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Analysis

The symbiosis between Palestinian 'Fayyadism' and Israeli 'economic peace': the political economy of capitalist peace in the context of colonisation

Tariq Dana

Recent years have seen both the Palestinian Authority and Israeli government conveying the supremacy of economic approaches over politics to achieve peace and stability. More specifically, the encounter and symbiosis between Palestinian 'Fayyadism' as a professional application of neo-liberal approaches to state-building and economic development, and the Israeli strategy of 'economic peace' towards the Palestinians have shaped much of the Israeli-Palestinian conflict dynamic, with a particularly discernible materialisation in the West Bank. This article critically analyses this dynamic in light of the recently revived theory of 'capitalist peace', which, despite valid criticism, entails considerable similarities with the basic assumptions of 'Fayyadism' and 'economic peace'. While two key dimensions express this symbiosis—security co-ordination and economic normalisation—the article focuses mainly on the economic part, particularly the case of joint industrial zones, which exemplify the most extreme example of this symbiosis.

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Introduction

In May 2013, US Secretary of State John Kerry speaking at the World Economic Forum in Jordan unveiled a US \$4 billion economic plan to boost the Palestinian economy. The plan was an integral part of a broader American-sponsored peace initiative to settle the Israeli-Palestinian conflict based on the conventional two-state formula, its goal being to grow the Palestinian economy by up to 50 per cent in the following three years and create wealth and stability across the region. According to Kerry, the plan would ‘develop a healthy, sustainable, private-sector-led Palestinian economy that will transform the fortunes of a future Palestinian state’.¹ While the plan primarily targets vital sectors of the Palestinian economy, it also promises Israel enormous economic benefits if it facilitates its implementation and embarks on a new round of peace talks. This mutual economic benefit as promised by the US peace initiative is far from being innovative. In fact, it is a duplication of the ‘peace dividend’ paradigm that has underpinned the Oslo process since its inception.

Critics of the US economic peace plan argue that it goes hand in hand with the Israeli Prime Minister Benjamin Netanyahu’s economic peace (EP) strategy, designed to improve the Palestinian Authority’s (PA) economy and the socio-economic conditions in the occupied West Bank. EP has been widely critiqued due to its political ambiguity and implicit intention to replace the political peace process with an economic strategy.² While top Palestinian officials have repeatedly voiced opposition to Israel’s EP strategy, dynamics on the ground contradict Palestinian official statements. In practice, the PA and several Palestinian businesses have been actively involved, overtly and covertly, in large-scale economic projects implemented within the Israeli EP framework.³ This has been facilitated by the emergence of Palestinian ‘Fayyadism’ and its accompanying reform agenda, launched by the former PA Prime Minister Salam Fayyad (2007–2013), who despite his departure from the PA in 2013, has left a substantial imprint on the PA model of governance and economic development. ‘Fayyadism’ has therefore become a shorthand phrase for the PA’s recent neo-liberal approaches to state-building and economic development,⁴ with an emphasis on political stability, security and private sector-led development. In the context of ongoing occupation and colonisation, ‘Fayyadism’ invariably encouraged joint economic projects between Israel and the PA to flourish.

The perceived harmonious PA-Israeli economic dynamic should not be understood in isolation from the continuous effects of the Oslo peace process. This process, which was initiated by the signing of the Oslo Accords between the Palestine Liberation Organisation (PLO) and the Israeli government in 1993, has brought the occupied Palestinian territory (oPt) into the forefront of internationally-promoted experiments of governance, social engineering, economic development, security and institution-building, which have been advanced by the highest-level practitioners, donor agencies and international financial institutions. Such an extensive combination of post-conflict/neocolonial experiments has transformed the oPt, particularly the West Bank, into a 'laboratory of technologies of control'.⁵

The Oslo framework was implemented against the backdrop of the expansion of global capitalism which requires, by consent or coercion, conforming dynamics and trends to facilitate the engineering of neo-liberal consensus at the global scale.⁶ The globalisation of capitalism has introduced new forms of 'peace processes' that are largely based on economic incentives and compromises, thus contributing to the formation of a locally influential political-economic elite that is tied into the global system economically, ideologically and politically. As Selby points out, peace processes are based on 'inter-elite political accommodations whose aim is often not so much "peace" as the reconfiguration of domestic hegemony and/or international legitimacy'.⁷ As such, the Oslo process and, by extension, the later myriad rounds of the Palestinian-Israeli peace talks should be placed within an understanding of the global dynamic.

Despite its persistent failure to achieve any of its objectives, the Oslo Accords remain the defining framework for Palestinian-Israeli relations and the main reference upon which the PA's existence is fully dependent. Nevertheless, 20 years of the Oslo process has witnessed multiple political episodes and transformations that have reshaped interactions between the PA and Israel. In particular, the PA has been exclusively the target of systematic alteration of its structures and functions to be co-ordinated in harmony with Israel's interests. This has been accompanied by the involvement of various interventionist actors who have been playing central roles in influencing and guiding the PA state-building and policy framework. The goal, all too often, is to enforce political stability, security and to maintain Western and Israeli geopolitical interests, all of which has come under the banner of the 'peace process'.

Several important studies have emerged in recent years to scrutinise the application of neo-liberal approaches to state-building and economic development in the context of the oPt, but there is a paucity of literature that provides in-depth analysis of the neo-liberal dynamic in the oPt and its systematic interaction with the Israeli colonial structure. This article argues that there is a symbiosis between the strategies of Israeli EP and Palestinian 'Fayyadism' predicated on the superiority of economic approaches over politics to solve the conflict. This in turn has been conducive to the promotion of an unprecedented level of economic compromise between the two sides, while the existing colonial dynamic has been left unchallenged. The article will critically analyse this symbiosis in light of the recently revived theory of 'capitalist peace' which, despite numerous critiques of its applicability, entails considerable similarities with the basic assumptions of 'Fayyadism' and EP. This does not mean that economic co-operation between the two sides only emerged with this symbiosis, but it acknowledges that recent intensified economic co-operation represents an extension of the Oslo peace process, which will be analysed as a failed model of capitalist peace.

The capitalist peace thesis

Recent years have witnessed increased academic and research interest in reviving a long neglected liberal theory that perceives positive links between capitalism and peace, labelled the 'capitalist peace'.⁸ At the heart of the capitalist peace thesis lies the basic assumption that 'capitalist nations do not go to war against each other'. Early attempts to theorise the role of capitalism in securing peace among nations and states can be traced back to eighteenth and nineteenth century liberal theorists who saw in the unleashing of market forces a key to peace. In particular, the contemporary debate on the capitalist peace is primarily rooted in the Kantian account of 'perpetual peace', which predicted that 'the spirit of commerce [...] sooner or later takes hold of every nation, and is incompatible with war'.⁹ In this spirit, in 1909, Angell argued that a war amongst advanced industrialised countries that were economically interdependent and engaged in active trade relations was inconceivable.¹⁰ So much for his predictions. A few years later the First World War broke out among the advanced industrialised countries.

In fact, it was the outbreak of the First World War that shook the very foundations of this theory. By the onset of the war, a high level of trade and economic interdependence had been reached among central capitalist powers; this however failed to prevent them from engaging in a war against each other. Consequently the theory was invalidated due to its over-simplification and failure to explain the occurrence of one of the deadliest wars in history among the most advanced capitalist nations. On the contrary, the eruption of the First World War had rather supported accounts that saw a robust relationship between capitalism and wars. Most prominently, Lenin's theory of imperialism depicted the First World War as a byproduct of fierce capitalist competition among imperialist rivals. In his view, the First World War was 'a war for the division of the world, for the partition and repartition of colonies and spheres of influence of finance capital, etc'.¹¹ Indeed, Polanyi further documented how and why the 100 years of self-regulating market society and free trade that constituted the doctrinal pillar of the nineteenth century's European social and economic order, and the establishment of the gold standard on an international scale, had eventually collapsed in the form of the First World War and the subsequent triumph of fascism.¹²

Contemporary theorists have expanded the account of capitalist peace to touch on various facets of capitalism, ranging from private property rights, economic development, foreign investment, to free trade, which are seen as being positively correlated with peace.¹³ They argue that 'capitalism renders states more status quo-oriented and less concerned with traditional security issues'.¹⁴ Four major arguments are presented by this theoretical perspective, with each reflecting a certain principal facet of capitalism. The first stems from the liberal understanding of human nature which assumes that capitalist societies alter human behaviour in a manner that transforms antagonism into peaceful social relations, underpinned by practices of consumption, trade relations and business activities. The second argument focuses on the peaceful effects of unregulated market relations particularly in a democratic setting because it produces a balanced power distribution within society. The third argument emphasises the importance of private property rights and argues that contract intensity of capitalist economies produces peaceful relations. The fourth argument claims that smaller governments and the openness of capitalist economies to global markets decrease the likelihood of interstate wars, unlike closed economies that tend to intensify the level of conflict.¹⁵

Central to the capitalist peace thesis is the assumption that the pacifying effects of capitalism are more effective than the pacifying effects of democracy. Hence, this challenges the very foundation of its sister theory of 'democratic peace', known for the supposition that 'democracies do not go to war with one another' which dominates much of liberal peace studies and became a key foreign policy instrument of Western states, and the peace-building/state-building model adopted by supranational institutions and donor agencies. While the democratic peace, both in theory and practice, entails the promotion of free market policies and integration into the global economy—in addition to the centrality of electoral representative democracy—proponents of capitalist peace assert that capitalism supersedes democracy in discouraging wars.¹⁶ This belief has led capitalist peace theorists to conclude that 'the capitalist peace may have overturned the democratic one'.¹⁷

Despite many efforts to produce intensive quantitative research to present scientific justification for a presumed relationship between capitalism and peace, the theory remains fundamentally flawed and can be invalidated by pointing to centuries of capitalist-driven wars and conflicts. The capitalist peace theory suffers from a myriad of limitations, historical inconsistency and superficiality in understanding the causes of war and peace. Therefore the current attempt to boost it, amid the ongoing crisis of capitalism, might not live for long.

In reality, there are now many studies with substantial findings which propose that much of the world's crises and wars, historically and presently, can be attributed to the global expansion of capitalism, with its far-reaching consequences on both the *interstate* and *intrastate* levels. Historically, the emergence and development of capitalism was accompanied by colonial wars and invasions, which heavily relied on violence to secure raw materials, natural resources, cheap labour and open up new markets in the colonies across the global South.¹⁸ Many of the twentieth century American military interventions, such as those in Vietnam, Chile, Guatemala, among others, were driven by the imperative to secure America's capitalist interests against Soviet Communism and radical third world nationalism.¹⁹ Similar imperatives can be seen in the post-Cold War conflicts, with the US-led imperial war on Iraq in 2003 exemplifying the most recent trend of how violence and war are central to the expansion and protection of the capitalist system. Furthermore, evidence suggests that capitalist experiments in developing countries, such as the IMF-sponsored structural adjustment packages since the 1970s,

have resulted in a rapid deterioration of living standards, rising unemployment and poverty, increasing social divisions, more material inequality and a weakening of the state—all of which has encouraged authoritarianism, which consequently has exacerbated internal crises and fuelled *intrastate* wars.²⁰

Oslo as a failed model of 'capitalist peace'

The Palestinian-Israeli peace process that began with the signing of the Oslo Accords in 1993 was largely motivated by an analogous logic to that of capitalist peace. The Oslo political compromise was particularly inspired by the notion of the 'peace dividend', promising a new era of economic co-operation and prosperity if the Palestinians and Israelis negotiated a peaceful settlement under the globalisation umbrella. Scholars who have examined the Oslo process through a political economy lens have described it as the 'peace of business' and the 'peace of markets',²¹ thus pointing to the capitalist assumptions underpinning the Oslo framework. Indeed, as Turner argues, 'the Oslo framework has been regulated and conditioned by the shifting political economy and geography of Israel and the global neoliberal developmental consensus into which the PA emerged'.²²

The Oslo process was primarily influenced by the steady expansion of global capitalism following the end of the Cold War. The US-led 'New World Order', which was launched following the collapse of the Soviet Union in 1991, and which marked a universal enforcement of the US model of free market economy and liberal democracy through various normative and coercive means, brought to fruition neo-liberal development models that began in the 1970s. The US's unchallenged hegemony is codified in its dominance over the Oslo process, despite the fact that the peace deal was brokered through Norwegian back-channel negotiations. Peace-building policies thereafter allowed for heavy involvement of international donors and international financial institutions in designing and conditioning the very structure and policies of the nascent PA.²³

A key factor that motivated Israel to embark on a peace agreement with the PLO is associated with the liberalisation of its economy that was launched in 1985 as a response to its acute economic crisis. Israel's neo-liberal turn meant a drastic transformation of its strategic options from a welfare-warfare state to liberalism and regional

reconciliation.²⁴ This marked a major shift in Israel's foreign policy towards the PLO and the region at large, which was driven by Israel's economic requirement for a smooth integration into the global economy, attracting transnational capital and opening up new markets particularly in the regional context.²⁵ Consequently, the rules of the game have changed and a peace agreement that would secure desirable levels of political stability constituted an urgent prerequisite for Israel's new globalised economy. Israeli businesses were eager for a peaceful settlement and political stability as was evident in their influential role in the early phase of the negotiating process, and whose primary agenda was to transform the occupation from a colonial into a neocolonial project.²⁶

The notion of a 'peace dividend' was promoted beyond the Israel-Palestine frontiers to embrace the wider regional context, with open borders for capital and markets that would yield an unprecedented regional economic boom. The former Israeli Prime Minister Shimon Peres expressed this strategic vision in his account of a 'New Middle East', which sought to transform regional economies into peripheries subordinated to the Israeli core.²⁷ The materialisation of this strategic vision required a process of political and economic normalisation with the Arab states that would create the proper conditions for economic co-operation and investments. A key political factor in the achievement of Peres's vision was utilising a resolution of the Palestinian question as a strategic instrument toward establishing a 'New Middle East', and incorporating it into the broader 'New World Order'.

As a result of the structural power asymmetries and the decisive US backing of Israel's strategic interests, Israel emerged as the sole winner. The most important economic ramification of the Oslo agreements was the redefinition of the Palestinian-Israeli economic relationship from one subjected to an enforced structural dependency that existed since 1967, to a consensually regulated structural dependency based on internationally recognised agreements between the PLO and the Israeli government. In particular, the Paris Protocol of 1994 specified the rules governing the Palestinian-Israeli imbalanced economic relations, which are firmly based on protecting the accumulated Israeli colonial experience of domination, rather than creating the conditions for the gradual transfer of economic power over resources, land and development to the Palestinians. While some cosmetic economic functions were transferred to the PA to serve as symbolic trappings of statehood and help relieve Israel from the burden of

overseeing civil services (e.g. welfare, education, health and direct or indirect taxation), Israel maintained control over essential pillars of the economy such as borders, land, water, natural resources, labour, freedom of movement, trade, fiscal management, industrial zoning and water resources.²⁸ No less important is that the Paris Protocols recognised the quasi-customs union that was established under occupation since 1967, thus effectively instituting Israel's restrictive trade regime over the Palestinians. The Oslo process has also provided Israel with remarkable economic opportunities abroad, with new trade relations established with various states in the Middle East, Asia and Europe, thus opening up new markets and fields of activity to the Israeli economy. Despite the absence of full diplomatic relations, business contacts have been established with several regional states, especially Gulf states.²⁹

Consequently, the Oslo process successfully delivered a lucrative deal for the Israeli economy in the period 1994–2000, represented by a rise in GDP of 14.2 per cent. According to Benny Gaon, a prominent Israeli businessman and industrialist, the Israeli economic boom 'would not have been likely before the peace process began'.³⁰ During the same period, and despite international financial flows to the PA, the Palestinians experienced an unprecedented economic deterioration characterised by a rise in unemployment and poverty with GDP falling by 3.8 per cent.³¹

Palestinian 'Fayyadism'

The term 'Fayyadism' denotes a particular political economy model of governance that has guided Palestinian politics in recent years, and which largely reshaped the PA's state-building trajectory. The core of Fayyadism is a *Third Way* approach to Palestinian statehood: its fundamental rationale is based on the assumption that neither armed struggle (the first way) nor political negotiations (the second way) have succeeded in achieving an independent state. It emphasises technical, economic and security co-operation with Israel and the international donor community to enable institution-building and economic development as a cornerstone strategy for a future Palestinian state. In order to achieve this, Fayyadism has focused on two principles. The first pertains to acquiring international support for its state-building effort, and assumes that a Palestinian state can be attained through creating conditions for institutional facts on the ground, economic development and effective internal policing. Accordingly, this will stimulate the

international community to appreciate Palestinian institutional readiness, a matter that will invariably translate into tangible international recognition of the de facto state. The second principle is based on building a state upon the conditions set by international financial institutions and donor agencies. This has involved the systematic implementation of neo-liberal packages of governance, institutional management and economic development, supported by security reform and the enhancement of internal policing to maintain political stability as a precondition for the project to flourish. While the first principle has failed as no state has yet emerged, the second continues to be the guiding framework of the PA.

Both principles have guided the PA's reform agenda, elaborated in three successive reports lunched by Fayyad's government (2008–2010): the first was 'The Palestinian Reform and Development Plan' (PRDP), the second was 'Palestine: Ending the Occupation, Establishing the State' and the third was 'Homestretch to Freedom'. These reports are essentially based on a series of proposals recommended by the World Bank and other donor agencies. The reports place particular emphasis on three mutually reinforcing components: (1) institution-building and good governance; (2) security; and (3) private sector-led economic development. According to this vision, these components constitute 'positive and proactive steps, both nationally and internationally, in order to end the occupation and reach a just and lasting political settlement in our region'.³² While these reports have been endorsed and praised by international financial institutions, several observers and independent assessments have shown various shortcomings in Fayyad's approach to replace a political solution, and have questioned the very nature of his state-building trajectory in an increasingly authoritarian context.³³

A major weakness of Fayyadism is that this approach disregards the structure of power relations and the existing asymmetries which are a by-product of a complex of factors lying at the core of the ongoing conflict. By asserting that institutional readiness is a precondition of state recognition, not the other way around, Fayyadism exemplifies a historical misrepresentation of the way in which states are generally built and recognised. According to Kanafani:

*[H]istory affirms, almost without exception, that state creation is a purely political decision that has owed nothing to these other factors. Shortages of economic or institutional viability may have played a role in dissolving states, but not in creating them or drawing their borders.*³⁴

A cornerstone of Fayyadism is its uncritical embracing of the Washington Consensus and its neo-liberal policies of economic governance. While it is widely agreed that neo-liberalism constituted the guiding framework for the PA economic policies since the early years of its establishment,³⁵ Fayyad's neo-liberal rearrangement takes it one stage further due to its technical professionalism, systematic implementation and acceleratory dynamic. Hanieh notes that the PA's commitment to such a massive and rapid implementation of neo-liberal policies exceeds measures imposed by IFIs on any other state in the region.³⁶

These measures are primarily intended to pave the way for the private sector to expand and capture various public services. According to Fayyad's economic development, a thriving private sector has the objective of creating a 'diversified and thriving free market economy led by a pioneering private sector that is in harmony with the Arab world, [and] is open to regional and global markets'.³⁷ However, this approach avoids acknowledging the fact that, in order for the private sector to flourish, an overall harmony with the Israeli authorities, security establishment and business community is a prerequisite for this economic vision to materialise.

A key factor in the economic functionality of Fayyadism stems from the necessity of creating a solid degree of political stability on the ground; that is to preserve the political status quo regardless of the expansionist nature of Israeli colonisation. This factor intersects with the security situation, which necessitated the extensive rebuilding of the Palestinian security sector which was destroyed, scattered and left largely dysfunctional by the Israeli reoccupation of Palestinian towns during the Second Intifada. With events associated with the fragile security situation in the aftermath of the Second Intifada, and the Israeli and Western distress following Hamas's victory in the legislative elections in 2006 and its seizure of power in the Gaza Strip in 2007, great efforts and resources have been invested in reforming and empowering the West Bank-based security forces.³⁸ This marks a systematic reconstruction of PA authoritarianism.³⁹ Fayyadism in this regard has practically enforced tough security measures under the banner of 'law and order' with professional capabilities of internal policing. An example of Fayyad's government security practices is evident in the systematic repression of political dissidents, particularly through well-designed security campaigns against refugee camps, most prominently subsequent security campaigns that targeted Jenin refugee camp in 2007, 2008 and 2013, which aimed to 'make Jenin a model city for

the West Bank'.⁴⁰ Moreover, this security effort required the consent of, and closer co-ordination with, the Israeli security establishment, which has quantitatively and qualitatively surpassed the levels that existed during the 1990s.

International donors, particularly the US and the EU, have played key roles in the PA's security reform, with a major focus on shaping the PA security doctrine, training, vetting and strategic planning, and the formation of professional security apparatuses with enhanced capacity for internal policing and 'counter-terrorism' operations.⁴¹ Such a huge role by international donors in fostering and consolidating the repressive character of the PA is of great significance to understanding the interrelation between economic liberalisation and authoritarianism in the context of ongoing occupation.

Israel's economic peace

The notion of EP signifies an Israeli political economy strategy for improving the economy and the socio-economic situation in the West Bank. EP is closely associated with the name, worldview and electoral programme of the Israeli Prime Minister Benjamin Netanyahu whose credo rests on the assumption that 'economics, not politics, is the key to peace'.⁴² From his perspective, EP primarily 'relies on two forces: Israeli security and market forces'.⁴³ Shortly after his election in 2009, Netanyahu converted his vision into an administrative body whose mandate is to endorse EP in the West Bank through advancing around 25 economic initiatives in co-ordination with the Quartet and the PA.⁴⁴

Netanyahu's logic of economic peace is simple: by introducing economic incentives through active economic and security co-operation, accompanied by a partial reduction of the closure regime in the West Bank, the anticipated improvement of socio-economic standards and economic growth would in turn weaken the tendency towards violence and ensure Palestinian acceptance of the political status quo. In other words, giving primacy to economic development on the basis of effective security performance may constitute a convenient substitute for the political process, and the maturing of the EP through its effects of normalisation and pacification would ultimately lead to peace.

Approaches that promote economic pacification are not new in the history of Israel's occupation. While such approaches often appear to be dominated by economic policies,

they are essentially representing a broader strategy with often-unstated political objectives. A prominent historical example of economic pacification emerged in the immediate aftermath of Israel's occupation in 1967, when the Israeli government adopted a proposal by the Minister of Defence Moshe Dayan, who advocated a political-economic strategy widely known as 'open bridges'.⁴⁵ This strategy was based on the notion of 'self-management', and relied on three principles: (1) non-presence: reducing the presence of the Israeli military forces in the occupied areas; (2) non-interference: encouraging the population to manage their daily economic and social activities with minimal interference from the occupation authorities; and (3) open bridges: allowing the Palestinians to trade with Jordan, and to a lesser extent with Egypt. Further, Israel also endorsed a limited pattern of 'modernisation' of the Palestinian economy through implementing agricultural-related projects.⁴⁶ However, Israel neglected to implement macroeconomic policies that could serve the actual needs of the Palestinian economy.⁴⁷ The 'open bridges' policy was particularly effective in terms of stabilising the initial phase of the colonisation process through 'redefining the conditions that govern the lives of Palestinian people'.⁴⁸ In the words of Dayan, the real aim was to make the 'occupation invisible'.⁴⁹

While it is true that Dayan's strategy was ostensibly conducive to a considerable increase in the per capita income and general well-being in the oPt, it did not build a productive economy capable of absorbing the labour force and of developing the oPt technologically.⁵⁰ Farsakh notes that while Israel's policies led to the doubling of per capita income, they also caused a disintegration of the Palestinian economic base.⁵¹ This disintegration disrupted the political foundation of the Palestinian liberation movement and its struggle for self-determination and political independence. In fact, these policies instituted the pillars of the occupation, and superimposed a state of structural dependency on the Israeli economy, which were advanced through a set of sophisticated colonial techniques and various restrictive measures by the Israeli authorities after 1967.

A brief comparison between Dayan's 'open bridges' and Netanyahu's 'economic peace' shows huge similarities in their underlying political impulses. The long-term political consideration of Dayan's 'open bridges' was based on the belief that improving the socio-economic conditions of the population would minimise the likelihood of PLO influence in the occupied territory and decrease political opposition to the

occupation. This strategy, therefore, meant that allowing for a certain degree of economic prosperity in the occupied territory would gradually result in people giving up their political rights. Similarly, Netanyahu's economic peace asserts that improving the living standards in the West Bank would generate pacifying effects and preclude political radicalisation. This would help replace political peace through negotiations with economic peace through market forces. Another major political objective of EP is to exploit the internal Palestinian political and institutional division between the Fatah-led PA in the West Bank and the de facto Hamas government in Gaza. By promoting an economically prosperous West Bank, Israeli policy-makers envisage a disciplinary model for Gaza's deplorable reality under the Israeli siege, which will pressure the population to turn against Hamas in pursuit of a similar socio-economic reality to that of the West Bank.⁵²

The symbiosis: the industrial zones model

The symbiosis between Fayyadism and the EP can be seen most visibly in large-scale economic projects that have emerged in the West Bank in recent years, officially labelled as 'development'. Because of the power asymmetry, coupled with the neo-liberal orientation of these projects under occupation, their implementation is subject to Israeli authorisation, and requires the active involvement of Israeli companies and capital in the occupied West Bank. These joint projects are admired by Western donors and development agencies, which have played a crucial role in various areas such as offering significant amounts of financial support and sponsorship. This section focuses on an example of these joint projects: the construction of joint industrial zones in the West Bank. It argues that joint industrial zones signify the most significant manifestation of how Palestinian, Israeli and regional capitals and businesses co-operate and advance the capitalist dynamic within the existing colonial framework.

Export Processing Zones (EPZ) have proliferated in various parts of the developing world following the end of the Cold War.⁵³ These zones are one aspect of the internationalisation of capitalism in its neo-liberal form, which exemplify market deregulation and export-oriented development to attract foreign investments. They are designed to attract multinational corporations to operate with minimal control through offering them special privileges and laws, including duty free arrangements, tax concessions,

reduced administrative costs, circumscription of trade unions and few workers' rights.⁵⁴ In fact, these zones rarely represent a gain for the host nation.⁵⁵

In the oPt, the initial idea of building industrial zones as a pacifying instrument based on creating jobs and improving the socio-economic standards of the population predates the Oslo process. The Sadan development plan of 1989, set up by Israel's Minister of Finance Ezra Sadan, and commissioned by the Israeli Minister of Defence Moshe Arens, can be identified as the first official expression of Israeli interest in establishing an industrial base in the occupied territory linked to the Israeli economy and its industries.⁵⁶ The plan intended to reduce unemployment in the Palestinian work force, that had resulted from Israel's tightening of its closure policy during the First Intifada, which had prevented a large segment of Palestinian workers from reaching their jobs inside Israel. Israel's political calculus behind the plan stemmed from concerns pertaining to the consequence of the closure policy on workers' political radicalisation and potential engagement in the First Intifada.

The plan granted Israeli businesses the higher-added tiers of the industries into which Palestinian enterprises would be integrated.⁵⁷ It marked the first time that Israel sought to involve diaspora Palestinian capital in joint investments in the industrial zones. In 1991 Israel issued military order 105, which permitted for the first time free Palestinian investment in Gaza, while the Civil Administration began to provide new licences and subsidies and benefits to exiled Palestinian businesspeople, including the right of residency in the territory.⁵⁸ The plan resulted in the construction of the Erez industrial zone in 1991 in the area of Beit Hanun on the Gaza border, which operated until it was shut down and abandoned as part of the Israeli disengagement plan in 2005.

As part of the Oslo peace-building framework, joint industrial zones became a consensual economic project between the PA and Israel, and were regarded as one of the most important joint initiatives to produce 'peace dividends'. The US encouraged export-oriented industrial zones as effective means to promote the Oslo peace process through deepening Palestinian-Israeli economic normalisation. Furthermore, the industrial zone initiative served to consolidate the nascent PA neo-liberal economic model through fostering export-led development and integrating it into the dynamics of global markets. The US administration of Bill Clinton sought to expand the existing US-Israeli Free Trade Agreement to include Egypt, Jordan and the PA. Clinton particularly expressed US interest in establishing industrial zones in the occupied territory:

*[I]f you agree to establish industrial zones in the West Bank and Gaza and elsewhere, I am prepared to go to Congress and seek approval for extending duty-free treatment to products coming out of those zones. Of course, in the end, the economic and political cooperation among all of us will be the most important thing in reaping economic progress.*⁵⁹

Accordingly, joint industrial zones gained international support, and saw several donor agencies and international financial institutions rushing to provide technical and financial assistance. For its part, the PA established the Palestinian Industrial Estate and Free Zone Authority (PIEFZA) in 1998 to promote and supervise investments in the industrial estates and the free zones. Linking between the peace process and the industrial zones, it was hoped that these projects would produce pacifying effects to support the Oslo process and ensure political stability needed to attract foreign investment. According to a 1999 World Bank report, these zones are designed 'to play a key role in attracting foreign and local investment, and to facilitate joint ventures and other models of cooperation and confidence-building'.⁶⁰

These international efforts sought to build multiple industrial zones in the West Bank and Gaza. However, the implementation encountered several difficulties and repeated delays caused by the political conditioning of the Israeli authorities. The most tangible of these was perhaps the Karni industrial zone, which was officially inaugurated in 1998 on the borders between Gaza and Israel. Major donor agencies such as USAID, the European Investment Bank, the International Finance Corporation and the World Bank supported this project through providing loans and technical assistance.⁶¹ However, the Karni industrial zone came to a complete standstill in 2007 because of the Israeli-imposed siege on Gaza, which banned the movement of goods and workers into and out of Gaza.

The processing of industrial zones in the oPt was temporarily suspended in the second intifada. Nevertheless, the later emergence of Fayyadism and EP reinvigorated interest in advancing joint economic initiatives. On the one hand, the idea of joint investments in the West Bank industrial zones gained currency at the 2007 Paris Donors Conference, which was held to provide international support to Fayyad's vision for economic development and statehood. On the other hand, the revival of industrial zones to boost the PA economy was politically motivated by the 'West Bank First' strategy that was meant to offer a political carrot for the West Bank leadership while at the same time punishing the Hamas-governed Gaza Strip.⁶²

Industrial zones have come to symbolise the symbiosis of Fayyadism and EP. For Israel, industrial zones are an integral part of the EP strategy, which would contribute to creating jobs and improving the socio-economic conditions in the West Bank, where Israeli businesses are expected to be actively involved with their Palestinian counterparts to normalise economic ties and generate pacifying effects necessary to maintain the political status quo. For Fayyadism, industrial zones constitute an essential part of the envisioned investment-enabling infrastructure that would support export-oriented economic development. The PA thus anticipates that the industrial zones will reduce unemployment in the West Bank and contribute to strengthening the national economy.

This EP-Fayyadism economic collaboration finds expression in four industrial zones, which are currently under construction or partly operational. Each industrial zone has received special sponsorship(s): Jenin Industrial Free Zone (JIFZ) is sponsored by Turkey and Germany, Bethlehem Multidisciplinary Industrial Estate (BMIE) is supported by France, Jericho Agro-Industrial Park (JAIP) is supported by Japan, and Tarqumiya Industrial Estate (TIE) near Hebron is sponsored by Turkey and the World Bank. These zones are designed to produce a variety of products intended for export through Israeli-controlled borders. This includes products such as metal goods, food and beverages, chemicals, cosmetics and building materials (JIFZ), food industries (JAIP), high-tech and other small and middle-sized industries (BMIE), medium to heavy industry (stone, construction materials), logistics and transit enterprises, and textile and garments production (TIE). According to Abunimah, these products will be exported under the label 'Made in Palestine'.⁶³ This will imply commercial manipulations benefiting Israeli firms because they will be able to further infiltrate Arab markets and avoid international boycott campaigns particularly in Western markets.

In order to accommodate investors, Palestinian institutions overseeing industrial zones such as PIEFZA and the Palestinian Investment Promotion Agency (PIPA) have set two laws that are profoundly influenced by neo-liberal logic and imperatives, and granted excessive concessions and incentives to investors. According to the CEO of PIEFZA, these laws were 'specifically developed to place at the forefront our investors' interests and rights'.⁶⁴ This includes income tax exemptions, fixed assets exemptions, free movement of capital and profits, export exemptions, local market sales, rules of origin incentives, investment guarantee for foreign direct investors, infrastructure incentives and preferential access to regional and international markets.

International donors' motivations for supporting industrial zones sits well in the EP framework. For example, the Japanese-sponsored agro-industrial zone in Jericho, named the 'Corridor for Peace and Prosperity', which is the largest industrial project in the West Bank, has been marketed along with the supremacy of economic development and co-operation in achieving peace. According to Japan's foreign minister:

*When the concept of the Corridor for Peace and Prosperity is materialized, the regional problem will be solved through economic, rather than security or political, ways. We believe that Japan is the only one in a position to achieve this.*⁶⁵

Moreover, joint investments in these industrial zones will likely create new opportunities for Israeli businesses in terms of export-generated profit and the availability of cheap labour, as speculated by the World Bank:

*It could be imagined that Israeli firms establish plants in the Palestinian state to access cheaper labor and then export from there to the rest of the Arab world. This would bring employment and technology to the Palestinians, while providing Israeli goods free access to a large new market.*⁶⁶

Unlike incentives granted to investors, local workers experience a drastically different treatment. According to estimates, these industrial zones were to create 150,000–200,000 job opportunities; a number that nearly equals the Palestinian jobs lost inside Israel since the Second Intifada.⁶⁷ The Palestinian economist Sam Bahour noted that these industrial zones 'promise menial labor-intensive jobs that are extremely reliant on donors fund to maintain their livelihood'.⁶⁸ In his view, this suggests a shift from the Oslo-framed internationally-funded PA economy, to a system that is still based on donor assistance, but with the involvement of Palestinians to sell their labour for the benefit of commercial enterprises inside industrial zones.

Similar to the capitalist exploitive practices as documented inside the EPZs in developing countries, and the QIZs in Jordan and Egypt, where workers have few employment rights,⁶⁹ the industrial zones will likely apply a similar pattern of exploitation on Palestinian labour. In fact, it was reported that Palestinian workers inside these zones would not benefit from Palestinian or Israeli labour laws including wage levels, social security, environmental regulations and other workplace conditions. Existing Palestinian trade unions are not permitted to represent workers, and industrial zone

workers will not be given the right to establish their own union. Given the priority of security, restrictive measures will apply on movement in and out of the industrial zones.⁷⁰

Industrial zones, as is the case with every project, are subject to the existing power asymmetry favouring Israel's political priorities. As discussed above, the uneasy experience of the Karni industrial zone in the 1990s shows how the implementation and functionality of such projects are exclusively based on Israel's political conditioning and consent. Therefore, Israel will likely use these industrial zones as an effective tool for political pressure. In other words, the entire functionality of the industrial zones and the expected economic outcomes will largely depend on Palestinian acceptance of Israeli political conditions.

Israel's control over the development of industrial zones is determined by its overall control of Palestinian resources and infrastructure such as water, electricity and lands. Plus, Israel effectively controls the movement of people and goods inside the West Bank; and maintains full authority over the borders and trade with the outside world.

At best, the logic guiding industrial zones to bring peace will only benefit and enrich a very narrow segment of the Palestinian political-economic elite with their Israeli counterparts and international investors, while it will alienate Palestinian society at large. Promises that employment opportunities and other economic gains will yield economic benefits for Palestinians, which as a consequence will spill over to the political sphere, thus rendering peace attainable, will prove difficult to fulfil.

Conclusion: instituting a colonial political economy

Since the Oslo Accords, advocates of the 'peace dividend' have envisioned that a capitalist interaction would bolster economic interdependence and peace between the Palestinians and the Israelis and the region at large. This assumption proved illusory; peace has not found a way through the Oslo process and the 'peace dividend' has been limited to compromises among the elites. After the Second Intifada, local and international efforts to revive the peace process have been overwhelmingly focused on advancing the dynamic of capitalism in the West Bank to pave the way for another prospect for peace.

The PA-Israeli implicit consensus on this form of capitalist peace is evident in the symbiosis between Palestinian Fayyadism and Israeli EP, which stimulated multiple joint economic projects, including the construction of export-oriented industrial zones, under the condition of Israel's colonial order. The outcome of such interaction has been a fragile political stability, underpinned by security co-ordination and elite networks of economic interests, which will likely collapse through the impact of any serious political or economic crisis.

The West Bank experience has demonstrated that capitalist interaction between the coloniser and colonised has come to constitute a mechanism of control that serves colonial entrenchment and pacification. In this context, colonial entrenchment implies the perpetuation of the Israeli occupation and its settler-colonial regime, while pacification is an attempt to ensure the domestication of the population and their acceptance of the status quo. Yet speculations that an intensified capitalism and economic 'interdependency' between the coloniser and colonised would bring peace is unrealistic, given the fact that 'interdependency' in the context of the structural power asymmetry that characterises Palestine-Israel relations is irrelevant. Rather, capitalist peace will institutionalise structural dependency characterised by manifold forms of colonial domination and subordination, which will eventually harden resistance to this form of colonial peace.

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Endnotes

1. Kerry, 'Remarks to Special Program'.
2. IKV Pax Christi, 'Analyzing Israel's Economic Policy'; Green, 'Economic Peace in the West Bank'.
3. For example, joint industrial zones, Israeli-Palestinian business forums, Palestinian investments in Israel and even in illegal settlements, joint management of water resources, Israeli investments in the new Palestinian city 'Rawabi', Palestinian-Israeli partnership in IT sector.
4. Khalidi and Samour, 'Neoliberalism as Liberation'.
5. Weizman, *Hollow land*.
6. Plehwe et al., *Neoliberal Hegemony*.
7. Selby, 'The Political Economy', 13.
8. Weede, 'Capitalism, Democracy and Peace'.
9. Kant, *Perpetual Peace*, 37.
10. Angell, *The Great Illusion*.
11. Lenin, *Imperialism*.
12. Polanyi, *The Great Transformation*.

13. Weede, 'Capitalism, Democracy and Peace'; Schneider and Gleditsch, *Assessing the Capitalist Peace*; Mousseau, 'Coming to Terms'.
14. Schneider and Gleditsch, 'The Capitalist Peace'.
15. For further reading on these arguments, see Schneider and Gleditsch, *Assessing the Capitalist Peace*.
16. Mueller, 'Capitalism, Peace and the Historical Movement'.
17. Mousseau, 'Coming to Terms'.
18. Boswell, 'Colonial Empires'.
19. Sullivan, *American Adventurism Abroad*.
20. Hartzell et al., 'Economic Liberalization via IMF'.
21. Bouillon, *The Peace Business*.
22. Turner, 'Completing the Circle', 502.
23. The first substantive programme that guided the PA's initial economic policies was based on a World Bank report that was issued even before the establishment of the PA. See World Bank, 'Developing the Occupied Territories'.
24. Nitzan and Bichler, *The Global Political Economy*.
25. Aran, *Israel's Foreign Policy*.
26. Hever, *The Political Economy*.
27. Peres, *The New Middle East*.
28. Khan et al., *State Formation in Palestine*.
29. Israeli Ministry of Foreign Affairs, 'The Fruits of Peace'.
30. Quoted in Shafir and Peled, *Being Israeli*, 259.
31. Gordon, *Israel's Occupation*, 184.
32. PA, 'Ending the Occupation', 3.
33. Brown, 'Fayyad Is Not the Problem'; Thrall, 'Our man in Palestine'.
34. Kanafani, 'As If There Is No Occupation'.
35. Samara, 'Globalization, the Palestinian Economy'.
36. Hanieh, *Lineages of Revolt*, 116.
37. PA, 'Building a Palestinian State', 19.
38. Dana, 'PA-Israeli Security Coordination'.
39. Leech, 'Who Owns "the Spring"'.
40. Marten, 'Reformed or Deformed?'.
41. Dana, 'PA-Israeli Security Coordination'.
42. Raphael Ahren, 'Netanyahu: Economics, Not Politics, is the Key to Peace'. *Haaretz*, 20 November 2008.
43. Feldman, 'Economic Peace', 23.
44. Amos Harel and Barak Ravid, 'Netanyahu's Opening Gambit: A Special Body on "Economic peace"'. *Haaretz*, 26 March 2009.
45. Abed, *The Palestinian Economy*.
46. See Gordon, *Israel's Occupation*; and Hever, *The Political Economy*.
47. Arnon, 'Israeli Policy'.
48. Abed, *The Palestinian Economy*, 8.
49. Quoted in Gordon, *Israel's Occupation*, 49.
50. Farsakh, 'Palestinian Labour Migration'.
51. Ibid.
52. Samhuri, 'The "West Bank First" Strategy'.
53. Export Processing Zones have a variety of names: industrial zones, industrial parks and export-oriented zones. In the Middle East, particularly in Jordan in Egypt, these zones are called Qualifying Industrial Zones (QIZ).
54. Teeple, *Globalization and the Decline*, 89.
55. Ibid.
56. Lagerquist, 'Privatizing the Occupation', 6–7.
57. Ibid., 7.
58. Ibid., 7.
59. Clinton, 'Remarks at a Meeting'.
60. World Bank, 'Aid Effectiveness'.
61. Lagerquist, 'Privatizing the Occupation', 8.
62. Samhuri, 'The "West Bank First" Strategy'.
63. Abunimah, *The Battle for Justice*, 14.
64. Shaath, 'CEO of PIEFZA Speech'.
65. Quoted in Tartir, 'Jericho Agro-Industrial Park'.
66. World Bank, 'Aid Effectiveness', 14.
67. Farsakh, 'Palestinian Labor Flows'.
68. Bahour, 'Economic Prison Zones'.
69. Russell-Brown, 'Labor Rights as Human Rights'; Raworth, 'Trading Away our Rights'.
70. Hanieh, 'Palestine in the Middle East'.

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