The Israeli occupation has distorted Palestine’s economic structure by crippling its productive sectors, including agriculture, construction, and manufacturing, leaving them unable to contribute to Palestinian GDP and employment. This has led to the dominance of internal trade in the Palestinian economy, which is the retail and wholesale buying and selling of goods, including with Israel. The dominance of internal trade in the Palestinian economy is a direct result of Israel’s military occupation, which has led to Palestine’s economic dependence on Israel since 1967.

This brief examines internal trade as a microcosm of the Palestinian economy as a whole, highlighting the futility of international and donor support for development under occupation. It calls on international financial institutions and the international community to support Palestinian economic self-determination by empowering independent, transparent, accountable, and collective Palestinian policy-making outside of the Palestinian Authority’s failed leadership.

Data from PCBS National Accounts show that internal trade has played an increasingly key role in contributing to total Palestinian value-added (i.e. GDP). In 2018, internal trade accounted for 22% of the total Palestinian GDP ($3.6 billion in 2018). This reality reflects the ongoing dependency relationship of the Palestinian economy on Israel, a relationship which has been exacerbated since the 2nd Intifada (2000-2005) after which almost all Palestinian economic sectors were curtailed.

In addition, since the private credit boom in 2008, internal trade has been the largest economic sector granted credit facilities and loans, comprising between 20-25% of total private sector credit. The amount of credit supplied for internal trade activities increased from roughly $300 million in 2008 to $1,350 million in 2019, a near 350% increase in ten years. This indicates a serious blow to Palestinian productive sectors. Understanding how this reality came to be requires an examination of Palestinian economic history that relays the structural distortions created by the Israeli occupation, and the dependency relationship resulting from Israeli colonial economic policies implemented since it occupied Palestine in 1967.

Over the course of Israel’s occupation of the West Bank, Gaza, and East Jerusalem, natural resources (such as land, water, and minerals), unfinished goods, and human resources (labor) moved from the periphery-Palestinian to the center-Israeli economy, while final goods moved from the Israeli to the Palestinian economy. This reflects the entrenched dependency of the Palestinian economy on Israel which did not change after the establishment of the PA in 1994. On the contrary, fueled by international aid and the availability of credit following the 2nd Intifada, the trade deficit reached a peak of $5.5 billion in 2019, with more than half (55%) of that deficit attributed to trade with Israel. On average, since the establishment of the PA, Palestinian trade has been dependent on Israel for 75% of its imports and 80% of its exports.
These trends evince another reality: trade in Israeli goods has slowly become the main economic activity in the West Bank and Gaza, a reality which was deliberately designed by the Israeli regime. Indeed, some of the first military orders issued by Israel were economic in nature, the result of which was to shut down all banks operating in the West Bank and Gaza, and to impose a complex web of administrative procedures and permit restrictions that remain in place to this day. These restrictions have made it virtually impossible for Palestinians to start a business or import new machinery, including for construction. Yet this has not stopped owners of large economic establishments and heads of chambers of commerce in Palestinian cities to reap fortunes from the occupation.

The dominance of internal trade in the Palestinian economy has led to a shift away from production activity, and toward activities that provide less room for economic development and transformation. However, this trend is not irreversible. International financial institutions, including the World Bank and International Monetary Fund, as well as the international community and aid agencies in general, must do the following in order to support Palestinian economic self-determination:

- Recognize that the relationship between the Palestinian and Israeli economies has destroyed any viable development for the Palestinian economy.

- Provide direct international aid to support Palestinian farmers in areas that are facing the threat of annexation.

- Pressure the Israeli regime to facilitate licenses in Area C, including building permits for residential and business structures.

- Empower independent Palestinian policy-making by supporting independent research centers and scholars, labor unions, and representatives of groups normally absent from decision-making, including women, youth, and refugees.

- Exert pressure on the Israeli government to end its occupation in order for Palestinians to have control over their own economic policy.

- Recognize that ending the Israeli occupation will also lead to the Palestinian private sector flourishing and thriving.