

## THE PARIS PROTOCOL AND THE PALESTINIAN ECONOMY: NEW EVIDENCE

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### ABSTRACT

*Paris agreement or the Paris Protocol is the economic supplement of the Oslo Accord between the government of Palestine and the Israel in order to determine the nature of economic relationship between the two sides. This study aims to provide a theoretical review of the most prominent terms of the agreement so as to identify the economic shortcomings or gaps therein, and to demonstrate the negative effects on the Palestinian economy, and the losses was caused by this Protocol to the Palestinian people. The study find that there are several loopholes on the Paris Protocol that adversely affecting on the depth of the Palestinian economy. It has turned out that the biggest and the first beneficiary from most of its terms is the Israeli side. Added to that, in light of the implementation of the Paris Protocol there will be no opportunity to talk about the creation of a successful and independent Palestinian economy. Lastly, the study found that the Palestinian Authority has failed to put the adequate safeguards to ensure the implementing the terms of the agreement optimally and the period agreed upon by the Israeli side. This research recommends to reconsider the terms of the Paris Protocol and modifying many of them to fit with the Palestinian interest, and shall be no bias to the Israeli side.*

Key words: Palestinian economic, The Israeli occupation, Paris Protocol.

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### Introduction

Israeli occupation practiced many intended policies, which aims to continued subordination of the Palestinian economy to the Israeli occupation. These policies have epitomized through practices of the Israeli occupation army in the targeting various sectors of the Palestinian economy and impeding economic development there. Numerous of studies emphasized that the Israeli occupation policies have led to the control and dominance of the most sources of the Palestinian economy. Added to that, the Oslo Accord on one hand, have kept the doors wide open to link the Palestinian economy with the wheel of Israeli economy, and on the other hand to achieve its political objectives and interests. This what is dedicated by the Paris economic Protocol, which included many items that bind the Palestinian economy with the economy of the Israel.

Furthermore, this agreement does not meet the international conventions, and it not taken into account for the specificity of the Palestinian state under the occupation. (Abdul-Raziq, 2002). Since this agreement is placed restrictions on Palestinian sovereignty and tied up the possibility of establishing an economic and trade relations with the outside world. As well as, it did not recognize the negative impact of the occupation in making distortions and deficits in the development process of the Palestinian economy. Added to that " the Paris Agreement terms are very general and its application depends mainly on the ethical commitment by both sides" (Shuaibi, 2013a)

This study aims to provide a theoretically reviewing to the Paris Protocol, hence, to identify the most important shortcomings and loopholes that led to the failure to achievement the Palestinian economic interests desired , and to demonstrate the negative effects on the Palestinian economy, and the losses was caused by this Protocol to the Palestinian people. As well as, identify the glitches which occurred by the Palestinian authority represented by the team that signed on the agreement. This eventually led converting the agreement into a negative factor on the Palestinian economy, in the time it was expected to serve as a lifeline.

### Overview of Paris agreement:

Paris Protocol is an economic agreement that follows the principles of Oslo Accord, which was signed on 29.04.1994 between Palestine and the Israeli occupation. It is considered the contractual agreement which determines the economic relations between the two sides and was initially applied in Gaza Strip and Jericho and then extends to other areas of the West Bank. It is applied according to the phases of the interim autonomy implementation which is mentioned in the Political and economic Oslo Agreement (MAS, 1994). Hence, under this agreement, will be formed of a joint committee (JEC) which is consisting of an equal number of members from each side and used as a standing committee for the economic cooperation during the interim period, also It can establish sub-committees, if necessary. Therefore, the goal of the committee is to ensure the implementation of conditions i.e. Paris Protocol, and resolving disputes in case they happen during the period of application of the agreement or protocol (Shuaibi, 2013b). It has been determined period of five years (until 1999) for the application of this Protocol and then the right of both parties to modify any item of its items according to data from the reality and the needs of both parties (Ma'an, 2012).

Paris Protocol is included on 82 of items, and has touched all the major aspects of economic relations between the two sides (MAS, 1994). It has been determined by this protocol the number of Palestinian workers that allowed to enter the occupied territory and their wages, insurance, allowances and compensation. As well as, the process of trade that allow the movement of

goods between the two sides, besides the policy of import and export and what is imposed on them from customs and taxes. Added to that, it determinants the consumption, production, investment, foreign trade, entry and exit points, and all that the issue of trade corridors, power of monetary, licenses granted to them, and the determinants of currency exchange. Furthermore, the protocol included all the points and matters of the livestock sector, poultry and animal biological products, agriculture sector, transport, tourism and others. All these sectors are developed within the restrictions and limitations to be applied during the transitional period, then allowing of the both sides the possibility to give their objection points in order to be modified.

This indicates that the terms of the Paris protocol has been woven between the Palestinian Authority and the Israeli occupation in order to achieve common economic interests serve for both parties. As well as, it has been developed within the transitional framework in order to experimenting the terms approved. The next step is to start in the revision process of items to determine the most effective and the most appropriate ones. After that, the agreeing on the way of amendment through the joint committee. This Protocol has been many economic consequences which unfinished and continues to this day. Therefore, despite the presence of group interested in economic affairs supports the terms of this agreement and see it as a real breakthrough to the economic crisis; however, the negative effects were more and deeper, and "in fact, once in a while, people take to the streets to demonstrate against the Protocol"(Eddin, 2016).

### **Paris protocol positives from its supporters perspective**

The Supporters of the Paris protocol see that the agreement is representing the minimum and possible of Palestinian interests within the current situation and circumstances for the Palestinian state. It is necessary to force Israeli side to proper and effective application for the agreement, also stop the excesses besides filling the gaps in its implementation. Thus, the Palestinians get their outcome for its commitment to agreement signed. At the same time, they see that the problem lies in the poor understanding and estimating for the dimensions and the causes of the immediate crisis and its consequences on the one hand and a misunderstanding of the protocols' determinants and contents on the other hand. Where the Paris Protocol is considered a supplement to the Oslo Political Accord, and it is not reasonable to apply the protocol of economic isolation from the political document. Furthermore, in their view, the agreement gave the Palestinian Authority the powers and permissions were not enjoyed by before signing the protocol. For example, it was allowed to Palestine to import the petroleum products from countries other than the state of Israeli occupation, also granted the Palestinian authorities the percentage 75% of the tax revenues which cuts from the wages of Palestinian workers in the occupation authority. As well as, exempted the authority from paying any customs or taxes on the aid that it receives from the supporting countries in order to develop non-commercial humanitarian projects (Qersh, 2014). In the industrial field, the Paris Protocol was allowed free movement of industrial products among the Palestinian markets and the market of Israeli occupation; this has opened the way for the Palestinian product development, also the policies that encourage the industrial process, which represented in giving loans and indirect taxes on the domestic industries. Added to that, assist the Palestinian Authority to conduct research and development for the advancement of their local products.

It can be seen from the foregoing that the Paris Protocol was represented from the supporters' point of view the way to revive the Palestinian economy and stimulate trade in the Palestinian market, which has suffered from the recession tremendously during the years of occupation which preceded the Oslo agreement. As well as, they see that this agreement facilitates the foreign trade opportunities for Palestinian traders with other countries. This has given the possibility to launch the Palestinian products internationally and to compete at a higher level than it was. However, this requires Israel's commitment to all the conditions imposed on it in both security and economic agreements, also non-infringement of Palestinians' rights. Nevertheless, the problem was lie in the failure of the Palestinian authority to obtain real guarantees in order to force the Israeli occupation to fulfil the signed agreements. Thus, it can be argued that the Palestinian negotiating team have failed in this aspect, and this is one of the main reasons that led to the failure of the protocol and condemnation by the Palestinian public.

Head of the negotiating team Ahmed Qurei, who signed on Paris Economic Protocol, said that, this agreement did not come as a result of a military battle against the occupation, so that the victor imposition their conditions and dictations on the losing party. It is the result of negotiations and a national struggle over the years led eventually to the establishment of a sovereign state and allowed it to establish its institutions. He also added: "It was a purpose behind the Paris Protocol hardwired very clearly, which ending the Palestinian economy from subordination of the Israeli economy. Besides, creating the widest possible neutralizing among the advanced Israeli economy with Palestinian economy which is considered as a small economic, and still at the initial growth phase, through cutting the ties of economic and financial dependency. Therefore, get out of Israeli hegemony circle on Palestinian economic life, as well as creating the elements of independent development allows the development of a separate policy form Israeli Economy".(Qurei, 2012)

Apparent from Qurei' point of view, the official Palestinian side was seeks to achieve a Palestinian sovereignty even if it is deficient or incomplete. Palestinian negotiator have achieved this through succumb to Israeli dictates besides the acceptance of the conditions unfair against the Palestinian economy. This has prompted the Israeli occupation of the persistence in its control over various aspects of Palestinian economic life. Moreover, It took advantage of this opportunity to imposition of conditions was enough to make the Palestinian economy under occupation and make it to underling permanently. Hence, the rationale for the official side who are signed on the agreement were not convincing and there was no progress on the Palestinian arena, but aggravated the crisis and undermined the Palestinian economy over the 21 years of the signing of the protocol.

In this context, Dr. Ephraim Lavi says (Ephraim lavie) - Director Tami Steinmetz Center for Peace Research at Tel University Aviv that the Palestinian Liberation Organization, was aimed from the signing of this agreement to achieving the popular satisfaction and economic growth regardless of any concessions provided. He added, "Leadership has shown great interest in the economic sector based on its understanding that the extent of political independence for the Palestinians is related to the extent of

the economic independence. As well as, they thought incorrectly, that its success is representing in establishing a stable autonomy and the win of the support of the people is related to their ability to find the financial sources and management of effective economic policy opportunities.

### **The main drawbacks of Paris agreement**

There have been many criticisms and objections to the content of the Paris Protocol since the signing in 1994, as will be explained later. Palestinian public was considered this agreement as a cause of the scourge of economic and suffering. At recent days, there are many popular campaigns has appeared which are swept large segments also demanding for abolition of this agreement or modified it to appropriate the current situation (Hamdan, 2012). Knowing that the Palestinian authority has the right to amendment to any paragraph or terms of the agreement, considering that this was the most important conditions agreed before signing the agreement. Moreover the popular campaigns have considered that the agreement was the cause of the deteriorating economic situation of the Palestinian Authority, as well as to its crises successive financial and that no longer fit in the present time and not commensurate with the current circumstances, i.e. it's an expired agreement (H. Shunnar, 2012).

As explained by an economic analyst "Moeen Rajab", it is clear in the agreement terms of that the texts are dictated by the strong side on the weak side, and the items that can benefit the Palestinian economy; the Israeli side did not committed to implement (S. Shunnar, 2013).

Of the drawbacks of this protocol, that it has identified a transitional period estimated to five years through which the implementation of the agreement based on the stages that are stipulated in the Oslo Accords. Which means that to make any amendment or change to the agreement requires out of the transitional period and start a new phase. But this did not happen; it was supposed that the transitional period expires during 1999, then be Paris Agreement "amended" will be in effect or valid, as well as the Palestinian Authority has become trapped in this period of transition. In the case of requests any amendment or revision of the items, it means that it has accepted to remain in the transition period and not over yet (Hamdan, 2012). While the second item, which stipulates for the formation of a joint committee and equal number of members from both sides, it show that the function of the commission is the only review of the decision and is not repealed or amended. Therefore, this means that the Palestinian Authority has only the right to review. Added to that, the reaching to any decision in this committee and determine the time and place of the meetings will be only through the agreement between the two sides. So if the occupation rejected of any modification or in the case of prevarication in holding the meetings there is no guarantee for that. Thus Israeli sided became the controlling party of the items and the strongest on the scene and is right to impose it conditions on the other side. It is clear here that the first and the second item of the Protocol constitutes the main trap to oblige the Palestinian Authority to stay on the cycle of the transitional period, and failure to obtain the right to change the terms of the Protocol. Therefore the Israeli occupation has given himself wider powers in Palestine, at the same time permits the existence of a sovereign authority derogatory and rights of restricted and associated to the approval of the occupation.

On the issue of import and export, the occupation has consistently detention of goods and materials that imported from abroad through the Israeli ports under the justification for security screenings. Besides the imposition of Israeli policies on the issue of import and export specifications and standards, as well as compel the Palestinians to abide by their policies even if they did not fit with their circumstances and business interests. It also placed restrictions on the Authority of Palestine for the trading with countries that do not recognize the occupation as a state. Thus, the inequitable Israeli policies against the goods exported or imported and the delay in the Israeli ports lead to damage and reduce the quality or delay their arrival at the right time. This inevitably will increase the cost of production also the cost of imports and exports on the Palestinian economy and reduces the rate of profit. Thereby reducing the Palestinian product capacity to compete locally and internationally. Furthermore, the specifications and standards that were imposed by the occupation on the Palestinian product, which had been formulated to serve the development goals of the economy of the occupation, without taking into account the low level of development of the Palestinian economy compared to the economy of the occupation.

Concerning to the monetary authority, its case was not different from of the other economic sectors in this protocol, since the Palestinian deprived of monetary sovereignty when they have been denied the right to issue their own currency. Added to that, the Israeli occupation ensures for himself the trading of its currency (ILS) in Palestinian market. This inevitably making the Palestinian market vulnerable to foreign currency fluctuations and to the international financial crises. It also makes it vulnerable to fluctuations in exchange rates and financial policies of Israel. It was not fair condition, also did not look at the large discrepancy between a fledgling Palestinian industry, which are primitive compared to the Israeli industry that has an advanced level and the high quality. Thus, the allowing Israeli products to enter the Palestinian market would lead to flood the market due to its quality and abundant quantity and low cost compared with the Palestinian product. There was a slim chance for Palestinian industry to keep up with the Israeli entity, or almost non-existent. Even if there were other conditions in this case; however, it will continue to be in favour of the Israeli occupation which does not care about the Palestinian interest, and therefore do not give consideration to any condition may promote the Palestinian product.

For the Palestinian labour, the agreement has provided for the entry of workers from both parties to work at the other end market, but it did not classify the number of workers allowed to enter, or entry procedures the occupied territories. The Israeli aimed from this to entry of Palestinian workers to work in the occupied lands and not vice versa. Certainly, this item was in the interests of the occupation, which is exploited always Palestinian by low wages less than Wages of Israeli workers. As well as, it controls through these workers - depending on the security situation - of living situation of the population of the West Bank and Gaza, also used them as an instrument of political blackmail on the Palestinian authority in the case of intensification of the resistance against them i.e. the occupation.

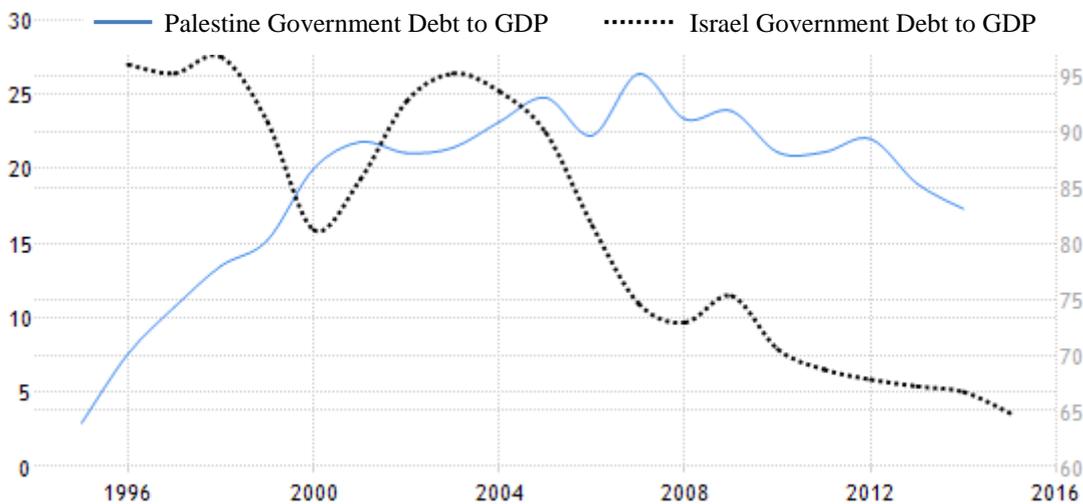
Furthermore, the protocol stated a pension contributions collected by the occupation from Palestinians working in Israel and their employers, to transfer it monthly to the pension fund established by the Palestinian authority, but the occupation has not made any pension transfers, because the Palestinian authority has not yet created this fund, this implies a loss of 5.3% of GDP (World Bank, 2016). This gives an indication of the versatility of the occupation to exploit all available opportunities. In contrast, the inability of the Palestinian Authority to take advantage from the protocol terms in order to serve the Palestinian interest.

**The economic reality in Palestine after the signing of Paris Protocol**

In the midst of the economic crisis of the Palestinian Authority and its impact on broad categories of Palestinian society, all eyes fixed towards the review of this agreement and its provisions, to detect the weaknesses and to prove the fact of non-compliance with its contents from the occupation side. Since it's still active and have a significant impact on the local economy, despite the passage of 22 years on the date of its signature.

The most important results of signing Paris Protocol is the significant financial support given to the Palestinian Authority from the countries that backed protocol signing, where money flow began since then<sup>(1)</sup>, but the political fluctuations that occur between time to time affect the delivery of aid from donors, as happened in 2006, when Hamas won the Legislative Council elections, which led to cuts in international aid<sup>(2)</sup>. This is what we can observe from the following chart, which shows the indebtedness of the Palestinian Authority and the occupation government in the period between 1995- 2015:

Figure 1: Palestine and Israel Government Debt to GDP (1995-2015)



Source: Trading Economics

A low government debt-to-GDP ratio indicates that the economy produces and sells goods and services at a sufficient way which allows the government to pay back debts without incurring further debt<sup>(3)</sup>. As we see in figure 1, the Palestinian government debt to GDP ratio is extremely high with respect to the Israeli one, because from the signing of Paris Protocol; the Palestinian Authority was depending on the external aid, then at any crisis or fluctuations the government can't pay back its debt. This is evident in the year 2000 when Al Aqsa Intifada began, and in the year 2006 when Hamas won the legislative elections. Both years witnessed a rise in debt.

However it's noticeable that the Israeli government has been able to exploit the Paris Protocol to improve its economic situation and reduce government debt, through the payment of all expenses incurred. Although it has gone through several crises, including the war on Gaza in 2008 and the Lebanon War in 2006, but it still managed to fight its wars and repay its debt at the same time.

Another indicator that indicates the situation of the Palestinian economy after signing the Paris Protocol, GDP per capita, which helps to relate the economic output of any country in proportion of its population<sup>(4)</sup>. "The gross domestic product per capita in the PA territories grew by 0.1% over this period. In other words, it did not grow at all: The real GDP per capita today is identical

<sup>1</sup> Lasensky, S. and Grace, R. Dollars and Diplomacy: Foreign Aid and the Palestinian Question. United States Institute Of Peace (USIPeace): Washington.2006.

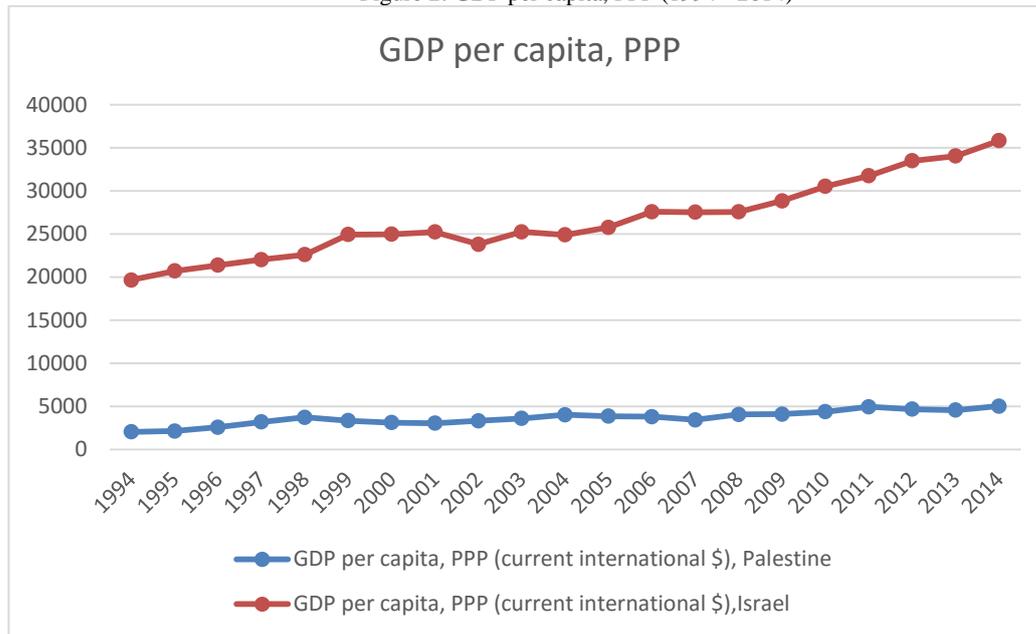
<sup>2</sup> Abu Libdeh, Hassan, "coping strategies applied by public Lib sector employees in the West Bank during the crisis of salaries in 2012," Economic Policy Research Institute Mas 0.2013.

<sup>3</sup> <https://www.stlouisfed.org> , The **Federal Reserve Bank of St. Louis, 2004**

<sup>4</sup> Kaul. C. "Statistical handbook on poverty in the developing world", 1999, US, Publisher: Oryx Press

to the GDP in 1994" <sup>5</sup>), that's how an economic analyst characterized the Palestinian situation. The following figure demonstrate the difference between Palestinian GDP per capita, and the Occupation's GDP per capita.

Figure 2: GDP per capita, PPP (1994 - 2014)

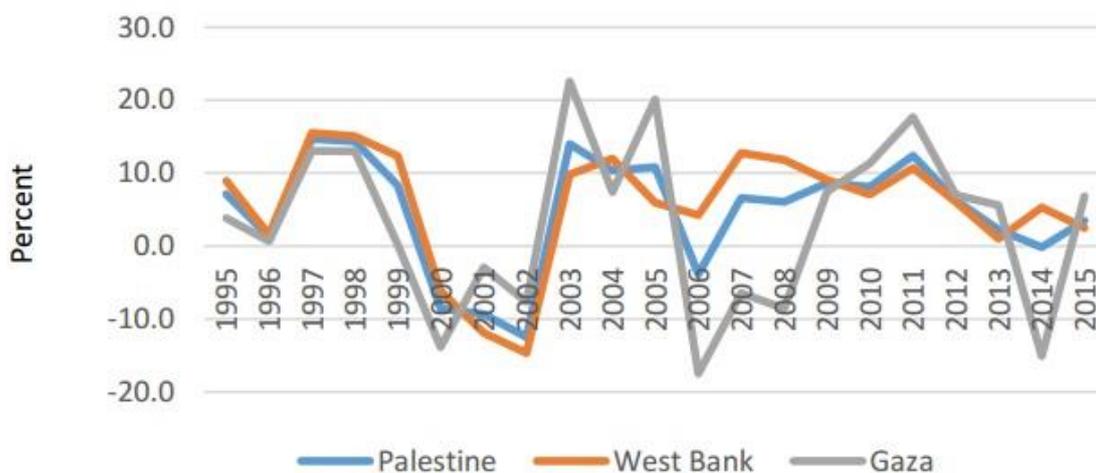


Source: World Bank, World Development Indicators.

Palestinian real GDP per capita since the date of Paris Protocol still at the same range from around 20 years, this implies that Palestinians didn't take any advantage from that protocol. Despite the fact that the Israeli GDP per capita has increased significantly over the past years, but the Palestinian GDP per capita remained at a standstill, which confirms that the Paris Protocol directly flows in the Israeli interest, ignoring the right of Palestinians to achieve better economic situation.

Figure 3 shows the fluctuations of real GDP growth during the years that followed the signing of Paris Protocol. For example; both of 1997 and 1998 years witnessed an increase in real GDP growth, but it slipped later to the lowest levels and continued to drop for four consecutive years (1999-2002). In addition, the economic growth has witnessed a sharp deceleration from 8.38 % during the period between 2007 and 2011, to 2.67% during the period between 2012 until 2014. This demonstrates that the Paris Protocol does not take its development role as required, due to Israeli actions that led to the creation of this decline, and that the Palestinian Authority has not given an adequate opportunity to take advantage of this Agreement. In addition to the restrictions and political instability that continue to constrain private sector activity.

Figure 3: Real GDP Growth, 1995-2015



Source: Palestinian Central Bureau of Statistics

<sup>5</sup> Plocker. S. "A powder keg waiting to explode ", Yedioth Ahronoth newspaper, 20 September, 2016.

The Israeli occupation exploiting the protocol terms to detain large amounts of Palestinian Authority's money, which is estimated at about \$ 669 million during the successive years until 2013, as shown in the following table (Ibid):

Table 1: Total Stock of Revenues Retained by the Israeli Occupation over the Years

Stock of revenues retained by the Occupation	USD million
Pensions for Palestinians working in Israel	377.7
Equalization funds collected between 2006 and 2013	169.2
Health stamps collected between 2006 and 2013	55.4
The total stock of exit fees not transferred since 2008	67.0
<b>Total</b>	<b>669.3</b>

Source: World Bank, Economic Monitoring Report to the Ad Hoc Liaison Committee

Table 1 shows the total amount of retained revenues deducted by the occupation, instead of the monthly transferring of the whole amount to the Palestinian authority, including pension contributions from the salaries of Palestinian workers in Israel, tax equalization, health stamps, and exit fees through Allenby Bridge. All these violations are bound to deprive the Palestinian workers and their families, as well as the Palestinian Authority benefit from all these amounts.

"The economy has been de-industrialized, with the share of the manufacturing sector dropping from 18% of economic output in 1995 to 12% now. The size of the agricultural sector in Palestine has halved. Private investment, hovering at about 15%, has been low and clearly not enough to dent unemployment, which stands at 26%" (Eddin, 2016). In the view of the economic situation as a whole; it appears that there is a decline in the Palestinian economic indicators during the years that followed the signing of the Paris Protocol, despite the foreign aid funds that rained since then by the donors, but the wrong application of the Protocol has had a serious impact on the Palestinian economic development.

### Conclusion

After perusal of the Paris protocols' items in the terms of its applicability to the Palestinian market; it is clear that the biggest beneficiary of its 82 articles is the Israeli side. Under the Paris Protocol application, there will be no an opportunity to create a successful Palestinian economy, because this agreement will affect directly on Palestinian economic activity, also it will increase the dependence and its association with the occupation. Furthermore, it would limit its independence, despite the stipulated items in the Oslo Accord about the establishment of the Palestinian Authority and the initiation of Palestinian autonomy. The Palestinian economy has become through the Paris Protocol; as underling economic, and it lacks to the full sovereignty, as well as it depends totally on the Israeli economy. Therefore, any defect or a fluctuation in the Israeli economy will be followed by a decline in the national economy indicators. Since the linking among Palestinian Economic which classified as a weak economic, with the strong economic, lead to create unequal trade and economic relations. Where Palestinian citizen is still paying a heavy price as a result of this agreement, which settles between the price of the commodity in the Palestinian territories and the occupied territories, despite the considerable differences in living standards between the two sides. This eliminates any attempt of growing or development of the Palestinian economy. Add to that; the Israeli government sought to limit the presence of any acts of resistance to occupation made the Palestinian citizen income security depend on the satisfaction of the political occupation, by the manipulation of indicators of the Palestinian economy and various sectors.

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