Palestinian Labor Flows to the Israeli Economy: A Finished Story?

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This article analyzes employment trends of West Bank and Gaza Palestinians working in Israel during the Oslo years (1993–2000). While significantly reduced from pre-1992 levels, Palestinian labor flows to Israel remained important but changed in form and content, revealing contrasting Israeli policies toward the two territories. In Gaza, labor links with Israel were increasingly severed, reflecting the growing separation of the two economies and the transformation of Gaza into a de facto labor reserve. In the West Bank, where the process of "Bantustanization" is described, workers continued to be employed beyond the Green Line and in the settlements, enhancing the incorporation of parts of the territory into Israel.

Between 1970 and 1993, Palestinian labor flows to Israel were a key factor in integrating the economy of the West Bank and Gaza Strip (WBGS) into Israel. They anchored Palestinian dependence on Israeli goods and trade relations and tied the absorption of the Palestinian labor force to Israeli demand for Palestinian goods and services. Until the late 1980s, Palestinian daily commuters to Israel, predominantly male unskilled workers, represented a third of the employed population and generated more than a quarter of the WBGS gross national product (GNP).

With the advent of the peace process, however, it appeared that Palestinian labor flows no longer would play the same integrating role. The number of Palestinian workers going to Israel dropped from a peak of 115,600 in 1992 to less than 36,000 in May 1996. Between 1997 and 2000, there was a recorded rise in the number of workers going to Israel and Israeli settlements on the West Bank and in the Gaza Strip, but labor flows had become volatile and erratic. The political turmoil that characterized the Oslo years between 1993 and 2000, and the entry of foreign workers into the Israeli labor market as of the early 1990s, was argued to have brought to an end Israeli demand for Palestinian workers.[1] Meanwhile, the halt imposed on the

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movement of labor and goods between Israel and the WBGS since the al-Aqsa intifada erupted on 29 September 2000, and the intensification of the Israeli assault against the Palestinian population starting in March 2002, have made the issue of Palestinian employment in Israel appear obsolete, if not absurd.

Yet, labor issues remain an important element in the Israeli-Palestinian conflict. While predicting the future is impossible at the present juncture, it is necessary to analyze how Palestinian-Israeli labor relations evolved during the Oslo years in order to appreciate the extent to which the WBGS will be able to separate viably from Israel. Palestinian labor flows to Israel between 1993 and 2000 remained significant, even though they changed in form and content. They continued to be determined by underlying economic forces of supply and demand but were also shaped by Israel's attempt to expand its territorial claims over parts of the WBGS. Trends in Palestinian labor flows since 1993 reveal, in particular, contrasting processes of redefining territorial and economic boundaries between Israel and Gaza on the one hand and between Israel and the West Bank on the other. In the first case, an examination of labor flows indicates that the two economies are separating, rather than integrating as in the pre-1992 era.[2] In the second case, West Bank workers continue to be employed in Israel and in Israeli settlements built in the West Bank, thereby enhancing the incorporation of parts of these territories into the Israeli state, in violation of the Oslo agreements and international law.

INTEGRATION, SEPARATION, OR "BANTUSTANIZATION"

To understand the development of Palestinian labor flows during the Oslo years, it is necessary first to review the nature of economic and territorial links that the Oslo accords forged between Israel and the occupied territories. The Economic Protocol between Israel and the Palestinians was part of the Interim Agreement on the West Bank and the Gaza Strip (Oslo II)[3] signed 28 September 1995. It promised to help the Palestinian territories reduce the dependency on Israel developed between 1967 and 1993, but it did not clearly demarcate borders between the two economies.[4] It created a customs union ostensibly intended to help the Palestinian economy grow autonomously while maintaining relations of cooperation with the Israeli economy. Yet, rather than altering the pattern of dependency between the WBGS and Israel to allow a more equal relation between the two, the Interim Agreement actually facilitated a process of "Bantustanization" of Palestinian labor and land. By this term is meant the transformation of the Palestinian areas into de facto labor reserves out of which Palestinians cannot easily exit without a permit issued by the Israeli authorities.[5]

The term "Bantustanization" rarely has been used in explanations of the nature of Palestinian economic development since 1993. In assessing the outcome of the Oslo peace process, it is more common to find the term "cantonization" of Palestinian land whenever a description of the territorial fragmentation of the WBGS is made and the concept of "bifurcation" of the Palestinian economy to pinpoint the disintegration of economic links between various parts of the WBGS. The few writers who have compared the outcome of the Oslo agreement to the creation of a quasi-apartheid structure of Bantustans have rarely taken this analogy into the economic domain.[6] Only Azmi Bishara went as far as to define a 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 can travel to work."[7]

The term "Bantustanization" is preferred here to other terms because it emphasizes the economic dimension of Palestinian "cantonization," especially the role of regulating labor flows in shaping the nature of the Palestinian entity. The analogy with South Africa, however, does not mean equating the two experiences. For in contrast to the situation in white South Africa, Israel's interest in the WBGS is mainly territorial, not economic. Moreover, Palestinian labor has never had the same importance for the Israeli economy that black African labor had for white South Africa. Nevertheless, the Israeli permit or pass system, the territorial fragmentation of the WBGS under the Oslo accords, and the closure policies that have intensified since 1993 have all contributed to the creation of disconnected Palestinian labor reserves with characteristics of Bantustans.

The "Bantustanization" process became entrenched with the Oslo agreements through the handling of three key elements central to the future of Palestinian labor movements: territorial control, Palestinian workers' access to Israel, and the development of Israeli settlements in the West Bank and Gaza Strip. The original Oslo agreement (Oslo I), signed in September 1993 prefigured the fragmentation of Palestinian land by deferring the central issues of occupation, sovereignty, and borders. Oslo II, far from guaranteeing the full withdrawal of Israeli forces from the occupied Palestinian territories, instead divided the West Bank into three categories of land—A, B, and C—in keeping with security control.[8] After the last redeployment under the Sharm al-Shaykh memorandum in 1999, Israel still fully controlled almost 60 percent of the West Bank as area C, which cut through and encircled area A and B enclaves over which Palestinians were given limited self-rule, preventing any territorial contiguity or free labor mobility among those territories. At the same time, Israel continued to hold 15 percent of the Gaza Strip.[9] Oslo II also kept Israel in control of the exit and entry of goods and people among the Palestinian areas and with the outside world.[10] And despite the stated intention of forging an open customs union between Israel and the Palestinian areas as well as relations of mutual cooperation, the agreement allowed for the unilateral closure of borders between Israeli and Palestinian areas.[11]

Moreover, Oslo II facilitated the "Bantustanization" of Palestinian labor flows by regulating them according to military, rather than *economic*, considerations. Article VII.1 of the Economic Protocol did not promise free labor flows between Israel and the WBGS but stated, "Both sides will attempt to maintain the normality of movement of labor between them, subject to each side's right to determine from time to time the extent and conditions of labor movement into its area." Meanwhile, Oslo II's Protocol Concerning Civil Affairs (Annex III) specified that the only legal document entitling a Palestinian to work in an Israeli establishment is *a permit* issued by the Israeli military authority (Article 11). In so doing, the protocol ended Palestinian free labor movement across borders and directed such flows, both in terms of size and geographic location, to suit Israeli military considerations.[12] Israeli regulations had important implications for the characteristics and distribution of WBGS workers.

The Oslo accords further facilitated the process of the "Bantustanization" of the WBGS through the way it dealt with Israeli settlements. Settlements are at the heart of the territorial links between Israel and the West Bank, and their growth has long depended on the supply of cheap Palestinian labor. Yet, under Article V of Oslo I, the settlements were to be discussed only in final status negotiations. The Oslo agreements did not affirm the illegality of such settlements, as international law maintains[13] nor prevent the growth of Israeli settlements and land appropriation, which were bound to preempt the final status negotiation and compromise the territorial integrity of the WBGS, which Article IV of Oslo I had promised to preserve.

TRENDS IN PALESTINIAN LABOR FLOWS, 1993–2000

Trends in Palestinian labor flows to Israeli-controlled areas between 1993 and 2000 reflected the concretization of the "Bantustanization" process. They indicated that WBGS employment in Israeli areas remained important but had changed in pattern and geographic composition.

Between 1993 and 2000, five major developments occurred in Palestinian labor flows. First, they fluctuated and became erratic. In contrast to the pre-1992 period, when labor flows grew steadily, the number of workers going to Israel dropped, as mentioned, from a total of 115,600 in 1992 to less than 62,300 in May 1996 (see Figure 1). In 1997, flows started to increase again and outpaced the peak in 1992, reaching a total of 135,000 workers in mid-2000.[14] Yet, flows were volatile. By June 2001 they fell again to less than 40,000 workers.

Second, the Gaza Strip no longer could rely on the Israeli labor market to absorb a significant share of its labor force, in contrast to the historical ease with which it did so in the 1970s and 1980s. The decline in Gaza Strip labor flows to the Israeli labor market that started in 1987 drastically accelerated after 1993. The Israeli labor market absorbed less than 15 percent of Gaza's total active labor force in mid-2000, compared with 35 to 40 percent before 1993 (see Figure 2). The West Bank, by contrast, still exported 18 to 25 percent of its labor force to Israel between 1995 and 1999 (compared with 25 to

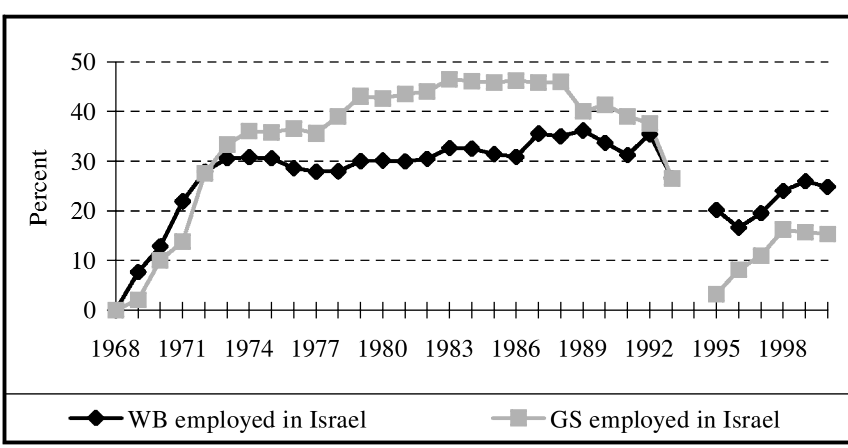
Figure 1. Palestinian workers employed in Israel and the settlements, 1992–2001 (figures in thousands)

Year	Average Number of Permits Issued					Total Palestinians Working in Israel and the Settlements		
	West Bank		Gaza					
	total	in settlements	total	in settlements	WBGS total	West Bank	Gaza Strip	WBGS total
1992					69.4			115.6
1994	26.2	4.1	25.7	1.3	51.9			
1995	26.8	8.7	17.3	1.3	44.1	62.2	3.6	65.8
1996	26.9	9.1	18.7	1.9	45.6	52.3	10.0	62.3
1997	26.8	7.7	23.5	2.5	50.4	68.4	14.2	82.6
1998	27.5	9.1	27.1	3.7	54.6	96.0	24.0	119.9
1999	27.6	9.5	29.2	3.9	56.8	108.3	26.7	134.9
2000	23.0	9.8	23.5	3.5	46.5	115.8	29.9	145.7
2001	2.1	n.a.	1.9	2.2	4.0	36.0	4.1	40.1

Notes: Figures refer to yearly averages, except for 2000, where they refer to midyear numbers, and for 2001, where they refer to the January 2001 data only. Figures on permits for work in settlements also refer to permits for work in Israeli industrial zones.

Sources: Israeli Employment Service, unpublished data (for 1992 and 1995 data on workers registered at the employment office); Palestinian Central Bureau of Statistics (PCBS), *Labour Force Survey Annual Report, 1999* (Ramallah, 2000); Palestinian Ministry of Labor, *Work Permits to Israel and Settlements* (Ramallah, 2000); UNSCO, *Labour Data Base on West Bank and Gaza Strip Work Permits to Israel, the Settlements and Industrial Zones* (Ramallah, 2000); UNSCO, *Impact on the Palestinian Economy of Confrontation, Mobility Restriction and Border Closures, 1 October–31 January* (Ramallah, 2001).

Figure 2. Percentage of working Palestinians employed in Israel, 1968–2000



Source: Israeli Central Bureau of Statistics (ICBS), *Statistical Abstract of Israel*, various issues, and PCBS, *Labour Force Survey*, various issues.

30 percent in the pre-Oslo period). In mid-2000, a total of 30,000 Gaza Strip workers were employed in Israel, less than the total in 1978.

Third, access to Israel became more restricted and difficult, but more so for Gaza Strip workers than West Bankers. From the 1970s onward, Palestinian labor flows to Israel consisted of legal and illegal workers. Despite Israel's attempt to regulate all Palestinian labor employed in its sectors, 50 to 70 percent of the workers were employed illegally up until the late 1980s.[15] It was only after 1991, as Israel tightened restrictions on the entry of Palestinian workers into Israeli firms, that the share of legal workers (those holding work permits) reached 60 percent of total labor flows. Yet, as can be seen in Figure 1, Israel was more successful in controlling the entry of Gaza Strip workers than of West Bank workers. After 1997, fewer than 40 percent of West Bank workers employed in Israeli enterprises had permits. In the case of workers from the Gaza Strip, *only* those with permits could work in Israel. Moreover, even with such a permit, Gaza Strip workers were not guaranteed access to Israel. As Figure 1 shows, the number of Gazans actually working in Israeli firms was lower than the number of permits issued.

Fourth, Palestinian labor continued to be predominantly unskilled and semi-skilled male workers. Those employed in Israeli settlements in the WBGS, though, tended to be younger, less educated, and less skilled than Palestinians employed inside the Green Line.[16] Some 53 percent of all Palestinian workers, inside and beyond the Green Line, were concentrated to the Israeli construction sector. The presence of WBGS workers in this sector was particularly significant in view of its importance to the Israeli economy, ideology, settlements, and territorial expansion.[17]

The fifth important development was the growing importance during the Oslo years of employment in Israeli settlements built in the West Bank and Gaza Strip. Settlements, while territorially situated within the West Bank, are considered by Israel to be part of the Israeli economy. Available figures on work permits in Israeli establishments (which include firms in Israel and in settlements) indicate that 30 percent of permits given to West Bankers since 1994 were for work in settlements (Figure 1). In the Gaza Strip, fewer than 12 percent of permits were given for work in settlements and industrial zones. Unfortunately, no accurate data are available on the number of *illegal* workers employed in the settlements, as many workers began to conceal their employment after the Palestinian Authority (PA) declared in 1996 that such work was illegal and would be penalized. However, there is reason to believe that the actual number of West Bank workers employed in settlements was higher than the reported figures and that it continued to rise. This is partly because Israeli regulations made access to Israeli settlements far easier than access to Israel. Assuming that a third of West Bank workers were employed in settlements,[18] this would have amounted in August 2000 to some 35,000, compared with 72,000 in Israel proper. The employment of Palestinians in Israeli settlements is particularly significant in view of the implications that such construction has on the future of Israeli territorial claims and "creating facts" in the WBGS.

THE DETERMINANTS OF WBGS LABOR FLOWS SINCE 1993

The persistence and fluctuations of Palestinian labor flows during the interim period revealed that strong economic forces continued to push Palestinians to seek employment in the Israeli economy. Palestinian employment in the Israeli economy, though, remained circumscribed within Israeli strategic considerations. In general, labor flows were determined by three main factors: Israeli regulation of Palestinian labor flows, the performance of the Palestinian economy, and Israeli demand for Palestinian workers, particularly in the construction sector.

Institutional Factors

Unquestionably, Israel's permit and closure policies were major institutional factors behind the structural change in Palestinian employment in Israel after 1993. The permit policy, first introduced in 1991, made entry of WBGS workers into Israel conditional upon obtaining security clearance from the Israeli military establishment and a request for employment from an Israeli employer.[19] It regulated the entry of workers into Israel not on the basis of supply and demand but according to unilaterally defined Israeli security considerations. The Oslo process institutionalized this system and made it more complicated. Since 1993, Israel has restricted permits to married men over the age of twenty-eight. It also has shortened the duration of permits, not always renewed, to two months and tied them to a specific firm.

At the same time, however, Israel made it easier to obtain permits for work in the settlements than for jobs beyond the Green Line. In contrast to permits to Israel, settlement permits did not require Palestinian workers to be married or impose specific hours of work, and instead of restricting entry to those older than twenty-eight years, those over eighteen were allowed. Moreover, from the employers' point of view, workers' permits for settlements were cheaper than those for Israel insofar as employers in the settlements did not have to pay Palestinian workers social security benefits, to which they would have been entitled had they been employed in Israel. These benefits amounted to 25 to 30 percent of gross wages for Palestinians legally working in Israel.[20]

The permit policy was successful in regulating labor flows only when combined with Israel's *closure* policy in the WBGS. Indeed, closure was the most effective means of restricting the mobility of workers and demarcating boundaries between Palestinian and Israeli areas. Never entirely lifted since 1993, the closures cut the flow of goods and labor between the WBGS and Israel, within the WBGS territories themselves, and between these territories and the outside world. Between 1993 and 2000, Israel sealed its borders with the WBGS for 386 days, which is the equivalent of nearly two months a year.[21] As can be seen from Figure 3, the number of Palestinian workers going to Israel decreased as days of closure increased. Work in the settlements, on the other hand, was less affected by closure.[22]

Ongoing Palestinian Dependence on Israel's Labor Market

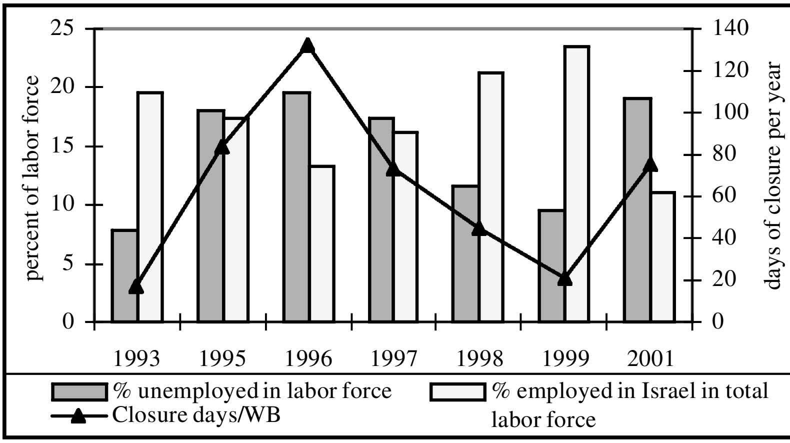
As access to Israel became more difficult, the Palestinian population, particularly in the Gaza Strip, continued to need the Israeli labor market. The Palestinian labor force grew by more than 4.1 percent per annum after 1993, with fertility rates in the Gaza Strip on the order of 7.4 children per woman, compared with 5.6 in the West Bank. This growth put particularly great pressure on employment generation in the domestic economy. Though the Palestinian economy succeeded from 1995 to 2000 in creating more than 307,100 new jobs, a third of them in the Gaza Strip, this growth was not sufficient to reduce reliance on the Israeli labor market or to eradicate unemployment.[23]

Unemployment in the Gaza Strip remained particularly high during the Oslo period, ranging from 15.1 percent to 32.5 percent between 1993 and 2000, compared with 10.1 to 23.8 percent in the West Bank.[24] The number of jobless increased, particularly in years of intensive closure, such as in 1996 and after September 2000 (see Figure 3). Meanwhile, wages in the Israeli economy were double those in the Gaza Strip and 30 to 50 percent higher than those in the West Bank,[25] creating additional incentives pulling Palestinians toward employment in the Israeli economy. But while the economic incentives for seeking employment outside the Palestinian economy were stronger for Gazans than for West Bankers, the Gaza Strip was turned into a de facto labor reserve unable to rely on the Israeli labor market to the same extent as the West Bank could.

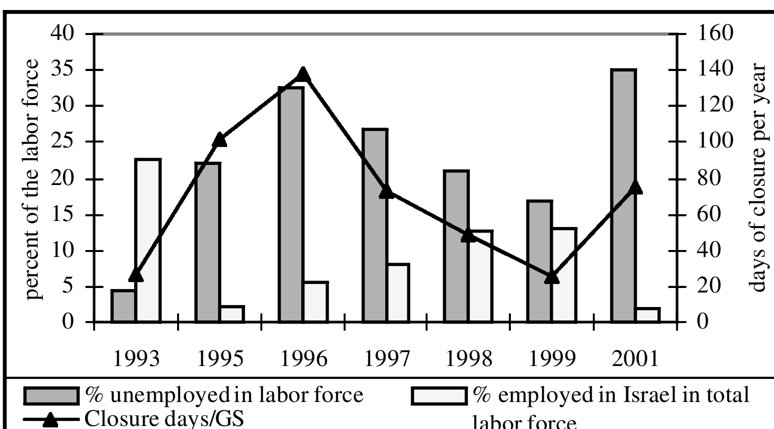
The West Bank's greater access to the Israeli labor market cannot be explained without reference to Israel's settlement policy. Since the Drobles Master Plan for Settlement of 1978[26] and the Egyptian-Israeli peace treaty of 1979, Israel has been more interested in incorporating larger areas of the West Bank than of the Gaza Strip. Between 1972 and 1992, Israel built more than 122 settlements housing 107,200 Israelis in the West Bank and 10 settlements housing 124,000 Israelis in East Jerusalem.[27] In the Gaza Strip, by contrast, Israel built only 16 settlements, whose population by 1992 did not exceed 4,800. With the Oslo process, Israel tightened its territorial grip over the West Bank (including East Jerusalem) by building more than 49 new settlements and increasing the settler population from 246,000 to 350,000 between 1992 and 1999, whereas the settler population in the Gaza Strip increased by less than 2,300 during the same period.[28] The expansion of settlements in the West Bank played an important role in fostering demand for Palestinian labor and thereby in maintaining labor links between the West Bank and the Israeli economies.

The fact that Israel was willing to sever links with the Gaza Strip more readily than with the West Bank became evident as of the late 1980s. When

FIGURE 3.
A. SHARE OF UNEMPLOYED AND OF WORKERS IN ISRAEL AS A PERCENTAGE OF THE WEST BANK LABOR FORCE, 1993–2001



B. SHARE OF UNEMPLOYED AND OF WORKERS IN ISRAEL AS A PERCENTAGE OF THE GAZA STRIP LABOR FORCE, 1993–2001



Notes: The right axis refers to the number of days of closure per year. The left axis plots the percentage of Palestinians unemployed and of those employed in Israel.
Sources: PCBS 2000, *Labour Force Survey Annual Report*, 1999, tables 1–3.

the first intifada erupted in 1987, Israeli policymakers expressed the desire to get rid of the Gaza Strip, given its Islamic militancy, dense population and high growth rate, and the economic burden it represented.[29] During the Oslo negotiations, Israelis showed willingness to offer a Free Trade Agreement with clearly defined borders to the Gaza Strip, but not to the West Bank.[30] Shimon Peres, in a speech at a UNESCO conference in December 1993, just three months after signing the first Oslo agreement, spelled out the Israeli vision of a final status solution whereby the Gaza Strip would progressively evolve into a Palestinian state, while the West Bank would develop into an autonomous polity of Palestinians and Israeli settlers whose status and borders were yet to be defined.[31] During the Oslo process, Israel demarcated its borders more clearly with the Gaza Strip than the West Bank via fences and the Eretz and Karni checkpoints, greatly reducing illegal crossing and making labor and territorial links there far easier to sever.

The final status negotiations at Camp David in July 2000 and the Clinton proposals in December 2000 again reflected Israel's readiness to separate from the Gaza Strip while continuing to hold vital parts of the West Bank. The Camp David proposal envisaged an annexation of 9 percent of the West Bank that would have led to its de facto "Bantustanization" into three major cantons, cut off from one another by Israeli bypass roads and the settlement blocs of metropolitan Jerusalem and Ariel-Shomron.[32] The three major Palestinian "Bantustans" were the northern area, with Nablus and Jenin as the main cities; the central area around Ramallah; and the southern area, which included the Bethlehem and Hebron districts. The Palestinian enclaves were encircled by Israeli-controlled areas rather than given direct border access to Jordan. Neither the Camp David proposal and the Free Trade Agreement it envisaged nor the subsequent Clinton proposals of December 2000 explained how, in view of Israel's annexation plans, a sovereign Palestinian state in the Gaza Strip *and* the West Bank could be economically viable and contiguous, or how labor flows would be regulated.

Israeli Demand for Palestinian Labor

The persistence of Palestinian labor flows to the Israeli economy during the Oslo years also was tied to the demand for cheap labor, particularly in the construction sector. During the 1980s, Palestinian workers represented more than 40 percent of all workers employed in this sector, mainly filling low-skilled jobs. However, the arrival of 150,000 to 250,000 foreign workers into the Israeli labor market, half of them employed in the construction sector, was argued to have provided a substitute for WBSG workers.[33] Available data suggest that overseas laborers, just as Palestinians, tended to concentrate in low-skilled jobs in construction and other sectors.[34]

However, the growth of the Israeli economy, and particularly its building industry, was large enough to stimulate demand for Palestinian workers as well. Between 1992 and 1995, Israel's per capita gross domestic product (GDP) grew by more than 6 percent annually, while unemployment rates were below 9 percent.[35] The building industry grew by more than 8.7 percent annually between 1900 and 1998,[36] largely as a result of the intake of more than 980,000 new immigrants during this period. Furthermore, the number of foreign workers employed in Israeli construction tripled between 1994 and 1996, while the number of WBGS workers was halved during those years, which were marked by intensive closure. Yet after 1997, the flow of West Bank workers recovered, while the number of foreign and Israeli workers dropped. In 1998 and 1999, Palestinian workers came to represent more than 25 percent of all employees in the Israeli construction sector, while foreign workers represented 18 percent.[37] Although the Palestinian workers did not reoccupy the central role that they had in the 1980s, they continued to constitute a crucial component.

There are several reasons why Palestinian workers remained attractive from Israeli employers' point of view, particularly for jobs on settlement construction sites. Within Israel proper, available data show that it was cheaper to hire a *legal* overseas worker (i.e., with a permit) than a legal Palestinian worker, since Israeli regulations deprive overseas workers of social security benefits to which legal Palestinian workers in Israel are entitled.[38] In Israeli settlements, however, where Palestinians do not enjoy these benefits, foreign workers were not cheaper.[39] Concerning *illegal* workers (i.e., those without a work permit), foreign workers earned less than the average illegal Palestinian worker *inside* Israel,[40] but not more than Palestinian illegals employed in the settlements.[41]

Furthermore, the supply of the cheaper foreign workers in Israel proper was not always available for all types of construction firms. The Israeli Ministry of Labor, which regulates the supply of overseas workers, directed foreign workers mostly toward large construction companies. By the end of the decade, it had cut the number of permits for foreign workers: fewer than 70,000 were issued in 1999, compared to 90,000 permits in 1997.[42] Smaller firms thus had to revert either to illegal foreign labor or Palestinian workers. Many preferred the latter, especially as these firms often had long-standing ties with Hebrew-speaking Palestinian workers and subcontractors dating back to the 1980s. Indeed, Palestinian subcontractors played a pivotal role not only in providing workers for construction sites but in keeping construction costs down, paying the workers on behalf of the employers, supervising their conduct on the job, and returning them home upon completion.

Another element behind the continuing Israeli demand for Palestinian workers, particularly in the settlements, was accessibility to work sites. Overseas workers tend to live in major Israeli cities, such as Tel Aviv,[43] facilitating access to sites in Israel. For Palestinian workers, checkpoints and permits, involving delays of several hours each day passing through border controls, increased the transaction cost of employment in Israel. In the territories, on the other hand, Israeli regulations facilitated the supply of Palestinian workers to settlements, eliminating entry queues and long commutes. Moreover, the geographic concentration of Israeli construction favored the absorption of Palestinian workers in certain areas. Between 1993 and 1999, total construction output in Jerusalem, the settlements, and the central areas along the Green Line—within easy reach of Palestinian towns and villages, including Qalqilya, Tulkarm, and many West Bank villages—represented more than 50 percent of the total new houses built by Israeli contractors. During that period, an average of more than 12,000 new housing units were built a year in Israel's central areas along the Green Line, 2,000 in the West Bank Israeli settlements, and 2,500 in Jerusalem.[44] Moreover, some 300 kilometers of Israeli bypass roads were paved between 1994 and 1997, connecting settlements with one another and with major Israeli highway and metropolitan centers. Between 1995 and 1998, the number of new dwellings built in the settlements grew by 20 percent annually, while in Israel it dropped by 10 percent.[45] Construction growth was strongest in major settlements, which are less than 15 kilometers from the 1967 borders, particularly in places such as Ariel and Shomron along the Green Line, as well as around metropolitan Jerusalem, in places such as Maale Adumim and Gush Etzion.[46] The growth of these and other settlements maintained a demand for West Bank workers and at the same time maximized Israel's appropriation of Palestinian land in a way that consolidated the "Bantustanization" of the West Bank.

CONCLUSION

Palestinian labor flows during the Oslo years remained important, but they evolved in a way that reflected a process of redefinition of economic and territorial boundaries between the Israeli and the WBGS economies. On the one hand, the labor links between Israel and the Gaza Strip were severed, and the two economies began separating, with Gaza turning into a de facto labor reserve without access to the Israeli economy. On the other hand, the West Bank was divided into three main de facto "Bantustans" that continued to be tied to the Israeli economy.

Palestinian access to the Israeli labor market between 1993 and 2000 was determined by economic forces circumscribed by Israel's plans to reshape territorial realities in the West Bank to its greatest advantage. The general driving forces behind the absorption of Palestinian labor were set by the growth of the Israeli construction sector and the persisting demand for Palestinian workers, particularly in areas along the Green line, in Jerusalem, and in West Bank settlements. The specific labor dynamics were largely the result of Israel's refusal to demarcate borders clearly with the West Bank while consolidating them in the Gaza Strip. The interplay of labor market realities, security concerns, and territorial considerations led to an outcome that might not have been premeditated, but which was inevitable given the nature of economic and territorial developments that took place.

At present, however, the prospects for the future of Palestinian labor flows are bleak and remain difficult to predict. The eruption of the al-Aqsa intifada in September 2000, and Israel's military response to it, further fragmented the WBGS. The closures and the draconian measures imposed since then on the Palestinian population suggest that the role of labor in binding the WBGS with the Israeli economies might be over. By December 2001, unemployment rates had surpassed 46 percent in the Gaza Strip and 30.3 percent in the West Bank. Poverty touched 60.4 percent of Palestinian households in the fall of 2001.[47] Meanwhile, the Palestinian economy, far from being able to create local means to absorb its labor force, has suffered crippling blows and has been transformed into unviable labor reserves unconnected to Israel.

Still, even during the first half of 2001, construction in the settlements represented 32.6 percent of nationally planned housing projects and 9.5 percent of all private Israeli housing starts.[48] Moreover, between July and September 2001 Israel announced the construction of ten new settlements, and 42,000 Palestinians were reported to be working in Israeli areas.[49] Since that time, Prime Minister Ariel Sharon's declared "anti-terrorism" military assault on the West Bank in March and April 2002 destroyed what little remained of the Palestinian economy and brought to a halt all civilian movement, further entrenching the process of "Bantustanization." It is not only the future of labor flows that seem irremediably threatened, but the prospects for a viable modus vivendi, to say nothing of a viable peace agreement, between the Israelis and the Palestinians.

NOTES

1. See Shmaul Amir, *Overseas Foreign Workers in Israel: Policy Aims and Labour Market Outcomes*, Discussion paper A00.01 (Jerusalem: Maurice Falk Institute for Economic Research in Israel, 2000); and Arie Arnon and Jimmy Weinblatt, "Sovereignty and Economic Development: The Case of Israel and Palestine," *Economic Journal* 111 (2001), pp. 291–308.

2. See Sara Roy, *The Gaza Strip: The Political Economy of De-Development*, 2nd ed. (Washington: Institute for Palestine Studies, 2001); and *Developing the Occupied Territories: An Investment in Peace* (Washington: World Bank, 1993).

3. Also known as the Taba Agreement, the 1995 Interim Agreement on the West Bank and Gaza Strip along with the Palestinian-Israeli Declaration of Principles (DOP, or Oslo I), signed on 13 September 1993, are the central documents of the Oslo accords.

4. These issues were deferred to the final status negotiations; see Article V of the DOP. For the full text of the DOP, see *JPS* 23, no. 1 (Autumn 1993), pp. 115–21; Article V, "Transitional Period and Permanent Status Negotiations," is on page 117.

5. The term "Bantustan" is borrowed from South African literature and relates to the confinement of black Africans to a Bantu homeland, out of which they could not exit without a permit (see the Bantu Authorities Act of 1951, Promotion of Self-Government Act of 1959, and Bantu Homeland Citizenship Act of 1970). See further Deborah Posel, *The Making of Apartheid, 1948–1961: Conflict and Compromise* (Oxford: Clarendon Press, 1991).

6. See for example George Giacaman and David Lonning, eds., *After Oslo: New Realities, Old Problems* (London: Pluto Press, 1998), and Graham Usher, *Dispatches from Palestine: The Rise and Fall of the Oslo Peace Process* (London: Pluto Press, 1999).

7. Azmi Bishara, "Bantustanisation or Binationalism?" in Usher, *Dispatches from Palestine*, pp. 62–63.

8. See "Oslo II Map: Outlining Areas A, B, and C," *JPS* 25, no. 2 (Winter 1996), p. 140.

9. See further, Foundation for Middle East Peace (FMEP), *Report on Israeli Settlement in the Occupied Territories* 10, no. 4 (July–August 2000).

10. See Articles VII, IX, and X of Protocol I of the Interim Agreement; the full text is in *JPS* 25, no. 2 (Winter 1996), pp. 123–39.

11. Article VII.1 of the Economic Protocol (Annex V of the 1995 Interim Agreement on the West Bank and the Gaza Strip) clearly states that "if the normal movement (of labor) is suspended temporarily by either side, it will give the other side immediate notification, and the other side may request the matter be discussed in the Joint Economic Committee."

12. Until the late 1980s, Palestinian workers entered Israel freely and worked wherever they found a job; see further Leila Farsakh, *The Implementation of Labor Related Articles in the "Protocol on Economic Relations between Israel and the PLO": A Critical Assessment* (Ramal-

lah: Palestinian Economic Policy Research Institute, 1999).

13. The Fourth Geneva Convention and the Hague Convention on Laws and Customs of War on Land, both of which Israel has signed, stipulate that an occupying power has no right to change the territorial and demographic character of the area it occupies. In other words, Israel has no right to annex occupied land, build settlements, or transfer and settle Israeli citizens onto it.

14. Calculated from PCBS, *Labour Force Data, 1995–2001*, available at http://www.pcbs.org/laborforce.html.

15. Farsakh, *The Implementation of Labor Related Articles*, p. 13

16. Based on PCBS, *Labour Force Data*, from *1995–2001*, and unpublished PCBS data on Palestinian workers in the settlements from 1995 to 2000 (data series made available on the basis of specific request from the PCBS).

17. The Israeli construction sector represented 9 to 11 percent of Israel's GDP between 1989 and 1998. Its growth has strong multiplier effects on other sectors in the economy; see Bank of Israel, *Annual Report 1999*.

18. Which is the ratio given for workers with permits; see Figure 1.

19. LAW*, Right to Work: Economic Rights under Military Occupation* (Jerusalem, 1999).

20. Kav Laoved, "Palestinians Return to the Work Force," *Newsletter* (Tel Aviv), March 1997.

21. UNSCO, *The Impact on the Palestinian Economy of the Recent Confrontations, Mobility Restriction and Border Closures, 1 October 2000–31 January 2001* (Jerusalem, 2001), p. 2.

22. Based on interviews with workers and officials conducted during fieldwork undertaken between 1998 and 1999 among Palestinians employed in Israeli settlements in the West Bank. Such workers often are employed on building sites that are adjacent to the walls of an existing settlement and thus are not within the gates of the inhabited Israeli areas.

23. See Farsakh, "The Redefinition of Economic Boundaries between Israel and the WBGS," paper presented at the MEEA-SOAS conference, "Global Change and Regional Integration in the Middle East and North Africa," London, 20–22 July 2001, p. 6.

24. See PCBS, *Labour Force Data, 1995–2001*, available at http://www.pcbs.org/laborforce.html.

25. See Farsakh, "The Redefinition of Economic Boundaries between Israel and the WBGS," p. 8.

26. For a description of the Drobles Plan, see Geoffrey Aronson, *Israel, Palestinians and the Intifada: Creating Facts on the West Bank* (London: Keegan Paul International, and Washington: Institute for Palestine Studies, 1990), pp. 96–97.

27. See ICBS, *Statistical Abstract of Israel*, 1994, table 2.7; FMEP 9, no. 2 (March 1999), p. 5; and FMEP 9, no. 3 (May–June 1999), p. 4.

28. Calculated from FMEP 11, no. 6 (November 2001), pp. 4–5. According to FMEP 12, no. 2 (March–April 2002), Special Report, p. 6, by 2001 there were 130 settlements in the West Bank, 19 in the Gaza Strip and 11 in East Jerusalem, hosting a total of 384,000 settlers.

29. See further, Sara Roy, *Gaza Strip*, and Ali Jarbawi, *Separating the West Bank from Gaza: A Negotiation Impasse or an Israeli Strategic Choice* [in Arabic] (Ramallah: Palestinian Economic Policy Research Institute, 1999).

30. See Ephraim Kleiman, "The Economic Provisions of the Agreement between Israel and the P.L.O.," *Israel Law Review*, nos. 2–3 (1994), pp. 347–73.

31. Geoffrey Aronson, *Settlements and the Israel-Palestinian Negotiations: An Overview* (Washington: Institute for Palestine Studies, 1996).

32. See "Projection of the Final Status Map Presented by Israel—December 2000," *JPS* 30, no. 3 (Spring 2001), p. 143.

33. See Amir, *Overseas Foreign Workers in Israel*, and David Bartrum, "Foreign laborers in Israel: History and Theory," *International Migration Review* 32, no. 2 (1998), pp. 303–25.

34. Official data reveal that 42 to 50 percent of *legal* overseas laborers (83,000 in 1997) worked in the construction sector. They also indicate that a quarter of all overseas workers are concentrated in the agricultural sector (see ICBS, *Statistical Abstract of Israel*, 2000, table 12.31). This is higher than the share occupied by WBGS workers (legal and illegal). PCBS reports that only 12 percent of all WBGS workers employed in Israel worked in agriculture. Overseas workers are also found to concentrate in the service sector,

particularly in domestic services, as well as in semi-skilled jobs, such as nursing. See also David Bartram, "Foreign Workers in Israel: History and Theory," *International Migration Review* 32, no. 2 (1998), pp. 303–25.

35. Bank of Israel, *Annual Report 1998*.

36. Based on data calculated from the Bank of Israel, *Annual Report 2000*, table 2.A.37.

37. Calculated from Bank of Israel, *Annual Report 1999*, table 1A.38. In 1999, 64,600 Palestinians were reported as working in Israeli construction compared with 38,400 foreigners.

38. Laoved, "Palestinians Return to the Work Force," *Newsletter,* p. 2.

39. Overseas workers and Palestinians employed on Israeli settlements in the WBGS are not entitled to pensions 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 percent of gross wages. Workers pay for their own health insurance; see further Kav Laoved, *Palestinian Workers in Israeli Settlements* (Tel Aviv, August 1998).

40. See Amir, *Overseas Foreign Workers*, p. 8. The average hourly wage of a WBGS illegal worker in Israel was on the order of $US2.5 an hour in 1997 compared to $US1.96–$2.5 an hour for foreign workers.

41. Palestinian illegals in the settlements earned on average $US2.2 per hour. PCBS, *Palestinian Workers in the Settlements, 1995–2000* (data series made available on the basis of specific request from the PCBS).

42. Israeli Ministry of Labor, *Israeli Employment Office Data on Foreign Workers* [in Hebrew] (Tel Aviv, 2000).

43. S. C. Gesser, R. Raijman, A. Kemp, and J. Reznik, "Making It in Israel: Latino Undocumented Migrant Workers in the Holy Land," *Estudios Interdisplinario de America Latina y el Caribe* 11, no. 2, (July–December 2001), pp. 1–37.

44. See ICBS, *Statistical Abstract of Israel*, 1996, table 16.5, and 2000, table 22.5.

45. Calculated from ICBS, *Statistical Abstract of Israel,* 1999, table 16.4.

46. In Maale Adumin the settler population increased by 1,600 persons between 1999–2000, reaching a total of 25,400 2000 in 1999; see FMEP 11, no. 6 (November 2001), pp. 4–5.

47. "Unemployed" refers to all those over the age of fifteen who did not work for an hour during the week of the survey and who had been discouraged from looking for a job; see PCBS, *Labour Force Survey,* no. 23 (October–December 2001), at http://www.pcbs.org/laborforce.html. Poverty is defined as all households (two adults and four children) earning less than $1,642 per month; see further PCBS, *Impact of Israeli Measures on the Economic Conditions of Palestinian Households* (Ramallah), July–August 2001.

48. See FMEP 11, no. 6 (November 2001), p. 8.

49. See PCBS, *Labour Force Survey*, no. 23, October–December 2001 (Ramallah, 2002).