to half its level before 1993, but the capacity of the domestic economy to contain its high unemployment levels remained limited (Tables A4 and A7). Meanwhile, the number of West Bankers employed in the Israeli economy continued to grow, reaching higher levels than those attained before 1992.

The second means by which labour flows have implications for the prospects of Palestinian statehood is through their role as a barometer of Palestinian economic performance. For a state to materialise, it needs territorial contiguity as well as the economic capability to absorb its labour force. It also requires clear boundaries and an ability to sustain an economic separation from Israel. The Oslo process refused to talk about territorial demarcations, yet it led to a process of ‘bantustanisation’ of the Occupied Territories. This is a process by which the West Bank and Gaza Strip have been fragmented territorially and transformed economically into unsustainable ‘population reservoirs’ that cannot access Israel or generate enough employment domestically. It has been the outcome of Israel’s territorial policy of fragmentation as shaped by the nature of settlement expansion, as well as by the permit and closure policies. It also derives from the nature of Palestinian labour force supply and the inability of the Palestinian national economy to absorb it domestically in a sustainable way. The process of ‘bantustanisation’ has been consolidated by the institutional reality created by the Oslo peace process, which affirmed Israel’s grip over the economic and territorial destiny of the Palestinians. While Israeli policy makers might not have accorded explicit attention to the labour implications of their territorial and security policies, or been interested in creating labour reserves for economic reasons, the territorial, regulatory and economic developments during the Oslo process have led to the creation of disconnected population reserves. The Camp David II and Barak Plans in 2000 did not give the Palestinians a viable, contiguous state, but rather one that was divided into four major *de facto* ‘bantustans’, including Gaza, contained within Israeli-defined borders.

### **The Al-Aqsa Intifada, labour and the Palestinian state**

The question that remains to be asked is whether this process of bantustanisation is reversible and a viable Palestinian state can emerge. If so, what kind of state will it be and what will its boundaries be? Will it be able to eliminate its labour dependency on Israel, and, if so, on what terms?

The Palestinian negotiators rejected the Israeli proposal at Camp David, which did not meet their minimum requirement for a viable, contiguous state with sovereignty over East Jerusalem (Malley and Agha 2001; Hammami and Tamari 2001). They have continued to refuse any territorial solution that did not encompass the West Bank as well as the Gaza Strip (Savir 1998). On 29 September 2000, the Al-Aqsa Intifada, or the second Palestinian uprising, erupted in opposition to the continuous Israeli occupation and the

failure of the Oslo peace process to bring about economic prosperity and political independence. It soon represented a militant Palestinian route to achieve the political independence that the diplomatic route of Oslo failed to provide.

However, the military dimension that the Al-Aqsa Intifada took, and the harsh Israeli military response to it, did not bring the Palestinians closer to their statehood. Apart from incurring very heavy human losses, as over 3,523 Palestinians and 1,049 Israelis were killed and over 28,708 Palestinians and 7,176 Israelis injured between September 2000 and May 2005,<sup>2</sup> the Palestinian reality since September 2000 has been characterised by a consolidation of the process of 'bantustanisation'. This time, though, this process has not been the outcome of a poorly negotiated agreement that did not discuss territorial questions, or an unforeseen consequence of the way the Palestinian economy reacted to Israeli security considerations. Rather, it has been the result of a unilaterally imposed Israeli demarcation of Israel's borders with the West Bank and Gaza Strip and the failure of the international community to stop it in this regard. It represented the latest move so far to empty the eventual Palestinian state of any content of sovereignty or economic viability.

If we look at the economic level, the Palestinian economy saw its potential further decapitated. Although 2003 registered some positive growth as a result of a reduced number of curfews, the economy suffered heavy losses between 2000 and 2004. Real GDP fell by 23 per cent compared to its 1999 level, and real GDP per capita was 35 per cent lower than its level in 1999 (World Bank 2004a: xi). Unemployment was reported at 31.3 per cent in 2002 and 26.8 per cent in 2004 compared with 11.8 per cent in 1999. It touched the Gaza Strip (35.4 per cent) more heavily than the West Bank (23.1 per cent) (PCBS 2005a). Poverty, measured as earnings of less than \$2.1 per capita per day, affected over 60 per cent of all households during the four years of the Intifada, up from 21 per cent in 1999. It was higher in the Gaza Strip (over 75 per cent) than in the West Bank (over 55 per cent) (PCBS 2005). Total employment fell by 32 per cent between the third quarter of 2000 and 2002, with 60 per cent of job losses being in the private sector. The Palestinian National Authority, aided by the donor community, still paid 40 per cent of domestic wages and employed 26 per cent of the WBGs working population. Economic losses amounted to a total of \$5.2 billion between 2000 and 2002, equivalent to the level of WBGs GNI in 1999. Donors' aid disbursements amounted to \$2.5 billion between 2000 and 2002, which is half the level of WBGs GNI in 1999 (World Bank 2003: xi, 52).

The heavy economic losses have been the result of the harshness of Israeli repression of Palestinian resistance and the intensification of the checkpoints and closure policy, which cut links between Palestinian areas within the WBGs as well as with the outside world.<sup>3</sup> Access to the Israeli labour market shrank by 70 per cent, as a total of 54,600 Palestinian workers were employed in it in 2004 compared with 148,000 in August 2000 (PCBS 2004). Israel absorbed less than 9 per cent of the Palestinian labour force in 2004, compared with 23 per cent in 1999 (PCBS 2005a). Trends in labour flows continued to fluctuate, depending on the level of harshness of the Israeli closure policy.<sup>4</sup> Yet the Israeli labour market continued to be more accessible to workers from the West Bank than to those from the Gaza Strip. In 2003, 12 per cent of the WB workforce was still employed in the Israeli economy, compared with less than 1.2 per cent of the GS workforce. Most of the workers still employed in the Israeli economy were in Jerusalem<sup>5</sup> and the

settlements. Settlement construction continued to grow during the Intifada, mainly along the western side of the West Bank and around Jerusalem. Sixty-two new settlement outposts were set up in the West Bank between 2001 and 2002, and an average of 1,500 new houses per year were built between 2000 and 2004, over 70 per cent of which were initiated by the public sector (FMEP 2005; ICBS 2003, *SAI*: table 22.5). Meanwhile, the number of settlers in the West Bank (excluding Jerusalem) increased from 191,600 to 231,000 between 2000 and 2004, and from 6,700 to 8,000 in the Gaza Strip. In East Jerusalem it increased from 172,500 to over 185,000 (ICBS 2004, *SAI*: table 2.7; ICBS 2004, *Statistical Yearbook of Jerusalem*: table 111.10).

The process of ‘bantustanisation’ of the WBGS has been further entrenched by the way Israel continued to develop its permits policy and checkpoint system. The safe passage opened between the West Bank and Gaza Strip in October 1999 was closed in October 2000. Since 2001, the Gaza Strip has been cut into four zones, with passages between zones controlled by 25–30 checkpoints. Between 2002 and 2004, the West Bank has been cut into eight main zones, with 68 military checkpoints, and 100 roadblocks, 40 road gates and over 479 earth mounds restricting people’s movement and encircling them into enclaves in which they cannot exist. People cannot move between zones without a permit issued by the Israeli military, a system that did not exist before 2001. Permits for entry into Israel were seriously curtailed, and were given mainly to employees of international organisations (OCHA 2004:5).

### *The Road Map*

The international community has tried to halt, if not reverse, the process of territorial fragmentation and economic destruction, with the publication of the Road Map to Peace in the Middle East in April 2003. Prepared during 2002 by the Quartet, which was made up of the United States, the European Union, the United Nations and Russia, the Road Map called for

a settlement, negotiated between the parties, [that] will result in the emergence of an independent, democratic and viable Palestinian state living side by side in peace and security with Israel and its other neighbours...the settlement will resolve the Israeli-Palestinian conflict, and end the occupation that began in 1967, based on the foundations of the Madrid conference, the principle of land for peace, UNSCRs 242, 338 and 1397, agreements previously reached by the parties, and the initiative of the Saudi Crown Prince Abdullah—endorsed by the Beirut Arab League summit (in 2002) calling for the acceptance of Israel as a neighbour living in peace and security, in the context of a comprehensive settlement.

The Road Map thus represented the clearest US-led international endorsement of the idea of a Palestinian state, and reaffirmed its legal foundation. The Road Map was accepted by the Palestinians and, with reservations, by the Israeli government after receiving US assurances over 14 points.

The Road Map, though, leaves the question of the viability of the Palestinian state still unresolved. It suggests that the economic destruction and territorial fragmentation that took place could be reversed, in principle at least. Economically, a number of analysts have argued that the Palestinian economy can and should separate from Israel, in order to achieve independence, but in a gradual way, given the weakness of the Palestinian economy and its labour dependence on Israel (World Bank 2004a; Aix Group 2004; Cobham and Kanafani 2004). Such separation would involve eliminating the reliance on the Israeli labour market in the long run and a diversification of trade relations with non-Israeli partners. It would also involve entering into a non-discriminatory trade agreement with Israel, rather than a customs union. The difficulty that the Palestinian economy would have in adjusting to such a closure of the Israeli labour market and changing trade relations with Israel would be alleviated through international aid, as well as domestic economic adjustment. While such adjustment would be costly in the short run in terms of high unemployment and a large trade deficit, the World Bank (2004) argues that the Palestinian economy has the resources, particularly in terms of human capital, a growing banking sector, and potential for industrial, agricultural and tourist-sector development, to take advantage of trade-creation opportunities with non-Israeli partners. While links to Israel will not be severed, relations to the outside world and control over local resources will have to be developed.

However, such scenarios remain dependent on the nature of political sovereignty and territorial contiguity that the Palestinian state will have. The Road Map in this regard is vague. It is not specific with regard to the borders of the Palestinian state or whether it will include the West Bank *and* the Gaza Strip, or only the latter. All that the Road Map calls for is the establishment of a state with provisional borders. These borders are to be negotiated between Israel and the Palestinians under the auspices of an international conference in 2005. They are not based on clear demarcation of the 1967 borders or on a clear concept of Palestinian sovereignty. International monitoring of the plan does not involve forcing Israel to adhere to international law or arbitration. In the three phases (I, II, III) that the Road Map sets out for achieving the Palestinian state by 2005, it insists on positive performance with regard to the question of security co-operation and Palestinian institution building, thereby affirming Israel's right to intervene in defining the shape and content of the Palestinian state. On the three key issues that are central to the territorial viability and sovereignty of a Palestinian state, the Road Map gives Israel the upper hand in protecting its interests and interpretations. On the question of settlements, it only states that those built after March 2001 are to be dismantled. It does not call for the removal of nearly 424,000 settlers who were living in the WBGS (including East Jerusalem) by 2004. With regard to Jerusalem, the Road Map calls for a negotiated resolution, not one based on the fact that East Jerusalem is occupied and Israel must retreat from it. Concerning the refugees, it calls for 'an agreed, just, fair and realistic solution' without any reference to international law and UN resolution 194.

By the end of 2004, progress with the Road Map had been less than ideal. Palestinians had been fulfilling some of their obligations while the Israelis have taken the position that they will start fulfilling their obligations only after the Palestinians deliver on specific security issues. In all cases, the Road Map does not protect the WBGS from the process of 'bantustanisation', as it failed to define the borders of the Palestinian state and to

constrain Israel's power to define the content of such a state. It tied the WBGs's fate to Israel's unilaterally defined security concerns, and its latest project of separation.

*The Separation Wall and the Gaza disengagement plan*

The Separation Wall being built in the West Bank since 2002 represents Israel's latest attempt to affirm its confiscation of Palestinian land and demarcate its boundaries on its own terms. It finalises the Israeli policy of creating facts in the Occupied Territories by drawing a physical line inside the West Bank that further entrenches the process of 'bantustanisation'.

The idea of a separation wall or barrier has been in the minds of Israeli policy makers since the first Intifada erupted in 1987. At the time, it was suggested for the Gaza Strip only (B'tselem 2002). The idea of a separation wall with the West Bank was first expressed by Barak's government in 2000, but it was an idea that was also supported by Labour Party members. While the Likud has been generally opposed to the principle of separation of the West Bank from Israel, the Sharon government that came to power in 2001 managed to rally support for the project even among settlers (Lagerquist 2004). In 2003, the settler council (Yesha) published a map in support of the wall and delineating its boundaries.<sup>6</sup> The declared aim of the wall was to prevent Palestinian suicide bombers from entering Israel. However, most military investigations indicate that suicide bombers came via regular checkpoints and did not sneak illegally across the Green Line (Lagerquist 2004).

The construction of the wall was approved by the Israeli cabinet in April 2002 and was initiated in June 2002. Upon completion, expected in 2005, the wall is expected to be at least 622 km long, 15 per cent of it along the Green Line and will establish a border unilaterally defined by Israel that violates the 1967 boundaries. It goes 6–10 km inside the Occupied Territories, creating a seam zone that will become part of Israel and represents 11.2 per cent of the West Bank (excluding East Jerusalem) (Pengon 2004; World Bank 2004a). The wall is being constructed in four phases (A, B, C, D), which will leave the West Bank divided into four bantustans: Nablus and Jenin in the north, which will be separated from the Ramallah and Salfite area in the centre, and Hebron and Bethlehem in the south. Jericho will be a mini-enclave, as the eastern side of the wall will run along the Jordan Valley, which Israel wants to keep under its military control, as envisaged earlier by the Allon Plan. Greater Jerusalem, as well as major settlements such as Ma'ale Adumim, will be annexed to Israel.

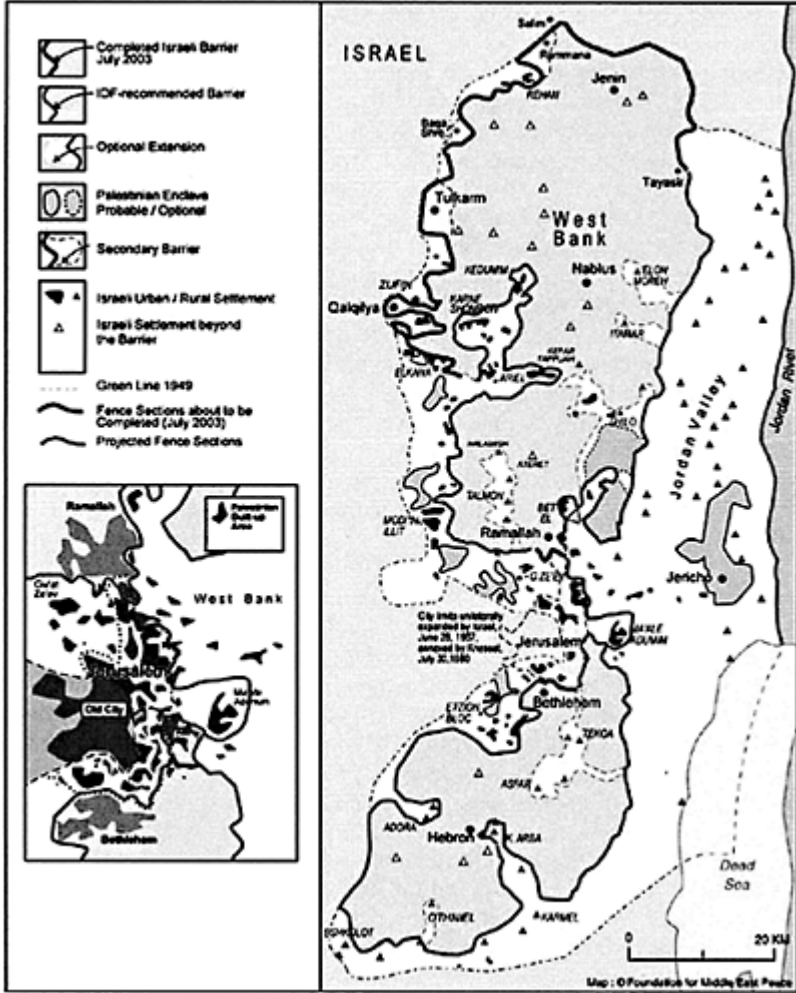
By the end of 2003, 185 km of the Separation Wall had been constructed, mainly in the northern part of the West Bank, and including 22 km around East Jerusalem (World Bank 2004a). It has been constructed by Palestinian workers who cannot find work at home. So far, it has separated 11,500 Palestinians, from 16 villages in the northern West Bank, from their land (Pengon 2004). It separated farmers from 121,555 dunums of agricultural land, which they can access only through one of the 40 gates that the Israeli army has constructed. Military order 378 in October 2003 declared all West Bank land between the security wall and Israel a closed military zone, and thus prone to confiscation. Upon completion, the wall will leave 395,900 Palestinians (including 220,000 living in the suburbs of East Jerusalem) isolated outside the Palestinian bantustans that the Separation Wall will have created (Lagerquist 2004) (see Map 9.1).

This represents 10 per cent of the Palestinian population. These people will not be incorporated into Israel, although their land will be on the 'Israeli' side of the wall. They will be forced to transfer quietly into the Palestinian enclaves. Meanwhile, the wall will integrate 90–95 per cent of settlers within what will become the borders of Israel. It will establish a border, unilaterally defined by the Israelis, that violates the 1967 boundaries and leaves the Palestinians with control over less than 53 per cent of the West Bank (OCHA 2004:5). Although the International Court of Justice and the Israeli Supreme Court have ruled against the route of the wall, its construction has not stopped.<sup>7</sup>

The construction of the Separation Wall has been accompanied by Israel's Disengagement Plan, which was officially announced in April 2004 and revised and approved by the Israeli cabinet in June 2004. This plan formalises and institutionalises Israeli governments' objective of separating from the Gaza Strip while incorporating significant parts of the West Bank. It calls for the evacuation of all the Israeli settlements in the Gaza Strip and the redeployment of the Israeli army outside the territory. It also promises Israeli withdrawal from four settlements in the northern West Bank but specifies that 'in Judea and Samaria, some areas will remain part of the State of Israel'. Meanwhile, it reaffirms Sharon's decision to continue to build the security fence, which provides the physical expression for Israel's unilateral definition of its boundaries with the Palestinian territories. US President George W. Bush's endorsement of the Disengagement Plan has bestowed an international recognition on it, despite its violation of UN resolutions concerning the Arab-Israeli conflict that call for a negotiated settlement and affirm the illegality of acquisition of land by force.

Despite its declared commitment to the peace process and to the idea of a Palestinian state, the Disengagement Plan risks limiting this state to the Gaza Strip and emptying it of any sovereign content. Article II.A considers the evacuation of all Israeli settlements, troops and civilians from the Gaza Strip to mean an end to the occupation, and it intends to allow the Gaza Strip to revert to Palestinian rule. However, it insists that Gaza will have to be demilitarised (III.3), and Israel will continue to reserve for itself the basic right of self-defence. Israel 'will supervise and guard the external envelope on land, will maintain exclusive control of the air space of Gaza and will continue to conduct military activities in the sea space of the Gaza Strip' (III.1). Moreover, the water, electricity and other infrastructure that are in place and that link the Gaza Strip to Israel will be maintained (article VIII). Economically, the plan is likely to depress the Palestinian economy rather than enable it to be a solid basis for a viable state. Although article X expresses an Israeli commitment to previous economic agreements, other parts of the plan suggest a severance of economic relations between Israel and the Gaza Strip, without ensuring free access to the outside world or to the West Bank. Israeli officials have already made it illegal for Israelis to work in industrial parks in the Gaza Strip, intend to terminate permits to Palestinians who work in Israel by 2008, and talk about ending custom arrangements with the Strip (World Bank 2004b; Aix Group 2005). The plan keeps access to the West Bank as well as to the rest of the world under effective Israeli control.

*Israeli Separation Options for the West Bank—July 2003*



*Map 9.1* Separation Wall in the West Bank, 2003.



Israel's Disengagement Plan unilaterally redefines the 1967 borders and trivialises the concept of a Palestinian state. While the occupation might be considered over by the Sharon government, the Palestinian entity is still going to be deprived of real sovereignty, given that its borders will continue to be controlled by Israel, its resources will be under Israeli control and its economic viability still at the mercy of trade and labour relations with Israel. While it promises to remove 8,000 Israeli settlers, and thereby to end Israel's demographic presence in the area, it leaves the Gaza Strip insolvent, dependent on foreign aid and separated from the West Bank.

Israeli occupation is still not over, even if its shape has changed. Whatever Palestinian state is being proposed today it is fragmented, economically dilapidated and still labour-dependent on Israel. The story of Palestinian labour flows to Israel has reflected the different forces pushing towards separation and integration. They have depended on the nature of boundaries being created, through the politics of settlements, territorial domination and economic hegemony. They also contributed indirectly to the creation of new borders. Their continuation or final demise, like that of the future of a Palestinian state, remains dependent on developments in Israeli and Palestinian politics, on the evolution and strength of economic interests, and on the role of the international community in reinforcing the principles of international law, which are the only guarantee for security, economic growth and the establishment of a viable Palestinian independence.

## Appendix

*Table A1* The Palestinian population of the West Bank<sup>a</sup> and the Gaza Strip (WBGs), 1967–2004

	1967	1968	1970	1980	1993	1997	2000	2004
<i>West Bank<sup>a</sup></i>								
Population at end of year ('000)	585.9	583.1	607.8	724.3	1,084.4	1,660.1	2,011.9	2,421.5
Migration balance at end of year ('000)	-13.0	-15.8	-5.0	-17.3	-8.8	-	-	-
Rate of natural increase (%)	-	2.2	2.5	3.2	4.0	3.6	3.4	3.2
Annual growth (%)	-	-0.5	1.7	1.7	3.1	3.8	-	-
<i>Gaza Strip</i>								
Population at end of year ('000)	380.8	356.8	370.3	456.5	748.4	1,023.1	1,138.2	1,406.4
Migration balance at end of year ('000)	-12.2	-32.3	-3.3	-5.1	-2.8	-	-	-
Rate of natural increase (%)	-	2.2	2.6	3.7	4.5	4.1	4.0	3.9
Annual growth (%)	-	-6.3	1.7	2.1	4.6	4.3	-	-
<i>WBGs total</i>								
Population at end of year ('000)	966.7	939.9	978.1	1,180.8	1,832.8	2,683.2	3,150	3,827.9
Migration balance at end of year ('000)	-52.2	-48.1	-8.3	-22.4	-11.6	-	-	-
Rate of natural increase (%)	-	2.2	2.5	3.4	4.3	3.8	3.6	3.5
Annual growth (%)	-	-2.8	1.7	1.8	3.7	4.0	-	-

Source: ICBS (1983, 1994, *SAI*: table 27.1); PCBS, *Population in Palestine*, [www.pcbs.org/english/populati/proj\\_mai.htm](http://www.pcbs.org/english/populati/proj_mai.htm) and [http://www.pcbs.org/populati/est\\_n1.aspx](http://www.pcbs.org/populati/est_n1.aspx).

### Notes

<sup>a</sup> Data on the West Bank exclude East Jerusalem, except for 2000 and 2004. Figures for 1967 refer to the September census carried out by the Israeli armed forces.

*Table A2 WBS<sup>a</sup> labour force data: general characteristics, 1968–2004 (figures in thousands, growth rates as percentages)*

<i>Year</i>	<i>Working-age population</i>	<i>Working-age growth</i>	<i>Labour force</i>	<i>Labour-force growth</i>	<i>Employed (no.)</i>	<i>Empl oyment growth</i>	<i>Une mployed (no.)</i>	<i>Unempl oyment rates<sup>a</sup></i>
1968	491.2	–	146.6	–	127.4	–	19.2	13.1
1969	502.7	2.3	172.8	17.9	162.8	27.8	10.0	5.8
1970	519.7	3.4	180.5	4.5	173.3	6.4	7.5	4.1
1971	530.7	2.1	181.2	0.4	176.5	1.8	5.0	2.6
1972	541.7	2.1	191.2	5.5	188.8	7.0	2.4	1.3
1973	552.0	1.9	196.3	2.7	194.5	3.0	1.8	0.9
1974	573.8	3.9	212.5	8.3	210.6	8.3	2.0	0.9
1975	591.9	3.2	206.6	–2.8	204.7	–2.8	1.9	0.9
1976	602.5	1.8	207.6	0.5	205.8	0.5	1.8	0.9
1977	618.9	2.7	206.1	–0.7	204.5	–0.6	1.6	0.8
1978	639.5	3.3	213.6	3.6	211.9	3.6	1.7	0.8
1979	641.6	0.3	213.9	0.1	212.4	0.2	1.5	0.7
1980	643.7	0.3	218.5	2.2	215.7	1.6	2.8	1.3
1981	650.0	1.0	218.1	–0.2	215.9	0.1	2.2	1.0
1982	652.3	0.4	225.2	3.3	222.9	3.2	2.3	1.0
1983	682.3	4.6	236.0	4.8	232.5	4.3	3.1	1.3
1984	701.2	2.8	248.0	5.1	241.3	3.8	6.7	2.7
1985	722.7	3.1	251.5	1.4	242.1	0.3	9.1	3.6
1986	718.3	–0.6	267.3	6.3	259.4	7.1	7.9	3.0
1987	738.3	2.8	284.0	6.2	277.8	7.1	6.2	2.2
1988	761.5	1.8	289.4	1.9	281.9	1.5	7.5	2.6
1989	770.7	2.6	290.3	0.3	279.3	–0.9	10.8	3.7
1990	804.0	4.3	307.8	6.0	296.5	6.2	11.2	3.7
1991	833.9	3.7	312.1	1.4	287.4	–3.1	24.7	7.9
1992	857.8	2.9	333.3	6.8	319.2	11.1	14.1	4.2
1993	894.1	4.2	338.5	1.6	315.8	–1.1	22.7	6.7
1995	1,320.1	–	513.2	–	416.9	–	96.0	18.2

2000 <sup>b</sup>	1,689.4	3.8	732.5	4.1	658.4	9.5	72.5	10.1
2003	1,965.0	–	794.0	–	591.0	–	203.0	25.6
2004 <sup>b</sup>	2,089.0	–	845.0		619.0		226.3	26.8

Sources: PCBS (1995, based on ICBS statistical data: tables 1–4); PCBS, *LFS*, various issues, table 1; and PCBS (1999), *Population in Palestine*, [www.pcbs.org/english/populati/proj\\_mai.htm](http://www.pcbs.org/english/populati/proj_mai.htm).

Notes

a 'Unemployment rates' refers to absolute, and not to growth, rates. Data on the West Bank exclude East Jerusalem before 1993 and include it afterwards.

Working-age population: between 1967 and 1986, referred to those aged 14 years and older, after 1987 to 15+.

Labour force: refers to all persons in the working-age population who were either employed or seeking employment in the reference week of the survey.

Labour force participation: share of labour force in total working-age population.

Employed person is defined as any person who had worked at least one hour during the reference week in any work or gainful activity, family members who had worked in the family business or farm, or those who had been temporarily absent from their regular work.

Unemployed: all those who did not work at all during the reference week and who were actively seeking work, by registration at the labour exchange, by personal or written application to employer, or by an attempt to establish an independent business, and all those temporarily absent from work in the determinant week who actively sought it (ICBS, 1992, *SAI*: 152). The PCBS considers employed Palestinian workers who are barred from entry into Israel because of border closures to be unemployed.

The 1994 data are missing as a result of various technical and administrative problems associated with the transfer of power from the Israeli to the Palestinian bureau of statistics,

b The 2000 and 2004 figures refer to the July–September labour force survey data. All other figures are annual labour data.

*Table A3 Labour force participation rates in the WBS<sup>a</sup>, 1968–2004*

<i>Year</i>	<i>West Bank<sup>a</sup></i>			<i>Gaza Strip</i>			<i>Total</i>		
	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
1968	56	8	30	59	6	29	57	8	30
1969	62	13	37	62	5	31	62	10	34
1970	62	14	38	64	5	33	62	11	35
1971	62	14	37	63	5	32	62	10	35
1972	68	11	39	65	4	32	66	8	35
1973	68	11	38	67	4	34	66	8	36
1974	61	14	40	68	5	35	66	11	37
1975	63	13	38	66	4	33	63	9	35
1976	61	13	36	67	4	34	62	9	34
1977	58	12	33	65	4	33	60	9	33

1978	58	13	33	65	4	34	60	9	33
1979	58	12	35	66	4	35	60	9	35
1980	59	11	35	67	4	35	61	9	35
1981	59	11	35	67	4	34	61	8	35
1982	61	12	36	67	3	34	62	9	35
1983	63	11	37	65	4	34	63	8	35
1984	65	11	38	67	3	34	64	8	35
1985	65	10	37	66	3	34	65	7	35
1986	69	11	39	68	3	34	69	8	37
1987	72	10	40	71	3	36	72	7	39
1988	73	10	41	69	2	35	72	7	39
1989	74	9	40	67	2	34	71	6	38
1990	73	10	41	69	2	34	71	7	38
1991	71	9	39	68	2	34	70	6	37
1992	73	10	41	70	2	35	72	7	39
1993	73	10	40	68	2	34	71	6	38
1995	69	13	41	63	8	35	67	11	39
1996	70	13	42	64	6	35	70	13	40
1998	74	14	45	66	6	37	71	12	43
1999	72	14	42	67	9	38	71	12	42
2000	75	15	45	68	12	40	73	14	44
2004	69	13	42	63	6	36	67	11	40

Source: Table A2.

Note

a Data on the West Bank exclude East Jerusalem before 1993 and include it afterwards.

*Table A4* Palestinians employed in the WBGS<sup>a</sup> by place of employment, 1968–2004 (in thousands and as percentages)

Year	WB employed in				GS employed in				WBGS			
	Domestic	Israel	Total	% in Israel	Do mestic	Israel	Total	% in Israel	Do mestic	Israel	Total	% in Israel
1968	83.0	0.0	83.0	–	45.0	0.0	45.0	–	128.0	0.0	128.0	–
1970	99.9	14.7	114.6	12.8	52.8	5.9	58.7	10.1	152.7	20.6	173.3	11.9

1971	91.2	25.6	116.8	21.9	51.5	8.2	59.7	13.7	142.7	33.8	176.5	19.2
1972	90.3	34.9	125.2	27.9	46.1	17.5	63.6	27.5	136.4	52.4	188.8	27.8
1973	87.8	38.6	126.4	30.5	45.4	22.7	68.1	33.3	133.2	61.3	194.5	31.5
1974	95.2	42.4	137.6	30.8	46.7	26.3	73.0	36.0	141.9	68.7	210.6	32.6
1975	91.9	40.4	132.3	30.5	46.5	25.9	72.4	35.8	138.4	66.3	204.7	32.4
1976	92.6	37.1	129.7	28.6	48.3	27.8	76.1	36.5	140.9	64.9	205.8	31.5
1977	91.8	35.5	127.3	27.9	49.7	27.5	77.2	35.6	141.5	63.0	204.5	30.8
1978	94.7	36.8	131.5	28.0	49.0	31.4	80.4	39.1	143.7	68.2	211.9	32.2
1979	93.0	39.8	132.8	30.0	45.3	34.3	79.6	43.1	138.3	74.1	212.4	34.9
1980	94.2	40.6	134.8	30.1	46.4	34.5	80.9	42.6	140.6	75.1	215.7	34.8
1981	93.5	39.9	133.4	29.9	46.6	35.9	82.5	43.5	140.1	75.8	215.9	35.1
1982	97.9	43.0	140.9	30.5	45.9	36.1	82.0	44.0	143.8	79.1	222.9	35.5
1983	99.1	48.1	147.2	32.7	45.6	39.7	85.3	46.5	144.7	87.8	232.5	37.8
1984	104.0	50.1	154.1	32.5	47.0	40.2	87.2	46.1	151.0	90.3	241.3	37.4
1985	103.7	47.5	151.2	31.4	49.2	41.7	90.9	45.9	152.9	89.2	242.1	36.8
1986	114.5	51.1	165.6	30.9	50.5	43.4	93.9	46.2	165.0	94.5	259.5	36.4
1987	114.0	62.9	176.9	35.6	54.4	46.0	100.4	45.8	168.4	108.9	277.3	39.3
1988	119.0	64.0	183.0	35.0	53.5	45.4	98.9	45.9	172.5	109.4	281.9	38.8
1989	115.4	65.4	180.8	36.2	59.2	39.5	98.7	40.0	174.6	104.9	279.5	37.5
1990	128.0	65.0	193.0	33.7	61.0	43.0	104.0	41.3	189.0	108.0	297.0	36.4
1991	123.4	56.0	179.4	31.2	65.5	42.0	107.5	39.1	188.9	98.0	286.9	34.2

<i>Year</i>	<i>WB employed in</i>				<i>GS employed in</i>				<i>WBGS</i>			
	<i>Do mestic</i>	<i>Israel</i>	<i>Total</i>	<i>% in Israel</i>	<i>Do mestic</i>	<i>Israel</i>	<i>Total</i>	<i>% in Israel</i>	<i>Do mestic</i>	<i>Israel</i>	<i>Total</i>	<i>% in Israel</i>
1992	132.1	72.5	204.6	35.4	71.6	43.1	114.7	37.6	203.7	115.6	319.3	36.2
1993	147.7	53.6	201.3	26.6	84.4	30.4	114.8	26.5	232.1	84.0	316.1	26.6
1995	245.8	62.2	308.0	20.2	105.3	3.6	108.9	3.3	346.0	65.8	416.9	16.8
1996	262.7	52.3	315.0	16.6	110.4	10.0	120.4	8.1	373.1	62.3	435.4	14.9
1997	282.6	68.4	351.0	19.5	108.1	14.2	120.3	11.0	390.7	82.6	473.3	17.1
1998	304.0	96.0	400.0	24.0	124.8	24.0	148.8	16.2	428.8	120.0	548.8	21.8
1999	309.7	108.3	418.0	25.9	143.8	26.7	170.5	15.7	453.6	135.0	588.5	22.8
2000	351.1	115.8	466.9	24.8	161.9	29.6	191.5	15.4	513.0	145.4	658.4	22.3
2003	360.6	51.4	411.0	12.5	174.4	5.6	180.0	3.1	535.0	57.0	591.0	9.7

2004	396.0	57.0	453.0	12.5	165.0	1.0	166.0	0.4	561.0	58.0	619.0	9.7
<i>Yearly averages per period</i>												
1970–1973	92.3	28.5	120.8	23.3	49.0	13.6	62.5	21.2	141.3	42.0	183.3	22.6
1974–1980	93.3	38.9	132.3	29.4	47.4	29.7	77.1	38.4	140.8	68.6	209.4	32.7
1980–1987	103.8	48.9	152.8	31.9	48.5	40.4	88.9	45.4	152.3	89.4	241.6	36.9
1988–1993	127.6	62.8	190.4	33.0	65.9	40.6	106.4	38.4	193.5	103.3	296.8	34.9
1995–2000	292.7	83.8	376.5	21.9	124.2	17.9	145.3	11.6	416.8	101.7	520.9	19.3
2001–2004	302.0	51.0	353.0	12.5	127.0	3.0	130.0	1.9	429.0	54.0	483.0	–

Sources: Calculated from ICBS, *SAI*, various issues; PCBS (2004: tables 1, 17); PCBS (2001a: tables 1, 17); PCBS (2004): *LFS*, tables 1 and 17.

Notes

a Data on the West Bank exclude East Jerusalem before 1993 and include it afterwards.

Figures refer to total employment (include also the underemployed, but exclude the unemployed). They thus differ from figures provided by the IMF (2001), which do not report the underemployed. Figures for 1994 are not available. Data refer to yearly averages, except for figures for 2000, which refer to July-September data.

*Table A5* Palestinians employed in the WBGs<sup>a</sup> and Israel, 1970–2004 (in thousands)

Year	<i>Employed locally</i>					<i>Employed in Israel</i>				
	<i>Agr iculture</i>	<i>Industry</i>	<i>Con struction</i>	<i>Services</i>	<i>Total</i>	<i>Agr iculture</i>	<i>Industry</i>	<i>Cons truction</i>	<i>Services</i>	<i>Total</i>
1970	59.2	21.0	12.9	59.6	152.7	5.0	2.4	11.1	2.0	20.6
1971	52.9	19.7	8.0	62.4	142.7	7.5	5.0	17.3	3.6	33.8
1972	45.7	19.0	8.3	63.4	136.4	12.2	9.1	26.1	5.0	52.4
1973	41.6	20.1	8.4	63.1	133.2	11.8	11.1	31.7	6.7	61.3
1974	47.6	19.7	8.7	65.9	141.9	13.1	21.1	36.0	7.5	68.7
1975	44.5	20.1	10.1	63.7	138.4	9.2	12.2	36.0	8.9	66.3
1976	44.0	20.2	11.3	65.4	140.9	10.0	12.9	32.8	9.2	64.9
1977	43.5	20.2	12.6	65.2	141.5	10.1	13.4	28.5	11.0	63.0
1978	42.7	21.9	13.7	65.4	143.7	11.5	15.1	30.8	10.8	68.2
1979	38.3	23.2	14.0	62.3	138.3	11.0	16.9	34.2	12.0	74.1

1980	40.1	22.9	13.7	64.0	140.6	10.3	15.7	35.5	13.5	75.0
1981	37.0	22.4	14.9	65.9	140.1	9.5	13.8	38.8	13.6	75.7
1982	39.8	22.2	14.4	67.5	143.8	10.1	14.0	41.7	13.2	79.0
1983	38.0	22.9	14.5	69.3	145.7	10.7	16.3	44.3	16.5	87.8
1984	37.3	24.6	15.7	73.4	154.5	12.8	16.2	43.7	17.6	90.3
1985	37.0	24.7	16.7	74.5	152.7	14.1	15.8	42.5	16.8	89.2
1986	41.7	27.2	18.8	77.2	164.9	14.8	16.5	45.5	17.7	94.5
1987	38.5	28.5	18.5	83.5	169.0	15.8	19.7	49.7	23.6	108.8

Year	Employed locally					Employed in Israel				
	Agri culture	In dustry	Con struction	Services	Total	Ag riculture	Industry	Con struction	Services	Total
1988	46.9	27.6	17.0	81.0	172.5	16.7	16.8	54.2	21.7	109.4
1989	41.4	27.9	20.3	85.2	174.6	14.2	13.6	56.1	21.0	104.9
1990	50.2	27.0	20.8	85.2	188.8	12.6	11.2	64.1	19.7	107.6
1991	48.9	29.4	19.7	91.7	189.7	11.7	7.5	66.9	11.6	97.7
1992	53.4	31.7	23.0	95.6	203.7	10.4	6.8	85.9	12.3	115.4
1993	53.8	35.5	34.8	107.9	232.0	8.6	4.8	60.8	9.5	83.8
1996	45.6	62.4	71.4	193.7	373.1	6.1	8.7	33.8	13.7	62.3
1997	53.1	63.4	45.5	228.7	390.7	8.7	11.2	43.7	19.1	82.6
1998	48.1	73.3	58.6	248.9	428.8	12.2	14.6	66.2	26.9	120.0
1999	59.4	72.8	59.3	262.1	453.5	9.9	20.0	75.5	29.7	135.0
2000	76.8	78.1	62.9	295.1	513.0	13.1	21.1	80.7	30.5	145.4
2004	80.6	71.2	69.1	340.1	561.0	3.7	9.5	24.8	20.0	58.0

Sources: UNCTAD (1991: tables LAII/4A, LAII/4C; LAIII/4A, LAIII/4C); ICBS (1982, 1988, 1994, SAI: tables 27.19, 27.20, 27.22); PCBS (1995, 1996, 1997, 2001): LFS, nos. 1, 4, 7, 18, tables 1, 17, 19, 20, 21; PCBS (2000: tables 1, 17; 2004: tables 1, 21).

Notes

a Data on the West Bank exclude East Jerusalem before 1993 and include it afterwards.

'Employed locally' refers to those working in the WBGs.



*Table A6* Absolute changes in employment in the WBG<sup>a</sup> and in Israel per sector, 1970–2000 (in thousands)

<i>Period</i>	<i>In the West Bank ('000)</i>					<i>In Israel ('000)</i>				
	<i>Agri culture</i>	<i>I ndustry</i>	<i>Co nstruct.</i>	<i>Se rvices</i>	<i>Total</i>	<i>Agri culture</i>	<i>In dustry</i>	<i>Con struct</i>	<i>Ser vices</i>	<i>Total</i>
1970–1973	–12.5	–0.2	–1.6	2.2	–12.1	0.8	6.1	13.5	3.5	23.9
1974–1980	–4.5	0.2	3.4	0.9	0.1	–0.5	0.3	–3.5	1.8	–1.9
1981–1987	0.9	4.2	2.7	12.5	20.3	2.5	3.9	9.4	7.3	23.1
1988–1993	0.3	5.5	8.9	14.2	28.9	–2.6	–6.7	4.5	–8.0	–12.8
1970–1993	–5.1	9.8	13.2	30	47.9	1.4	1.7	28.5	4.9	36.5
1995–2000	11.8	13.4	–2.5	82.7	105.4	3.2	7.4	35.0	7.6	53.2

<i>Period</i>	<i>In the Gaza Strip ('000)</i>					<i>In Israel ('000)</i>				
	<i>Agri culture</i>	<i>Industry</i>	<i>Construct.</i>	<i>Services</i>	<i>Total</i>	<i>Agriculture</i>	<i>Industry</i>	<i>Construct.</i>	<i>Services</i>	<i>Total</i>
1970–1973	–5.1	–0.6	–2.8	1.4	–7.1	6	2.6	7	1.2	16.8
1974–1980	–2.9	3.2	1.6	–1.6	0.3	–2.3	3.3	3	4.2	8.2
1981–1987	0.1	1.3	0.3	4.3	6.0	3.9	2.0	1.5	2.8	10.2
1988–1993	6.5	2.5	8.5	13.3	30.8	–5.5	–5.3	1.2	–5.8	–15.4
1970–1993	–0.4	4.7	8.5	18.3	31.1	2.2	0.5	20.1	1.0	23.8
1995–2000	14.8	6.4	1.7	33.8	56.7	3.7	5.2	14.2	3.0	26.1

Sources: Calculated from UNCTAD (1991: tables LAII/4A, LAII/4C; LAIII/4A, LAIII/4C); ICBS (1982, 1988, 1994, *SAI*: tables 27.19, 27.20, 27.22); PCBS (1995, 1996, 1997, 2001) *LFS*, nos. 1, 4, 7, 18, tables 1, 17, 19, 20, 21; PCBS (2000: tables 1, 17).

Note

a Data on the West Bank exclude East Jerusalem before 1993 and include it afterwards.

*Table A7* Palestinian labour force in the WBGs,  
1995–2004 (in thousands, unless otherwise noted)

<i>Year</i>	<i>Absolute change in number of employed</i>			<i>Number of unemployed</i>	<i>Percentage unemployed</i>	<i>Size of labour force</i>
	<i>Domestic</i>	<i>Israel</i>	<i>Total</i>			
<i>West Bank</i>						
1995–1996	16.9	–9.9	7.0	77.0	19.6	392.0
1996–1997	19.8	16.2	36.0	74.0	17.3	426.0
1997–1998	21.4	27.6	49.0	52.0	11.5	452.0
1998–1999	5.7	12.3	18.0	44.0	9.5	462.0
1999–2000	41.4	7.6	49.0	38.0	7.2	505.0
1995–2000	105.4	53.6	159.0			
2000–2004	44.9	–58.8	–13.9			
<i>Gaza Strip</i>						
1995–1996	5.2	6.4	15.0	55.0	32.5	169.0
1996–1997	–2.3	4.1	5.0	47.0	26.8	176.0
1997–1998	16.7	9.8	19.0	39.0	20.9	188.0
1998–1999	19.1	2.7	22.0	35.0	16.9	205.0
1999–2000	18.0	2.9	22.0	35.5	15.1	227.5
1995–2000	57.7	26.0	83.0			
2000–2004	3.1	–28.6	–25.5			
<i>Total West Bank and Gaza Strip</i>						
1995–1996	27.1	–3.5	22.0	132.0	23.8	561.0

1996–1997	17.6	20.3	41.0	121.0	20.3	602.0
1997–1998	38.1	37.3	68.0	92.0	14.4	641.0
1998–1999	24.8	15.0	40.0	79.0	11.8	667.0
1999–2000	59.5	10.4	70.4	72.5	10.1	732.0
1995–2000	162.1	79.6	241.4			
2000–2004	48	–87.4	–39.4			

Source: PCBS (2000: table 1); PCBS (2001a: table 1); Table A.4.

Note

The number and figures on unemployment and labour force refer to the reported figure at end of year. Employment figures include also the underemployed.

*Table A8* Distribution of Palestinians employed in the WBS and in Israel by age, 1975–2000 (percentages)

Year	Locally			Israel		
	15–24	25–54	55+	15–24	25–54	55+
<i>West Bank<sup>a</sup></i>						
1975	32	56	12	44	50	6
1987	29	57	14	42	52	6
1990	26	61	13	35	61	4
1993	25	64	11	20	68	2
2000	26	64	10	38	60	2
<i>Gaza Strip</i>						
1975	33	58	9	49	48	3
1987	27	61	12	42	53	5
1990	25	66	9	32	65	3
1993	25	69	9	20	78	2
2000	27	67	6	7	90	3

Sources: 1975: figures for the locally employed are calculated from ICBS (1977) 'Labour Survey in the Territories 1975', *Administered Territories Statistics* 1977, tables 24, 25. It refers to the total labour force and not just those employed locally.

1975 figures for employed in Israel are taken from ICBS (1976), 'Employed persons from the Administered Territories Working in Israel, 1975', *Administered Territories Statistics* 1976, table 1.

1987–1992 figures are taken from PCBS (1995: table 5.8). Based on ICBS data. 2000 figures are taken from PCBS (2001a: table 7).

Note

a Data on the West Bank exclude East Jerusalem before 1993 and include it afterwards.

*Table A9* Distribution of Palestinians employed in the WBGs and in Israel by years of schooling, 1975–2000 (percentages)

<i>Years of schooling</i>	<i>Locally</i>			<i>Israel</i>		
	<i>0</i>	<i>1–6</i>	<i>+13</i>	<i>0</i>	<i>1–6</i>	<i>+13</i>
<i>West Bank</i>						
1975	28	36	23 <sup>a</sup>	20	34	23 <sup>a</sup>
1981	24	35	29 <sup>a</sup>	16	40	26 <sup>a</sup>
1987	16	28	14	9	30	8
1992	13	25	14	4	25	9
2000	4.5	16	37	2	18	9
<i>Gaza Strip</i>						
1975	27	31	34 <sup>a</sup>	20	33	38 <sup>a</sup>
1981	21	32	36 <sup>a</sup>	15	35	37 <sup>a</sup>
1987	12	28	16	9	25	5
1992	7	26	18	4	27	8
2000	5	18	29	3	26	9

Sources: 1975: figures for the locally employed are calculated from ICBS (1977), *Labour Survey in the Territories 1975*, tables 24, 25. It refers to the total labour force and not just those employed locally.

1975 figures for employed in Israel are taken from ICBS (1976) 'Employed Persons from the Administered Territories Working in Israel, 1975', *Administered Territories Statistics* 1976, table 1.

Fischelson *et al.* (1993: table 20).

ICBS (1992, *JSGAS*, vol. XXII, 1993: table 28).

PCBS (2001) *Labour Force Survey, Annual Report 2000*, table 23.

Note

a 1975 and 1981 figures on the share of those with +13 also include those with more than 9 years of schooling. No earlier data are available under such divisions.

*Table A10* Characteristics of Israeli and WBGs workers in Israel's labour market, 1973 and 1993 (percentages)

	1973		1993			
	<i>Total Israelis</i>	<i>Non-Jews</i>	<i>WBGs in Israel</i>	<i>Total Israelis</i>	<i>Non-Jews</i>	<i>WBGs in Israel</i>
<i>Demographic characteristics</i>						
Male	68.9	88.3	98.0	58.9	79.3	98.0
Female	31.1	11.7	2.0	41.1	20.7	–
Younger than 25 years	22.4	–	46.1	20.7	28.1	25.1
<i>Education</i>						
No schooling	5.1	8.3	20.0	1.0	2.1	10.1
+ 13	19.1	–	–	38.3	22.3	8.5
<i>Occupation</i>						
Unskilled (excluding agriculture)	19.0	37.2	45.6	3.7	6.1	32.9
Agricultural workers	10.9	24.0	20.8	3.4	7.8	10.2
White-collar	56.3	–	–	68.9	41.2	17.5
<i>Sectoral distribution</i>						
Agriculture	3.0	19.2	19.2	3.6	5.3	10.5
Construction	8.3	25.0	51.8	6.8	21.1	55.6
Industry	27.9	15.1	18.1	21.3	22.8	15.1
Services	60.8	40.7	10.9	68.3	50.8	18.8

Sources: ICBS (1975, 1994, SAI: tables 12.16, 12.20, 26.25, 27.17, 27.8, 27.24).

Notes

'White collar' includes scientific, academic personnel, professionals, administrators, managers, clerics and sales workers; 'unskilled' excludes agriculture and skilled production workers.

*Table A11* Agricultural production in the WBGs and Israel, 1966–1992 (size of land and output)

	<i>West Bank</i>				<i>Gaza Strip</i>			<i>Israel</i>				
	<i>1966</i>	<i>1978</i>	<i>1985</i>	<i>1992</i>	<i>1966</i>	<i>1978</i>	<i>1985</i>	<i>1992</i>	<i>1966–67</i>	<i>1977–78</i>	<i>1985–86</i>	<i>1992</i>
<i>Field crops</i>												
Area ('000 dunums)	770	529.5	495.7	587.8	53	16.7	22.7	30.9	2,605	2,536	2,381	2,185
Output ('000 tons)	51.2	41.1	27.2	33.6	3.7	0.8	13.1	12.8	394.1	362.7	337.5	470.1
Output per dunum	0.07	0.08	0.05	0.06	0.07	0.05	0.58	0.41	0.15	0.14	0.14	0.22
<i>Vegetables</i>												
Area ('000 dunums)	235.7	111.7	167.7	149.5	–	29.8	39.1	61.5	321	357	391	515
Output ('000 tons)	170.1	167.6	258	219.5	–	53.4	100.4	221.5	527.4	1,039.8	1,097.2	1,229.3
Output per dunum	0.72	1.50	1.54	1.47	–	1.79	2.57	3.60	1.64	2.91	2.81	2.39
<i>Fruits</i>												
Area ('000 dunums)	685	974	1,036	1,056	114	129	114	103	852	876	899	845
Output ('000 tons)	131	261	181	324	126	206	193	216	1,393.8	1,858.5	1,819.6	1,598.40

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Output per dunum	0.19	0.27	0.17	0.31	1.11	1.60	1.69	2.10	1.64	2.12	2.02	1.89
Total area ('000 dunums)	1,690.7	1,615.2	1,699.4	1,793.3	-	175.5	175.8	195.4	3,778	3,769	3,671	3,545

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Sources: World Bank (1993, vol. 4, annex: tables IV and VII); ICBS (1994, *SAI*, table 13.1).

Note

Crop output in Israel refers to cotton, hay and wheat for grains.

*Table A12* WBGs agricultural exports and imports, by country of destination and origin, 1977–1986 (in current million US dollars)

	<i>Jordan</i>	<i>Israel</i>	<i>Others</i>	<i>Total exports (agricultural et al.)</i>	<i>Percentage agricultural in total exports</i>
<i>Exports (destination)</i>					
1977	61.7	33.3	12.4	255.3	42.1
1980	42.8	50.7	9.5	343.2	30.0
1984	36.3	23.9	4.2	289.0	22.3
1986	42.6	30.6	2.2	379.8	19.9
<i>Imports (origin)</i>					
1977	0.3	74.0	14.9	507.1	17.6
1980	0.5	90.4	5.9	664.6	14.6
1984	0.1	98.2	10.0	784.9	13.8
1986	0.2	114.4	15.6	890.0	14.6

Source: UNCTAD (1989: table FT.1./1B); World Bank (1993, vol. 2: table 29).

*Table A.13* Real daily wages of Gaza Strip and West Bank workers employed in Israel (1986 NIS prices) in construction and in all sectors, 1970–1993

<i>Year</i>	<i>Gaza Strip</i>				<i>West Bank</i>			
	<i>Real wages in all sectors</i>	<i>Real wage in construction</i>	<i>Year change in real wages in all sectors</i>	<i>Year change in construction real wages</i>	<i>Real wages in all sectors</i>	<i>Real wage in construction</i>	<i>Year change in real wages in all sectors</i>	<i>Year change in construction real wages</i>
1970	14.90	15.92	–	–	14.7	16.19	–	–
1971	14.10	14.65	–0.05	–0.08	14.3	15.89	–0.03	–0.02
1972	16.20	15.92	0.15	0.09	15.4	17.21	0.08	0.08
1973	17.80	19.39	0.10	0.22	15.7	17.43	0.02	0.01
1974	16.10	17.42	–0.10	–0.10	16.4	18.00	0.04	0.03
1975	14.20	15.12	–0.12	–0.13	15.4	16.71	–0.06	–0.07
1976	14.30	15.40	0.01	0.02	14.5	15.91	–0.06	–0.05



1977	14.40	15.45	0.01	0.00	14.1	15.61	-0.03	-0.02
1978	14.50	15.93	0.01	0.03	14.5	15.63	0.03	0.00
1979	17.50	19.46	0.21	0.22	14.7	16.24	0.01	0.04
1980	15.30	17.01	-0.13	-0.13	14.5	16.02	-0.01	-0.01
1981	14.80	16.46	-0.03	-0.03	16.0	17.67	0.10	0.10
1982	16.50	17.82	0.11	0.08	17.3	18.68	0.08	0.06
1983	16.50	17.60	0.00	-0.01	17.2	18.61	-0.01	0.00
1984	13.90	13.72	-0.16	-0.22	14.6	17.01	-0.15	-0.09
1985	13.20	14.45	-0.05	0.05	14.5	15.66	-0.01	-0.08
1986	18.40	20.15	0.39	0.39	18.2	19.62	0.26	0.25
1987	22.10	25.09	0.20	0.19	21.8	25.62	0.20	0.31
1988	26.60	27.98	0.21	0.16	29.5	31.97	0.35	0.25
1989	26.60	28.37	0.00	0.01	29.4	32.05	0.00	0.00
1990	25.78	27.40	-0.03	-0.03	27.6	28.93	-0.06	-0.10
1991	26.20	27.70	0.02	0.01	30.4	31.92	0.10	0.10
1992	25.82	26.92	-0.01	-0.03	31.4	32.28	0.03	0.01
1993	27.88	29.40	0.08	0.09	34.4	35.97	0.10	0.11

Source: Calculated from data provided from ICBS, SAI, various years.

Note

The big jump in wages in 1986 is due to the fact that wages are calculated in real NIS 1986 prices. Israel turned to the NIS in 1980 and had inflation rates of over 100 per annum up until the stabilisation programme of 1985–1986.

*Table A14* General characteristics of Israeli settlements in the Salfite District, 1998

<i>No.</i>	<i>Name</i>	<i>Year of establishment</i>	<i>Type of settlement</i>	<i>Size of land (dunums)</i>	<i>Jewish population</i>		
					<i>1986</i>	<i>1992</i>	<i>1998</i>
1	Ariel	1978	Urban, loc con	4,010.3	6,500	11,500	14,400
2	Alei Zahav	1983	Urban, loc. con.	717.2	n.a	250	420
3	Barkan	1981	Industrial	1,549.6	n.a	520	1,014
4	Elkana	1977	Urban, loc. con.	696.8	1,094	2,400	3,000
5	Emmanuel	1981	Urban, loc. con.	853.7	4,000	4,000	3,575

6	Ez Efraim	1982	Urban, loc. con.	216.3	n.a	100	400
7	Kfar Tapuah	1978	Community sett.	243.5	136	220	300
8	Kiryat Netafim	1982	Moshav	143.7	180	140	140
9	Nofim	1986	Community sett.	287.3	n.a	200	500
10	Pedu'el	1984	Urban	294.7	n.a	220	450
11	Revava	1991	Urban	357.6	n.a	50	200
12	Yakir	1981	Community sett.	582.4	347	400	800
	Others (4)			1,189.3			
	Total			11,142.4	12,257	20,000	25,199

Sources: ARIJ (1999), *Settlement Data Base*; Benvenisti and Khayat (1988).

Notes

Loc. con: local council.

The settlements of Alei Zahav also includes Har Alei Zahav.

Others: the four other settlements were established after 1994.

*Table A15* Palestinian towns and villages in the Salfite District, 1998

<i>No.</i>	<i>Name</i>	<i>Size (dunum)</i>	<i>Built-up area (%)</i>	<i>Cultivated area (%)</i>	<i>Confiscated area (%)</i>	<i>Other area (%)</i>	<i>Total</i>	<i>Size of land confiscated (dunums)</i>	<i>Palestinian population</i>
1	Salfite	35,000	9.4	81.4	4.2	5.0	100	1,470	7,101
2	Khirbat Qeis	6,000	0.8	16.6	13.4	69.2	100	804	184
3	Rafat	5,500	9.0	36.4	n.a.	54.6	100	n.a.	1,465
4	Bruquin	15,000	4.0	50.0	22.0	24.0	100	3,300	2,658
5	Farkha	5,400	3.0	55.0	n.a.	42.0	100	n.a.	1,115
6	Haris	7,200	1.5	55.5	n.a.	43.0	100	n.a.	2,230
7	Deir Istiya	36,000	1.0	55.5	10.0	33.5	100	3,600	2,802
8	Kifre Haris	7,300	1.5	55.5	n.a.	43.0	100	n.a.	2,352
9	Sarta	15,000	1.6	66.8	1.6	30.0	100	240	1,899

10	Deir Ballut	30,000	3.0	67.0	n.a.	30.0	100	n.a.	2,680
11	Azzawaya	15,000	5.0	70.0	25.0	n.a.	100	3,750	3,698
12	Kafr ad Dik	20,000	2.5	75.0	12.5	10.0	100	2,500	3,745
13	Qarawat bani Hassan	10,000	4.5	85.0	2.5	8.0	100	250	2,703
14	Iskka	6,950	6.5	87.1	2.3	4.0	100	160	798
15	Qira	4,000	25.0	70.0	n.a.	5.0	100	n.a.	753
16	Marda	9,020	3.4	55.4	33.2	8.0	100	2,995	1,609
17	Mas-Ha	15,000	1.6	66.8	1.6	30.0	100	240	1,441
18	Yasuf	6,165	2.4	65.9	12.3	19.4	100	758	1,282
19	Bidya	15,000	–	–	–	–	–	–	6,058
	Others (4)	7,000	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	115
	Total	270,535	–	–	–	–	–	20,067	46,688

Sources: PCBS (1999d); Ma'an (1997), *An Evaluation Study of the Development Needs of the Salfite District*, Development Studies no. 9.

Notes

The four other villages are Khirbat Susa, Dar Abu-Basal, Ozbat abu Adam and Wadi Qana. Data on land distribution are approximative. The category 'other' land area refers to uncultivated and waqf land.

# Notes

## Introduction

- 1 The Road Map, which was put forward by the United States, the European Union, Russia and the United Nations, popularly referred to as the Quartet, dates to December 2002. The Israeli cabinet accepted it on 25 May 2003 conditionally on 14 amendments, which the Bush administration said it would take into consideration. The Palestinian Authority accepted it, feeling that there was no alternative (Usher 2002). See *Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict* at <http://www.state.gov/r/pa/prs/ps/2003/20062.htm>.
- 2 See, for example, Jong (1998), Robinson (1997), Hiller (1997), Klieman (2000), FMEP (2003, 2004), Boyle (2003) and the Geneva Initiative (2003).
- 3 Zion is an area that, according to some biblical interpretations, is supposed to include the whole of British Mandate Palestine as well as parts of Jordan (see Abu-Lughod 2001; WZO 1982). The Jewish community living in Palestine prior to 1948 (called the Yeshuv) and the World Zionist Organization long debated the actual boundaries of their state in Palestine and whether they should envisage a partition, rather than having full control of the Holy Land (see Kimmerling 1983a:50–60).
- 4 After 1966, Palestinians living in Israel became Israeli citizens and were allowed freedom of movement and economic activity. However, they did not regain full access to their land that was expropriated in 1948. There are presently 250,000 Israeli-Palestinian internal refugees prevented from returning to their original villages.
- 5 The 1994 data are missing as a result of the transfer of authority that took place between the Israeli Central Bureau of Statistics and the Palestinian Central Bureau of Statistics, which was established in 1994. The PCBS became responsible for all data on the Palestinian population and economy after that date.
- 6 The ICBS data have relied on surveys conducted by an occupying force, thus raising questions concerning their reliability (UNCTAD 1996). The accuracy of the data recorded during the 1988–1992 period has also been debatable, since surveyors faced major difficulties in accessing the Occupied Territories during the first Intifada (Angrist 1995, 1996; see also Farsakh 1998).
- 7 Apart from these two official sources, a number of surveys were conducted by Palestinian and international sources, such as the FAFO 1992 survey, reported on by Heiberg and Ovansen (1993), which covered a sample of 2,500 Palestinian families (including some in East Jerusalem); the FAFO 1993 survey of refugee camps in WBGS, reported on by Ovansen (1994); Abu-Shokor (1987) on workers in Israel and on the Palestinian labour force (a sample of 1,077 workers conducted in summer 1984); Okasha (1990) on the industrial sector (a total of 1,563 firms employing 11,430 persons); and Long and Mohanna (1990) on 187 women in refugee camps in Gaza Strip (see UNCTAD 1996 and PCBS 1995 for further details). However, these surveys do not provide time series data.

### Migration theories, labour transfer and structural change

- 1 Stark assumes that migrants remain obedient to the family and do not violate the contracts, as they stand a risk of losing their chance to inherit the land if they do not. Moreover, he argues that families reward the remitting migrant by giving him family privileges (Lucas and Stark 1985; Stark 1991:237).
- 2 Smith considered that 'man is of all sort of luggage the most difficult to be transported' (quoted in Hakimian 1990:13).
- 3 He did not focus his analysis on the benefits of division of labour, as Smith did, or take the view that population growth had bad implications for labour supply and mobility, as Malthus and Ricardo did (Hakimian 1990).
- 4 'Floating labour' refers to workers who are urban unemployed or partially employed. Their job is precarious and changing. 'Stagnant labour' refers to the artisans and craftspeople who are underemployed and whose jobs become increasingly precarious with the expansion of manufacturing. Nomadic labour is often neglected in most discussions of surplus labour in Marx.
- 5 This is because the expansion of variable capital, that dimension of capital which determines the demand for labour, goes hand in hand with the increase in constant capital (i.e. machinery) in industry. In agriculture, constant capital is argued to be inversely related to variable capital. Another way of explaining the absolute fall in demand for labour in agriculture is to consider the limits that land quality imposes on productivity growth and on the division of labour. This issue remains a matter of debate in the literature.
- 6 Marx concentrated on the experience of Great Britain and Ireland in explaining the process of capital accumulation and labour transfer.
- 7 Unlike neoclassical economists, Lewis considered the problem of development to be one of *mobilisation*, rather than of *allocation*, of resources. Like many of his contemporary development theorists, Lewis (1954:158) viewed savings, rather than employment creation or absorption, as the major constraint on growth. It was assumed that once savings grow, employment will follow suit.
- 8 The Fei-Ranis model restricts the Lewis assumptions by demarcating more sharply the boundaries of each sector, defining them as food and non-food sectors. It also gives scope for investment and capitalisation in agriculture, and defines more clearly the stages of labour transfer, which it separates into three phases: the initial stage, in which labour flows at constant wage; the labour shortage/turning point, when labour productivity starts to rise to positive levels in the food sector; and the stage of full commercialisation of labour in both sectors. The Fei-Ranis model also gives more attention to the interaction between the subsistence and the capitalist sector, and to the mobilisation of savings and investment in both sectors. However, it differs fundamentally from Lewis's model by being concerned with the problem of labour allocation between sectors, rather than with the problem of mobilisation of labour (in this respect the Fei-Ranis model is neoclassical in its approach). The Fei-Ranis model considers that the 'heart of the development problem lies in the gradual shifting of the centre of gravity of the economy from the agricultural to the industrial sector' (1964:7), not in increasing savings rates *per se*, as Lewis argues.
- 9 Sen (1966) resolved this contention by distinguishing between the productivity of workers (which could be negative) and the productivity per hour of work (which is positive).
- 10 The concept of internal colonialism was first used to describe relations of exploitation in Latin American and Southern African countries that had a legacy of imperial settler states. It refers to countries that achieved independence from the original imperialistic power, but where the politically dominant settler class continued to dominate the local indigenous population, culturally as well as economically. It is argued that the conflict between the original settler class and the indigenous population often takes the shape of an ethnic or 'racial' conflict, but its basis remains economic. The relation between the two groups is a

relation of exploitation in the sense that the dominant group appropriates resources and surplus value for the sake of its own capitalist development (Kay 1989).

- 11 The release of labour from the Palestinian economy is affected through four main channels: land expropriation; extraction and control of water resources; industrial and economic policy that handicaps the development of productive local employment; and the transformation of the Palestinian market into a captive market for Israeli goods (Murphy 1991:124–140). Chapters 2, 4 and 5 discuss the channels of labour release.

## 2

### **Development under occupation: structural change in the West Bank and Gaza Strip, 1967–1993**

- 1 Developments that occurred after 1993 are discussed in Chapter 7.
- 2 Namely, Menachem Begin, who later led the right-wing Likud Party, and Moshe Dayan, who was Labour Defence Minister (Aronson 1990; Gazit 1995).
- 3 The West Bank aquifers and water from the River Jordan produced a total of 1,900 million cubic metres of water per year, or 70 per cent of total water resources available in Israel, the West Bank and the Gaza Strip (calculated from El Musa 1997:12).
- 4 Apart from excluding all those who emigrated between June and September 1967, the reliability of a census carried out by an occupying force is also questionable. Many Palestinians are likely to have concealed and under-reported information to the military-sponsored census and population registry offices. Moreover, Israeli authorities have refused to carry out a census in the Occupied Territories since 1967, although they have carried out three in Israel itself since that date. (For further on data limitations, see Farsakh 1998.)
- 5 Between 1968 and 1986, the labour force included those aged 14 or older, working or looking for at least one hour of work; after 1987, it included those aged 15 or older (see Table A2).
- 6 The *Statistical Yearbook of Jerusalem* provides data on the inhabitants of the city as a whole and refers to Palestinians as ‘non-Jews’. It considers Palestinians working in Jerusalem, whether East or West, to be working in Israel. The exclusion of Jerusalem can be confusing, since 8–10 per cent of West Bankers were believed to be working in East Jerusalem in the late 1980s and early 1990s (ICBS 1988, 1992, *SAI*: table 27.23). These workers could have been employed either in the Arab part of the city or in the Israeli settlements built around it (of which there were 13 by 1998).
- 7 Forty-two per cent of the population in the Gaza Strip was urban, compared with 36.9 per cent in the West Bank in 1967. In 1997, the figures were 63.5 per cent and 47.9 per cent respectively (MAS 1998:9). Of the Gaza Strip population, 50.2 per cent are under the age of 15, compared with 45 per cent in the West Bank in 1997 (PCBS 1999a:29).
- 8 In the Gaza Strip, only 5.3 per cent of the population lived in rural areas and 31.2 per cent lived in refugee camps (compared with 6.5 per cent in the West Bank in 1997).
- 9 In 1997, 40.4 per cent of GS households were defined as poor (earning less than \$650 per annum per capita), compared with 11.1 per cent in the West Bank (MAS 1999:7). Within the Gaza Strip, over 38.7 per cent of the poor came from refugee camps (Shaban 1997:30).
- 10 PCBS, *Population in Palestine*, [www.pcbs.org/english/populati/proj\\_mai.htm](http://www.pcbs.org/english/populati/proj_mai.htm) (1999). In 1993, population growth rates in Israel were 2.8 per cent, in Jordan 3.3 per cent and in Egypt 2.3 per cent (MAS 1998).
- 11 The economic experts solicited by the Israeli government at the time maintained that free movement of labour and capital across the Green Line (the pre-1967 border between Israel and the WBGS) would lead to complete economic integration between Israel and the Occupied Territories (Arnon *et al.* 1997). Such integration was argued to be beneficial to both Israel and the Palestinians, particularly in the long run, since it would allow an efficient

- allocation of resources between the two different-sized economies (Kleiman 1992). However, the same economic experts agreed that the decision concerning the future of the WBGS was going to be determined by political rather than by economic considerations.
- 12 According to Gazit (1995) and Arnon *et al.* (1997), Palestinian labour migration was not the outcome of a planned policy, but the result of market forces and higher wages in Israel. This explanation is questionable, though, since Israeli officials took the decision to prevent capital inflow into the occupied areas. Moreover, the Israeli Ministry of Labour started in 1968 to define the modality of Palestinian labour recruitment into Israel.
  - 13 By using the international comparison of products (ICP), GNP per capita (in current US\$ in 1989) in the West Bank was US\$2,249; in the Gaza Strip it was US\$1,325; in Jordan \$4,530; and in Egypt \$3,100 (Arnon *et al.* 1997:13).
  - 14 Between 1970 and 1979, real GDP in new Israeli shekels (NIS) grew by 8.5 per cent in the West Bank, 6.2 per cent in the Gaza Strip and 2.5 per cent in Israel. Between 1980 and 1987, it grew by 3.5 per cent, 1.5 per cent and 2.2 per cent, respectively (World Bank 1993, vol. 2:22).
  - 15 GDP in Gaza fell by 12 per cent between 1987 and 1988 and by 6.4 per cent between 1990 and 1991. In the West Bank, it increased by 4 per cent during the first period and dropped by 7.3 per cent in 1990–1991 (calculated from World Bank 1993, vol. 2).
  - 16 Hamed and Shaban (1993) based their calculation on Israeli official data. They took into consideration the Israeli tariff rates on consumer goods, which represent the bulk of WBGS imports. Tariffs on consumer goods were of the order of 75 per cent in the early 1970s, and 50 per cent in the 1980s.
  - 17 Maxime Rodinson (1973) was one of the first internationally renowned scholars to call Israel a ‘settler colonial’ state, one that sought to dominate the indigenous population economically and politically. Rodinson’s argument was heavily criticised, but also taken on board by various researchers. Those who adopted it emphasised the racial settler character of the Zionist state and drew parallels between its policies and those of the apartheid government in South Africa (Kayyali 1979; Stevens 1979; Davis 1987). More recently, the work of Israeli sociologists such as Kimmerling (1983a, b), Ram (1999) and Shafir (1989, 1999), and of new historians such as Pappé (1997, 1999, 2000), has provided further Israeli academic impetus to the assertion of Israel’s colonial settler origin. They argue that Israeli policies post-1967 are part and parcel of Israel’s settler nature and history, of its eternal struggle over how to create a solid, pure Jewish state in a ‘promised land’ that was not uninhabited.
  - 18 Samara’s work concentrates on the relation between Israel and the West Bank, excluding the Gaza Strip.

### 3

#### **Land and settlements in the West Bank and Gaza Strip**

- 1 This resulted in decreeing that 13 per cent of West Bank land was state land (Shehadeh 1988:25).
- 2 According to Jong (1998:85), Israel-declared state land compromised more than 50 per cent of the WBGS.
- 3 Gush Emunim (Bloc of Faithful), officially formed in 1974, became an important interest group. It has close links to the army and enjoys support from various representatives in parliament, in political parties, in government and in various ministries involved in settlement planning (particularly in the Land Department, the Ministry of Housing and Construction, and the Ministry of Education) (Benvenisti 1987; Lustick 1988).
- 4 Calculated from ICBS (1980, *SAI*: tables 2.1 and 22.1).

- 5 Israel claimed that the Geneva Convention did not apply *de jure* to the West Bank since Israel's position in the area was *sui generis* (Israel claims that it did not invade the area but conquered it as a result of 'defensive war'. This interpretation, though, has never been accepted by international jurists or courts (see LIDL 1991; Shehadeh 1988).
- 6 According to Aronson (1990), the Likud government envisaged that the price of returning Sinai to Egypt would be to keep Israel's hold over the West Bank.
- 7 In 1983, under the guidance of Drobless, the Israeli Ministry of Agriculture and the World Zionist Organization further detailed the master plan for settlements in the West Bank through the year 2010. This master plan, also known as the Hundred Thousand Plan, aspired to move 80,000 Israelis to the West Bank and build 300–400km of new roads and 23 new settlements by 1986 (B'tselem 2002:15).
- 8 In relation to Table 3.1, it is important to note that it is difficult to find exact data on the number of settlements and settlers (Benvenisti and Khayat 1988). Israeli official statistics underestimate the actual figures. The Council of Settlers in Judea, Samaria and the Gaza Strip (Yesha) has its own data, but they are not always accessible and tend to be overestimates (FMPEP 1999c). Yesha reports the number of settlers according to the number of houses available, and not according to the actual number of settlers living there. ARIJ, a principal Palestinian source on settlement expansion, uses a different definition of regional boundaries in the West Bank, meaning that its data are not always comparable with ICBS data. Figures can vary by 20 per cent depending on the source. The main sources used here include the ICBS and FMPEP.
- 9 Calculated from ICBS (1999, *SAI*: tables 2.2, 2.17).
- 10 Calculated from FMPEP (2001b, vol. 11/6:5, table 1).
- 11 In the West Bank, the settlement blocks include the Shomron area (the north of the West Bank), the Benyamin area (around Ramallah and the centre of the West Bank, connected to the Jerusalem Metropolitan area as well as connecting the Green Line with the Jordan Valley), the Gush Etzion/Hebron area (the south and around Hebron), and the Jordan Valley. In the Gaza Strip, the settlements block includes Gush Katif, and the Netzarim settlement splits the strip into two parts.
- 12 According to B'tselem (2002:116), the settlement built-up areas by the end of the 1990s represented 1.7 per cent of the West Bank.
- 13 Calculated from ICBS (1996, 2000, 2001, *SAI*: tables 16.12/13, 22.12). According to NGO sources, Israel built 250 miles of bypass roads over the same period (c. 400km).
- 14 Under military order no. 1213 (3 December 1987), Jewish settlers in the WBGS were considered local Israeli residents. During the early years of occupation, Israelis were not allowed to live or work in the West Bank. For further details of the Israeli measures, see Shehadeh (1988:79–93).
- 15 A sixth regional council was added in the late 1980s, along the Dead Sea. See [www.jmcc.org/research/reports/military.html](http://www.jmcc.org/research/reports/military.html).
- 16 See FMPEP (1998, vols 10/3 and 10/5) and Benvenisti (1984:64).
- 17 Calculated from ICBS (*SAI*, various issues, tables 16.4 and 16.5).
- 18 For example, in 1997 an \$8,600 grant plus a soft loan of an equal amount for new apartment purchases were awarded to settlers in Area A and \$5,700 to those in Area B. In the mid-1990s, settlements around Jerusalem and the Green Line were reclassified as development Area B (FMPEP 1997, vol. 7/6), indicating their ability to reduce their reliance on public finance and to draw on their own resources and on private-sector investment.
- 19 Settlers were given a 90 per cent state subsidy for pre-school fees, and teachers were given a 100 per cent subsidy for travel to and from school, as well as an 80 per cent subsidy for rented housing (FMPEP 1997, vol. 7/6).
- 20 Findings are based on survey data conducted on 414 settlers in 1999. Benvenisti's data for 1987 are based on an unpublished report submitted to the Ministry of Housing. The size of the survey is not specified.



- 21 ICBS (1997, *LFS*: table 37).
- 22 Owing to the absence of detailed accessible GDP and production data for the settlements, it is difficult to evaluate their contribution to Israel's GDP. However, available information suggests that the settlements' economic contribution is negligible, if not trivial. Available statistics reveal that agricultural settlements represented less than 0.7 per cent of total land cultivated by Israelis in 1987. In terms of vegetable production they produced less than 2 per cent of total Israeli vegetable output (calculated from Kahan 1987:174–175; ICBS 1989, *SAI*: 394; see further Chapter 5). Settlements' exports to the European Union, Israel's main trading partner, amounted to a total of \$140 million in 2001, which is less than 1.7 per cent of total Israeli exports to the European Union (calculated from ICBS 2002, *SAI*: table 10.6, and I.Black and A.Osborn (2001), 'EU Gets Tough on Israeli Exports', *Guardian* (London), 13 November 2001).
- 23 These four towns had a total population of 40,000 out of a total of 121,000 Israelis in the WBGS in 1993. In 1999, they had a total population of 57,900 out of 186,900 Israeli settlers (calculated from FMEP 2001b).
- 24 ICBS (1992, *Statistical Yearbook of Jerusalem*: table III).
- 25 See Peace Now (2003) 'Israeli Peace Now Survey of Settlers: Most Reject Extremists, Would Accept Compensation to Leave' at <http://www.peacenow.org/nia/pr/07232003.html>.
- 26 Up until 1993, Israel's official stand was that negotiations over the Occupied Territories would take place with Jordan, which ruled the West Bank before 1967. During the Madrid multilateral peace negotiations in 1991, the PLO was absent and the Palestinians from the Occupied Territories formed part of the Jordanian-Palestinian delegation.

#### 4

### Characteristics of Palestinian labour migration

- 1 As mentioned in Chapter 2, the WBGS labour force is defined to include those working both in Israel and in the Occupied Territories. Between 1968 and 1986, the labour force included those aged 14 or older who were working or looking for at least one hour of work per week, and after 1987 it included those aged 15 or older (see Table A2). ICBS and PCBS labour force surveys rely on the ILO criteria of at least one of hour of work to define somebody as employed.
- 2 The labour force figures used in this chapter for the period between 1995 and 2000 include the underemployed. They are higher than those reported by the IMF (2001), but are in line with those in PCBS (2000).
- 3 ICBS also does not account for discouraged workers, who are defined as those who are unemployed and desirous of working but who do not report themselves to be actively looking for a job (UNCTAD 1996). Abu-Shokor (1987) argues that if figures on unemployment were to include those dismissed from their regular job because of a firm's bankruptcy or for political reasons (such as being an expolitical prisoner, or lacking a 'security' clearance), unemployment rates would be double those reported by Israeli data in 1985. Different surveys, while using the same definition for the unemployed, obtain different unemployment figures by virtue of their different ability to reach the surveyed population (PCBS 1995:57–67, 109) (see Farsakh 1998 for further discussion of the data limitations).
- 4 The PCBS has improved on the definition of who is unemployed by including in it 'all those who report themselves not to have worked in the reference week' (irrespective of whether any attempt was made to register at an employment office) and 'were absent from a job while being available for work', thus including workers barred from entry into Israel because of the closure policy. The PCBS provides more detailed data on the composition of unemployment (PCBS 2000:16).

- 5 According to Sayre and Olmsted (1999), an estimated 40,000–100,000 persons were recorded as having immigrated into the WBGs since the Oslo Accords were signed in 1993.
- 6 According to Gabriel and Sabatello (1986:253), 95,000 West Bankers and 34,000 Gaza Strip inhabitants left the WBGs between 1974 and 1981.
- 7 According to Long and Mohanna (1990) and Heiberg and Ovensen (1993), female participation rates are also unreported in most official statistics since many women work in the informal sector and/or conceal their involvement in the labour force, particularly to Israeli-sponsored surveys. According to the FAFO survey in 1993 on refugee camps, women represented 55 per cent of all those employed in the informal sector in the West Bank and 62.5 per cent of those employed in the Gaza Strip (Ovensen 1994:64).
- 8 This compares with 60 per cent for the Middle East region as a whole (World Bank 1993, vol. 5).
- 9 Male participation rates increased from 67 per cent to 71 per cent between 1995 and 1998, while Palestinian employment (in Israel and the WBGs) increased by 121,000 jobs. Male participation rates were less than 66 per cent between the six years (1980–1985) during which the labour force increased by 33,000 (calculated from Tables A.2 and A.3).
- 10 ICBS (1994, *SAI*: 813).
- 11 Abu-Shokor's survey (1987:98) found that only 15 per cent of workers slept overnight at their place of work.
- 12 The figures for migrant workers of rural origin are 18.9 per cent for the Gaza Strip and 65.4 per cent for the West Bank (Abu Shokor 1987:109).
- 13 Calculated from ICBS (1981, 1991, *JSGAS*: tables 10 and 11). See also Farsakh (1998: table 12).
- 14 A country that had a similar migration experience is Lesotho. Access to the South African mines (rather than construction) absorbed 30–50 per cent of Lesotho's male labour force in the period 1969–1988 and precipitated its transformation from a rural into a mainly wage-earning workforce (Crush *et al.* 1991; Lundahl and Petersson 1991).
- 15 Their estimates show that employment in Israel reduced employment in the West Bank by 11 per cent and in the Gaza Strip by 62 per cent (Arnon *et al.* 1997:78).
- 16 Angrist (1996) argues that the fall in premium was an outcome of the increase in Palestinian labour supply, while Sayre (2001) shows that it is rather the result of weakness of domestic demand for workers in the WBGs.

## 5

### **Labour release and transfer from the West Bank and Gaza Strip**

- 1 There is no evidence of Palestinian workers being unemployed in Israel or concentrated in an informal sector, waiting to be hired in the Israeli formal sector, given that the majority of workers are commuters.
- 2 The use of male, rather than female or total, unemployment rates is due to the fact that the majority of Palestinian workers in Israel are men.
- 3 Wages are in real 1986 NIS terms. In view of the economic integration between Israel and WBGs, and the common use of the NIS as the main currency, price indices were fairly similar in both regions.
- 4 The average number of days of work for workers from the Gaza Strip dropped from 22.0 to 15.6 days between 1987 and 1989. For West Bank workers it dropped from 22.5 to 18.9 over the same period (ICBS 1992, *JSGAS*).
- 5 Two other studies have touched on Palestinian migration: those of Sayre (1999) and Olmsted (1994), which used more advanced rational choice models. The former concentrated on Palestinian labour market adjustment in the face of return migration and increased volatility

- in labour access to Israel. The latter focuses on the role of family attitudes, particularly towards gender roles, in determining education and migration outcome for boys and girls in the Bethlehem area.
- 6 His sample is made up of 700 observations, 40 per cent of which refer to Palestinians commuting to Israel and 60 per cent to domestic workers. These proportions are roughly similar to the population distribution between domestic and Israeli labour markets as reported by the ICBS (see also Table A4).
  - 7 The variables he chooses as determinants of the earning equation are age, education, membership in a trade union, job experience, type of work and place of residence.
  - 8 The fall in income was not immediate, owing to the effect of the Jordanian dinar, which was legal tender in the WBGS.
  - 9 According to Kadri, 'the coefficient of the expected wage, or the elasticity of labour supply is 5 per cent, i.e. quite inelastic' (1998:1142). The low elasticity of labour is also a point mentioned by the World Bank (1993), Angrist (1996) and Arnon *et al.* (1997).
  - 10 Kadri considers that the wages reported in the WBGS, whether for work in Israel or domestic wages, refer to net rather than gross wages. This assumption is based on a belief that ICBS labour surveys' respondents refer to their takehome income.
  - 11 Figures 5.3a-c have already revealed that wage differentials between Israeli and Palestinian agriculture have diminished and were nearly equal between 1974 and 1984, and thus could not have acted as a pull factor.
  - 12 In terms of vegetable production, for example, the West Bank produced a total of 170,100 tons in 1966 compared with 167,600 tons in 1978 (Table A11). In the Gaza Strip, 187,000 dunums, nearly 40 per cent of the total Gaza Strip area, were already cultivated in 1967, mostly with citrus trees (Roy 2001:224).
  - 13 The PCBS planned to conduct an agricultural census in 2000, but this was stalled with the Al-Aqsa Intifada and Israeli reoccupation of Palestinian areas.
  - 14 In developing countries, land reform has often been among the most important elements in releasing labour, particularly among the landless and wage earners (see Hakimian (1990) for Iran, and Abdel-Fadil (1975), Hanson (1991) and Dyer (1997) for the effect of land reform on agrarian change in Egypt). In Israel, the development of a collective agricultural system, whether in the form of kibbutzim or moshavim, which remained under the guidance of state central planning (through the Ministry of Agriculture and the Settlement Department of the Jewish Agency), played an important role in redistributing land and fostering Israeli agricultural growth (Aharoni 1991; GATT 1997).
  - 15 It is estimated that 84 mcm of water was used in agriculture in 1990 in the West Bank and 68 mcm in the Gaza Strip, i.e. c. 70 per cent of total water allocated to the Palestinians (Awartani 1994:15). In Israel, agriculture absorbed 70 per cent of total water consumption in the early 1990s (Rivlin 1992:78).
  - 16 According to Kahan (1987:165–166), out of a total of 113 settlements in the West Bank in 1987, 34 were considered agricultural and another 11 undertook some agricultural activities. In the Gaza Strip, 9 out of 13 settlements in 1987 were considered agricultural.
  - 17 Calculated from Kahan (1987:110–112).
  - 18 Jordan limited the size of Palestinian exports by making the entry of goods dependent on proof that they had no Israeli inputs in them; by restricting the number of lorries crossing to the east side of the Jordan to a total of 400 lorries from the West Bank and 100 from the Gaza Strip; by allowing the West Bank to export only 50 per cent of its produce; and by giving Gaza citrus exports only transit status in its areas.
  - 19 In this respect, the Agricultural Department encouraged the development of WBGS irrigated cash crops, products such as strawberries and tomatoes, in seasons that did not compete with Israeli production.
  - 20 This compares with 49.9 per cent in Israel and 16.4 per cent in Jordan (UNCTAD 1993b).
  - 21 Calculated from ICBS (1983, *SAI*: tables 27.24 and 27.25).

- 22 In the Gaza Strip, the output per dunum for vegetables was 3,600 tons compared with 410 tons for field crops and 2,100 tons for fruit in 1992. In the West Bank, it was 1,470 tons for vegetables compared with 60 tons for field crops and 310 tons for fruit (see Table A11).
- 23 Calculated from data provided by Kahan (1987: table 9.3).
- 24 The average amount of water used per unit of irrigated area in the Jordan Valley for vegetables was 3,400 cubic metres per acre compared with 1,390 in Israel (8,400 and 3,435 cubic metres per hectare). In the case of orchards, Israeli settlers in the Jordan Valley consumed 4,370 cubic metres of water per acre compared with 2,950 cubic metres in Israel (10,798 and 7,289 cubic metres per hectare) (Lavy 1997:16).
- 25 Calculated from ICBS (1980, *SAI*: 701) and ICBS (1989, *SAI*: 731).
- 26 Calculated from ICBS (1989, *SAI*: table 27.23). Another example of the limits put by Israel on Palestinian exports of livestock can be gauged by looking at the restriction on eggs. While the WBGS produced over 239.8 million eggs in 1992 (ICBS 1993, *JSGAS*: table 3:68), article VIII.10 allows it to export 30 million in 1994.
- 27 According to El-Musa and El-Jafari (1995:24), these restrictions meant that only 25 per cent of WBGS vegetable production would have unrestricted access to Israel.
- 28 [http://europa.eu.int/comm/europeaid/projects/med/bilateral/w\\_b\\_gaza\\_en.htm](http://europa.eu.int/comm/europeaid/projects/med/bilateral/w_b_gaza_en.htm).
- 29 Agricultural output between 1992 and 1997–1998 fell from 1,135,400 tons to 1,029,627 tons (calculated from PCBS 1999b: table A10).
- 30 There were a total of 115,800 West Bankers in the Israeli economy in August 2000 compared with 29,600 from the Gaza Strip (Table A4).
- 31 Calculated from PCBS (1997, 1998, 1999, *LFS*: tables 39–41).

## 6

### **The absorption of Palestinian labour into the Israeli economy**

- 1 Israeli-Palestinians are generally referred to in the literature as 'Israeli-Arabs'. They have been discriminated against by the Israeli state since 1948 by various institutional and market mechanisms. In 1948, Israeli-Palestinians had their land and belongings confiscated. Until 1966, they were under Israeli military control, and their freedom of circulation out of their areas was severely controlled. After 1966, they continued to be under-represented in the upper echelons of the Israeli occupational structure, in part because they are not allowed to serve in the Israeli army and thus cannot gain access to high-ranking jobs (Klinov 1989, 1999; Lewin-Epstein and Semyonov 1993). Areas inhabited by Israeli-Palestinians are still not allocated the same amount of financial aid and institutional infrastructure (banking, territorial planning, etc.), aid to education or access to investment opportunities provided to Jewish areas (Shalev 1992; Yiftachel and Meir 1998).
- 2 ICBS (1967, *SAI*: 267–268).
- 3 Health and income taxes, as well as 93 per cent of contributions made to the National Insurance Institute, were kept in the Israeli Treasury, rather than being transferred to the Palestinian economy. Other contributions (pension and end-of-service benefits) were transferred only upon receipt of personal requests.
- 4 Estimated deductions were calculated in 1990 US dollar prices and did not include interest payments. They are based on an assumption that only 40 per cent of workers were legal over this period. Deductions excluded income-tax payment but included pension, health, end-of-service benefits, national insurance and Histadrut payments made by workers and/or by their employers. They were calculated on the basis of reported take-home wages and not on the basis of gross wages. These estimates are thus likely to underestimate the actual size of wage deductions made between 1970 and 1993.

- 5 Portugali's survey covered 1,500 workers interviewed on work sites and 600 in street markets. The survey was conducted in 1985.
- 6 Angrist argues that by restricting the labour supply out of the WBGS, the wage premium for work in Israel would be higher than in a situation of greater supply. He suggests that it might be in the interests of the Palestinian Authority to restrict the labour supply of Palestinians to Israel in order to gain higher tax returns on higher wage premiums for work on the other side of the Green Line (1996:449–450). This argument, though, is problematic for many reasons, among which is the fact that 40–60 per cent of workers were illegal and thus their wages could not be taxed.
- 7 The share of Jews in manual jobs declined from 37.7 per cent in 1970 to 29.7 per cent in 1980 (Semyonov and Lewin-Epstein 1987:24).
- 8 It is important to note that figures on Israeli wages are taken from household income surveys. These typically refer to gross income and comprise both takehome wages and the social benefits that workers are entitled to. They thus refer to the gross cost of employing an Israeli worker. Palestinian wages by contrast refer to net income. They thus exclude social contributions and payments made by legally contracted workers, who made up only 40 per cent of WBGS workers employed in Israel. In the case of informally recruited workers (who formed 60 per cent of total number of employed workers from the WBGS), the cost to the employer of hiring a Palestinian worker remains lower than for an Israeli worker.
- 9 Various theoretical and empirical studies have shown that human capital variables are rarely the sole determinants of wages or the determinants of segmentation (Dickens and Lang 1988; Fine 1998).
- 10 Without detailed micro-sectoral data of labour productivity by ethnic groups, it is not possible to assess the *level* of discrimination against WBGS workers or to explain different labour costs and wages.
- 11 Calculated from ICBS (1998c:207, table 48).
- 12 Construction output refers to that undertaken in Israel and in Israeli settlements in the WBGS (after 1967). Non-residential outputs refer mainly to roads, sewerage, etc., and represented, on average, 25–30 per cent of total construction output between 1970 and 1998 (calculated from Bank of Israel 2000: table 2.A.32).
- 13 During these three years, the Likud Party, which was in power, led a massive construction growth campaign, particularly around Jerusalem and the settlements in the WBGS. The growth of construction during these three years has also been attributed to the fact that it provided a form of secure investment at a time of hyperinflation (Maysher 1986).
- 14 The wage jump recorded between 1986 and 1988 is attributed to the effects of the Israeli stabilisation programme and currency revaluation undertaken in the mid-1980s, as well as the fall in numbers of hours of Palestinian work during the first year of the Intifada (1987–1988).
- 15 Capital stock of construction equipment increased from NIS 4 million in 1993 to NIS 12 million in 2003. Construction output per worker in Israel in 2000 was of the order of \$28,000 compared with an average of \$42,000 in OECD countries (prices in current US dollars but adjusted for purchasing power parity) (Bank of Israel 2003:93).
- 16 One thousand three hundred firms were considered large (i.e. working on projects of over \$1.2 million), 700 were of medium size (working on projects within a budget of \$0.6–1.2 million) and 3,700 were defined as small firms (working on projects worth less than \$0.6 million).
- 17 Based on conversations with S.Amir from the Hebrew University of Jerusalem and with officials at the Israeli Ministry of Labour.
- 18 Israeli constructors often needed to raise money for their investments by acting as real estate developers and selling houses they built to individual owners. Over 75 per cent of houses in Israel are owned rather than rented, a particularly high rate even for developed countries (Bar-Nathan *et al.* 1998).

- 19 Despite its importance, data on land-lease pricing are not provided by official Israeli statistics or released by the Israeli Ministry of Housing and Land Authority.
- 20 ICBS (1997, 2001, *SAI*: table 22.12).
- 21 Israeli settlers in the West Bank increased in number from 117,000 to 191,000 between 1993 and 2000 (Table 3.1), while the total population of Israel increased from 5,261,400 to 6,289,000 over the same period (ICBS 2003: table 2.1).
- 22 However, they are more heavily concentrated than Palestinians in the agricultural sector and in services, particularly domestic services and nursing (Farsakh 1998; Gesser *et al.* 2000).
- 23 Foreign workers are concentrated in northern and southern Israel (Gesser *et al.* 2000), while Palestinians are concentrated in the Jerusalem and Green Line areas, as well as the settlements (see Chapter 8 for further details).
- 24 Overseas workers and Palestinians employed on Israeli settlements in the WBGS are not entitled to pension and end-of-service bonuses, to which Palestinian workers in Israel are entitled. They are given basic national insurance coverage, which is paid by the employer and amounts to less than 1 per cent of gross wages (Kav Laoved 1997).
- 25 PCBS unpublished data on workers' wages in the settlements.

## 7

### Labour flows and the Oslo peace process

- 1 The PLO recognised Israel *de facto* in 1988 when it declared its acceptance of UN resolution 242 (see Chapter 3).
- 2 In 'Statements by Leaders at the Signing of the Middle East Pact', *The New York Times*, 14 September 1993.
- 3 The Declaration of Principles (DOP) signed on 13 September 1993 sets out the framework for the negotiations between the Israelis and the Palestinians. Oslo II (also referred to as the Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip, signed on 28 September 1995) defines the scope of Palestinian and Israeli authorities in the West Bank and Gaza Strip.
- 4 'Camp David I' refers to the Israeli-Egyptian peace negotiations in 1978.
- 5 Also referred to as Protocol V or the Paris Protocol because it was signed in Paris on 29 April 1994.
- 6 This ambiguity is noted in the Protocol's preamble, where two objectives are stated: on the one hand, the Protocol seeks to help the Palestinian economy to grow autonomously, as it promises to lay 'the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plans and priorities'. On the other hand, the Protocol does not separate the Palestinian economy from the Israeli one, as its preamble emphasises that 'Both parties *shall cooperate* in this [economic] field in order to establish a sound economic base to [their] relations, which will be governed in various economic spheres by the principles of mutual respect of each other's economic interests, reciprocity, equity and fairness' (emphasis added).
- 7 Based on conversations with Palestinian officials as well as with E.Kleiman, technical adviser to the Israeli negotiating team. See also Kleiman (1994).
- 8 According to one of the chief Palestinian negotiators in Paris, it was Israel's insistence that a free trade area would jeopardise the access of Palestinian workers to Israel that made Palestinian negotiators 'accept' the special customs union on offer. Other participants to the negotiations maintained that no tradeoff was proposed between a free trade agreement and a customs union on the basis of whether or not labour mobility would be guaranteed (based on

conversations with E.Kleiman from the Israeli negotiating team and S.Huleili from the Palestinian negotiating team).

- 9 These were included under lists A1, A2 and B. Quantities to be imported under lists A1 and A2 (composed of 29 and 18 items respectively) were to be determined by some agreed estimates of Palestinian market needs. These quantities were not subject to Israeli import duties. List B refers to basic food items and goods that are considered essential for Palestinian economic development. Imports of goods under list B were not subject to quantitative restriction but were bound by Israeli standards and quality regulations (article III).
- 10 The principle of destination, rather than point of entry, was used as the basis for determining customs revenue collections. The Palestinian economy could not access duties and purchase taxes collected on goods that had been imported into Israel and re-imported into the WBGS, duties on import content of Israeli manufacturing goods which were sold in WBGS, and duties not documented by invoices (see article III of the EP and Kanafani 2001).
- 11 Signs of the development of the financial sector are to be seen in the establishment of the Palestinian Monetary Authority, a Palestinian stock market in Nablus and the opening of 46 financial institutions (banks, insurance companies, lending companies) that replaced the only two banks allowed to operate between 1967 and 1993 (MAS 2001:128).
- 12 The revised figures produced by the IMF in 2003, based on new data provided by the PCBS, suggest that real GDP growth was of the order of 8.3 per cent and GNI growth of 9.2 per cent between 1994 and 1999. These revised figures, however, are still questionable, given the absence of any other data source that could verify their accuracy, the importance of the closure policy during the Oslo years and the rise in poverty rates over the same period. World Bank (2002:75) and IMF (2001:5) data indicate that while GDP grew by 7 per cent in 1998 and 1999, this growth was not sustainable after 2000.
- 13 In 1999, real GNI per capita was US\$1,613 in Gaza compared with US\$2,257 in the West Bank (MAS 2001:163).
- 14 Between 1994 and 1996, Gaza Strip exports to the West Bank recorded an annual total of \$22.7 million while exports from the West Bank to Gaza Strip fell from \$27.3 to \$16.3 million (UNCTAD 1998).
- 15 Workers have been reluctant to admit that they work in settlements ever since the PNA declared in 1996 that such work is illegal and will be penalised.
- 16 Which is the ratio given for workers with permits.
- 17 These contrasting processes of separation and integration are also reflected in the pattern of wage movements. As seen in Figure 7.1, the wages of WB workers in Israel increasingly converged with those working in the domestic economy between 1995 and 2000. In the Gaza Strip, wage differentials by place of work continued to diverge, reflecting the pattern of separation with the Israeli economy.
- 18 These were the Bantu Authorities Act 1951, the Promotion of Bantu Self-Government Act 1959 and the Bantu Homeland Citizenship Act 1970, which was amended in 1974.
- 19 At any one time, almost 35 per cent of men theoretically living in the bantustans were absent, and over 70 per cent of those belonging to the working-age population were involved in the migrant labour system (Rogers 1976:60–61).
- 20 Various studies compared the South African apartheid experience with Israel's policy towards the Palestinians, be it in the WBGS or inside the 1948 areas. The comparisons focus on the history of co-operation between the two governments (Stevens 1979; Josef 1988), on the parallels in the system of exclusion and discrimination of the indigenous population (Kayyali 1979; Marshall 1995; Davis 1987; Bishara 1999), and on the different ways in which each conflict is being resolved (Greenstein 1995; Lieberfeld 1999).
- 21 During the Gulf War in 1991, Israel imposed 81 days of closure on the WBGS.
- 22 Closures have been particularly damaging in view of their unpredictability and given the openness of the Palestinian economy. According to Diwan and Shaban (1999:51), the total

cost of closure (calculated by estimating the loss in trade, customs revenue and wages per days of closure) to the WBGs economy between 1993 and 1996 was of the order of \$775 million, which is the equivalent of 20 per cent of GNP.

- 23 Only a few studies have emphasised the importance of analysing the structure of the EP in order to understand how political considerations predetermined economic outcomes (El-Musa and El-Jafari 1995; Kanafani *et al.* 1998; Kanafani 2001; Arnon and Weinblatt 2001). These studies concentrate on analysing the trade elements in the agreement. They argue that the EP did not give the Palestinian economy the means to reduce its trade dependence on Israel. For El-Musa and El-Jafari (1995), the EP offers very little in terms of enabling Palestinian trade to expand, because it refuses to establish a free trade area between Israel and the WBGs. On the other hand, according to Kanafani (2001) and Arnon and Weinblatt (2001), the problem of the EP does not hinge on the fact that it offered a customs union rather than a free trade agreement. They argue, rather, that a customs union was to the advantage of the Palestinian economy, given its small size and the benefits it would get from Israel's liberalisation policies and trade agreements with the European Union and the United States. They maintain that the flaws in the EP lie in its failure to identify clear implementation mechanisms and to address the power imbalances between Israel and the WBGs.
- 24 See article II in the Gaza-Jericho autonomy agreement (Cairo Agreement, 4 May 1994) and article X, chapter 2 in the Interim Agreement (Oslo II, 28 September 1995).
- 25 Except in articles III.13 and III.14, where the EP mentions entry and exit points of goods. It mentions the River Jordan and the Gaza Strip as entry points, but does not refer to them as 'borders' as such.
- 26 An earlier draft of the article included the establishment of a labour subcommittee under the auspices of the JEC, but the final version of the article did not make specific mention of this (based on examination of an earlier draft of article VII and on conversations with Israeli and Palestinian negotiators).
- 27 For a fuller analysis of the various Israeli proposals made during the interim period, see Jong (1998) and Klieman (2000).

## 8

### **The 'bantustanisation' of the West Bank: insights from fieldwork data**

- 1 It was conducted between August-October 1999 and July-October 2000 with the help of a research assistant.
- 2 The data comes from the Israeli Central Bureau of Statistics as well as from two independent research institutes that monitor settlement expansion: the Foundation for Middle East Peace (FMEP) and the Applied Research Institute of Jerusalem (ARIJ).
- 3 The subcontractors were chosen from four districts (Ramallah, Salfite, Jerusalem and Bethlehem). All but six of the subcontractors interviewed had established a firm that they had registered with the tax authorities. Only seven of these were from East Jerusalem, and thus were entitled to enter official Israeli construction bids.
- 4 The questions revolved around the nature of the firms' work experience, the cost of production, the reason for working in the settlements, the pattern of recruitment of employees and the effect of Israeli security considerations in influencing patterns of work.
- 5 As explained in Chapter 6, construction work in these three districts made up 50 per cent of all construction work in Israel (initiated by both the private and the public sector).
- 6 See [www.arij.org/paleye/colony-survey/index.htm](http://www.arij.org/paleye/colony-survey/index.htm).



- 7 These include land owned by Palestinians but which they cannot use because Israel declared it a closed military area.
- 8 In 2000 it reached a total population of 16,100, second only to Maale Adumim (25,400 in 2000) (FMEP 2001b).
- 9 Based on data provided by the Ariel Municipality.
- 10 Male participation rates stood at 76 per cent and female at 5.9 per cent (calculated from PCBS 1999d: table 1).
- 11 Data provided by the PCBS on special request.
- 12 The district had a total Palestinian population of 205,448 in 1997, divided between 5 refugee camps, 73 villages and 2 major cities with a combined population of over 150,000.
- 13 Putting caravans on hilltops is a typical way by which settlers impose their demands and by which the Israeli Ministry of Construction initiates the process of 'fact creation'. In December 1999, the Ministry of Construction and Housing reported a total of 3,256 mobile caravan houses on its building sites, of which only 2,677 were occupied (Israeli Ministry of Construction and Housing 2000: table B.4). In May 2000, another 3,223 caravans were put on West Bank hilltops.
- 14 Gush Emunim has been a leading interest group for settlement construction since the 1970s, with strong connections to the Israeli army and various ministries (see Chapter 3).
- 15 Data collected from the Salfite Municipality official records.
- 16 The higher percentage of workers from Jalazon who worked in Israel after 1993 could be due to the fact that many of them worked in the Jerusalem settlement blocks, which are at a distance of less than 20 km from the camp.
- 17 Based on interviews and reports by workers on their wages, it is not possible to conclude that workers with permits are paid more than workers without permits. Issuing a permit does not entail direct financial costs, but, rather, high transaction costs (such as security clearance and long waiting times).
- 18 Based on discussion with Israeli and Palestinian subcontractors.
- 19 In finishing works, the costs might vary because of the kind of ceramic and other material used.

## 9

### Epilogue

- 1 'Dependency ratio' is the total population divided by the employed population (PCBS 2005, *LFS*, January-March 2005 round).
- 2 See B'tselem at [www.btselem.org/english/statistics](http://www.btselem.org/english/statistics) and Palestine Monitor at [www.palestinemonitor.org/factsheet/Palestinian\\_intifada\\_fact\\_sheet.htm](http://www.palestinemonitor.org/factsheet/Palestinian_intifada_fact_sheet.htm).
- 3 All major cities and towns in the West Bank, with the exception of Jericho, were under curfew for 40–70 per cent of the time in the summer of 2002. Income from Israel fell by 64 per cent between 2000 and 2002 (IMF 2003:17).
- 4 In the second quarter of 2002, a total of 40,000 workers were employed in the Israeli economy compared with 56,000 in the fourth quarter of 2002 (PCBS 2004).
- 5 Around 22,000 Palestinians are believed to be working in East Jerusalem (World Bank 2003), but many of these are also working in Israeli settlements around the city.
- 6 See <http://www.pengon.org/> or <http://www.stopthewall.org/>.
- 7 The International Court of Justice has ruled that the 'construction of the wall being built by Israel, the occupying power, in the Occupied Palestinian Territory, including in and around East Jerusalem, and its associated regime, are contrary to international law'. The Court 'considers that the construction of the wall and its associated regime create a "fait accompli" on the ground that could become permanent, in which case, and notwithstanding the formal

characterisation of the wall by Israel, it would be tantamount to *de facto* annexation' (ICJ, *Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territories*, 9 July 2004, para. 163(3)A, 121). The Israeli Supreme Court ruled against the route of the separation fence because the humanitarian damage inflicted by it is disproportionate to the security it is supposed to provide. It calls on the Israeli government to find alternative, less damaging routes but does not specify that the wall is to be built on the 1967 borders (HCJ, *Beit Sourik Village Council v. The Government of Israel*, HCJ 2056/04, 30 June 2004, para. 36).

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