

# **THE NEED FOR ECONOMIC SOVEREIGNTY AND LESS-THAN-FULL INTEGRATION IN ISRAELI-PALESTINIAN RELATIONS**

Any future permanent economic agreement between Israel and Palestine will have to determine, among other things, the appropriate trade regime and the question of economic borders. Writing in the latest issue of the *Economic Journal*, **Arnie Arnon** and **Jimmy Weinblatt** argue that the establishment of economic borders - less-than-full integration - would be preferable to a regime of complete economic integration.

They acknowledge that the decision on a trade regime will have to satisfy goals of economic development, including a future reduction in economic and social gaps between the two countries, and questions of sovereignty. Their paper describes and analyses the evolution of the Palestinian economy before and after the Oslo agreements. Concerning a future agreement, it discusses the trade-offs between sovereignty and prosperity and argues for the establishment, at first, of economic borders and a regime characterised by less than full integration.

In 1994, following the September 1993 breakthrough in political negotiations between Israel and the Palestinians, an economic agreement between the PLO and Israel was reached in Paris. The Paris Protocol, as the agreement is called, defined the de jure regime for an interim period of five years. Its wording expresses the desire to bring prosperity to the Palestinian economy.

But according to Arnon and Weinblatt, the economic crisis that has occurred since Oslo in the WBGS is the result inter alia of the circumstances generated by the Paris agreement. A clear conflict emerged between the Protocol's basic premises concerning economic borders and the new reality. Nevertheless, this conflict has not brought the sides back to the negotiating table to reconsider the various elements of the agreement. Currently, apart from the enormous political problems, a major issue that has to be settled regards the long-term economic relations between Israel and Palestine.

The authors describe the unusual economic ties between Israelis and Palestinians, and their evolution since 1967. Furthermore, it analyses the Paris Protocol signed in 1994 and the economic developments between 1994-9. Special attention is given to the structural weaknesses of the Protocol and the factors that should have led the architects of the agreement to anticipate the obstacles in attaining its goals.

The paper presents an analysis of 'economic sovereignty', emphasising both control over borders and freedom to choose economic policies as elements of sovereignty. It reveals the trade-offs between sovereignty and prosperity in the Palestinian case and argues for the establishment of economic borders - a regime characterised by less-than-full integration - and proposes that such an arrangement might constitute a better macroeconomic environment than one with complete

economic integration.

**Notes for Editors:** 'Sovereignty and Economic Development: The Case of Israel and Palestine' by Arnie Arnon and Jimmy Weinblatt is published in the June 2001 issue of the *Economic Journal*. The authors are at Ben-Gurion University of the Negev, Beer-Sheva, Israel.

**For Further Information:** contact Arnie Arnon on 00-972-8647-2271 (email: [arnona@bgumail.bgu.ac.il](mailto:arnona@bgumail.bgu.ac.il)); or RES Media Assistant Niall Flynn on 020-7878-2919 (email: [nflynn@cepr.org](mailto:nflynn@cepr.org)).