Occupation, humanitarian aid, and continuous conflicts have characterized the debate around Palestine. However, there is a deeper political economy story that is taking place inside the Palestinian territories. Shedding light on the economic policies of the Palestinian Authority, Dr. Adam Hanieh, senior lecturer at the School of African and Oriental Studies at the University of London, presented his talk entitled *Palestinian Neoliberalism and the Regional Context* at the Issam Fares Institute for Public Policy and International Affairs at the American University of Beirut.

The rise of petro-dollars: capital surplus in the Gulf

Since the 1980s, every country in the region has undergone a level of neoliberal transformation which meant privatization, cut-backs in social spending, and opening up to the world markets. But there was another transformation that went hand-in-hand with the neoliberal changes; the accumulation of petro-dollar surpluses as a result of increased oil prices in the world.

By 2008, there was $1.6 trillion accumulated in surplus capital, deposited in the Gulf Cooperation Council (GCC) countries central banks and funds. This number increases to $2.2 trillion if the private wealth of ruling families is added. The majority of these surpluses went to North America and Europe but a significant amount did flow into the Arab world. Hanieh argues that neoliberal transformations and capital surpluses occurred concurrently and reinforced one another. Gulf capital became the major beneficiary of and investor in neoliberal policies. Thus, the World Bank estimated in 2008 that more than one third of the Foreign Direct Investment (FDI) in the MENA region came from the GCC.

Palestine is no exception: GCC investments shaping an economic model

Palestine was one of the major recipients of GCC investments. From 2003 to 2008, 68% of total global FDI projects announced in Palestine came from GCC resources. However, in the case of Palestine another trend worth observing is the return of the diaspora capital.

Diaspora capital is the Palestinian national capital that was displaced from the Nakba in 1948 and found its way to investments in the Gulf. This capital started to slowly return post-Oslo Accords. To further understand the impact of the different capitals on the Palestinian national economy, Hanieh divided capital ownership into two tiers:

- **Tier One:** Large conglomerates, both Palestinian and non-Palestinian owned who are mostly headquartered in the GCC states, involved in a wide array of business activities including the oil industry, construction, financial services and goods production.

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1 *These figures do not include state and bilateral aid.*
Tier Two: Large holding companies, companies based off the Palestinian territories particularly the West Bank. According to Hanieh, the three most important ones for all economic activities are:

- Palestine Development and Investment Company (PADICO): established in 1993 after the Oslo Accords with the majority of shareholders composed of tier one conglomerates.
- Palestine Investment Fund (PIF): established in 2003 and closely connected to the Palestinian Authority (PA). Its board members are appointed by Palestinian president, Mahmoud Abbas.
- The Arab Palestinian Investment Company (APIC): retail and commodity oriented, almost entirely owned by Tier One investors.

What does that mean for state formation?

For Hanieh, the relationship between the two tiers is key in understanding the emerging power structure of the Palestinian state. The Tier Two holding companies serve as an interlock between the Tier One companies and the PA. For instance, the current boards of PADICO, PIF, and APEC include four former PA ministers, the current minister of planning, chair of the Palestinian Money Authority, and Mahmoud Abbas’ son.

Hanieh does not agree with the conventional narrative that neoliberal policies and the internal bourgeoisie undermine the state by weakening the importance of national borders. On the contrary, the formation of the PA into a state is facilitating and becoming more aligned to the above described processes. Thus, the point becomes that one can not understand Palestinian economic policy-making without understanding the structural attributes of the two-tier economy. There is a social base that is underlying this policy orientation.

“Palestine is Open for Business”

One important indicator of the neoliberal orientation is the Palestinian Reform and Development Plan2, announced during a donor conference in 2007 as the guiding economic strategy for the PA. The Palestine National Development Plan (PNDP) recently replaced it. Both plans have underlying notions of neoliberal reforms including fiscal austerity, private sector-led development, and shifts towards open market economy.

Under the slogan “Palestine is Open for Business”3, the Palestine Investment Conference was held in 2008 to set the stepping-stone for launching high-profile projects in line with the PRDP disciplines. The main focus of the conference, and by the same token the PRDP, was on two key issues. The first is the establishment of industrial zones and parks, zones close to Palestinian territories with a special status with the aim of export-oriented development. The second focus is housing and mortgage markets to further integrate people into the financial markets. Hanieh highlighted two examples of those high profile projects.

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2 Read more here.
Located in the Jordan Valley, Jericho Agro-Industrial Park (JAIP)’s aim is to establish an agro-industrial park that will take Palestinian produce and process it for export. JAIP is based on an integrated agri-business chain where every step of the chain from fertilizing, building greenhouses, harvesting, processing to packaging is controlled by different factions. Palestinian farmers have protested this model because of fears of integration at the lower end of the chain as subcontractors accumulating debts incurred by purchasing seeds and building greenhouses.

Those fears aside, Hanieh chose the example of JAIP to question the beneficiaries behind the project. His research shows that JAIP is a privately owned company that is a joint venture between PADICO and PIF. This is a problematic model of development where the PA is facilitating the redirecting of state capital (cheap land) and foreign aid (subsidized infrastructure) into these business groups (two-tier constituents) while they reap the profits.

**Rawabi City**

Rawabi is a privately owned planned city outside Ramallah expected to house around 40,000 residents. It is a joint venture between the Masri Group (Tier One) and the Qatar Real Estate Fund. According to Hanieh, the land was given to these conglomerates at cheap rates in line with a PA order to confiscate the land. The PA legislature ordered the expropriation of this land for “national interest”.

This example sheds light on another form of capital accumulation through debt expansion. The banks providing housing and mortgage loans are owned by the two tiers such as the Palestine Housing and Mortgage Corporation. For Hanieh, this is another form of neoliberal governance where debt becomes a tool for integrating the population into the financial markets.

**Not a distraction, but complementary**

Hanieh emphasized that his aim is not to detract from the larger story of continuous Israeli military occupation. However, the story he has told is a complementary component of the larger occupation. Occupation becomes embedded in the development process when a faction of the Palestinian society is reaping benefits of the status quo. By the same token, this faction is residing outside the Palestinian territories, mostly in the GCC, yet still dominates the Palestinian economy. This again reflects a powerful class that has little interest in challenging the dominant power structures due to their close connections with the GCC ruling class. Thus again, the status quo with its current injustices remains the preferred route.