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Crony capitalism in the Palestinian Authority: a deal among friends

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ABSTRACT
This article interrogates the multifaceted political–economic networks entrenched within the multiple structures of the West Bank-based Palestinian Authority (PA). The main argument of this article is that crony capitalism is a defining feature of the PA’s relations with a handful of capitalists and business groups. The demonstration of this argument is exhibited through the large-scale public and private monopolistic practices in strategic sectors of the Palestinian economy, which function within the framework of Israel's settler-colonial reality and the persistent patterns of international aid to the occupied West Bank. While acknowledging the existence of cronyism as a feature of the capitalist system in its diverse typologies, crony capitalism may be more pronounced in situations characterised by political uncertainty, whereby political–business collusion strategizes the expansion of neo-patrimonial networks and rent-seeking opportunities as a meta-mechanism for social control and political stabilisation. In the Occupied Palestinian Territories, crony capitalism was developed as part of the political allegiances and economic alliances that underpin the structures created by the Oslo process, which are fostered by Israeli policies and the international donor community to maintain the cohesiveness of the PA regime.

Critical approaches used to study the political economy of the Occupied Palestinian Territories (OPT) tend to focus on the impacts of Israel’s economic domination and policies that serve to consolidate its colonial structure. These approaches investigate Israel’s systematic policies and practices to transform the economy of the OPT into a captive market and a reserve of cheap labour, with the land, natural resources, borders, trade, industrial development and general macroeconomic framework of the OPT strictly controlled by Israel. Following the 1993 Oslo Accords and the establishment of the Palestinian Authority (PA) in 1994, the impacts of international aid on the politics, society and economy of the OPT have emerged as an additional research focus. Critiques suggest that donors’ substantial influence on the PA institution-building, neoliberal economic policy and securitisation of the public sphere has not only led to the demise of a Palestinian state but has also contributed to the formation of ‘zombie peace’. The complex interaction between these processes has subjected the local political economy to ‘a unique form of neoliberal colonization’, defined by Andy Clarno as a...
by-product of a distinct combination of aggressive settler-colonialism and neoliberal racial capitalism. In this context, the interplay between Palestinian capital operations and PA state-building has rigorously developed into a predatory form of ‘crony capitalism’ whereby political and profit-making activities are systemically manipulated by a narrow set of political–business actors whose resources and opportunities are offered by the forces of ‘neoliberal colonisation’.

The relations between Palestinian political and business/capitalist elites have always been close; indeed, the Palestine Liberation Organisation (PLO) maintains strong connections with diaspora capitalists who not only fund the PLO but also act as crucial interlocutors between the national movement and regional and international powers. The Oslo process has transformed the political–business connection into a form of solid coalition, implicating the PLO/Fateh upper echelon, returnee capitalists, the PA technocrats and security leaders, whose interest lies in dominating the political and economic centres of power. Since 2007, the Palestinian capitalists developed an unprecedented influence over the PA decision-making circles and the social realm, besides embarking on privileged relationships with their Israeli counterparts. This development can be attributed to several factors, including the geographical and administrative division of the West Bank and Gaza Strip; the expansion and amplification of the PA security sector; the increased involvement of the banks in the economy for the formation of a credit market; and the expansion of a predatory and unproductive service sector characterised by telecoms, real estate and retail. The rising power of capitalists has inevitably led to the exacerbation of class divisions and socioeconomic inequalities, which are relatively mitigated by the PA and Fateh’s neo-patrimonial and patron–client networks that tend to promote acquiescence among social constituents.

A systematic analysis of the interplay between Palestinian political and business elites is lacking, despite the high visibility of this phenomenon and the multi-layered incentives driving it to mature and become more pronounced. Indeed, this article contends that to understand the peculiar status of the political economy of the OPT, this pillar must be considered in the analysis. This article focuses on the West Bank for the following two main reasons: (a) the West Bank, Gaza, East Jerusalem and the Palestinian community in Israel have been subjected to Israeli policies of fragmentation and separation that have created different political economies; therefore, these areas require a separate analysis, and (b) Ramallah has become the de facto capital city of the PA, the location of its headquarters and operations, and the centre of large businesses and investments.

This study used a qualitative method analysis, including systematic observation, review of web-based archives and annual reports by conglomerates, donor agencies, the PA, as well as unstructured, informal and conversational interviews with insiders from the PA and the private sector who preferred to remain anonymous. This article is divided into seven sections. The first section explores the concept of ‘crony capitalism’ and briefly discusses its application to the occupied West Bank. The second section highlights the pre-Oslo relations between the PLO political and business elites. The third section examines the structural context driving the creation of crony capitalism in the West Bank. The fourth section provides details about the post-Oslo emergence of two major conglomerates (PADICO and APIC) that have played important roles in shaping the post-Oslo political economy. The fifth section explores the early period of PA–business crony relations and the monopolies that dominated during 1990s. The sixth section focuses on the reproduction of crony capitalism during the previous decade (2007–2017), particularly in light of the PA reform programme. Finally, the
article analyses the changing nature of monopolies and identifies key actors and sectors that lie at the core of PA–business networks during the previous decade.

Crony capitalism

The term ‘crony capitalism’ has been widely used in the popular press and by political activists to indicate predatory rent-seeking and the mutually beneficial relationships between politicians and capitalists. Recent scholarly efforts have used the term in inquiries into the corrupt nature of elite collusion in dominating the economy and the resulting perilous social and economic impacts on society. Crony capitalism is broadly defined as:

A system in which those close to the political authorities who make and enforce policies receive favors that have large economic value. These favors allow politically connected economic agents to earn returns above those that would prevail in an economy in which the factors of production were priced by the market.

While the liberal understanding typically minimises crony capitalism to deals and transactions between politicians and a few privileged businesses, crony capitalism is essentially underpinned by a wide range of overt/covert and formal/informal networks operating across public institutions and private firms. Extensive studies have investigated key components of crony arrangements such as rent-seeking, political entrepreneurship, money politics, bribery and corrupt public–private deals. These studies have provided a crucial analytical perspective from which to understand the political and economic behaviour of these networks and the redistribution of wealth among allies to ensure support and acquiescence. Such networks extend from the elite level, who directly benefit from private business deals and other forms of public embezzlement, to lower levels of the state’s managers, whose discretionary power is often abused to advance self-serving agendas via competition for political rent and financial awards. The involvement of different centres of power in these networks serves to stabilise the status quo favouring the system of cronyism.

In both democracies and autocracies, crony capitalism is a global phenomenon that is hardly limited to a specific type of political system. Rather, crony capitalism is an endemic political–economic system prevalent in the capitalist system and its different manifestations, such as in models of state capitalism and neoliberalism. However, the intensity, the scale and depth of crony relations in each model remain subject to debate.

In state capitalism or ‘big government’ systems, governmental intervention in the market through regulation, taxation and subsidisation could drive businesses to seek political connections to obtain preferential treatment and maximise their profitability. In exchange, politicians benefit economically from privileged businesses in the form of bribes, favouritism or public–private partnerships and involvement in monopolies. Favourable exchanges between governments and key businesses in the context of state capitalism can impact policy formulation in favour of enhancing the crony relations between the political and economic elites, thereby forming the backbone of a crony capitalist system.

Crony relations are also an integral feature of the neoliberal paradigm. Cronyism is facilitated by a set of neoliberal measures, including market deregulation, privatisation and discriminatory taxation. For example, the privatisation of a state’s firms may be delivered to politically connected businesspeople, thus offering these individuals greater financial gains and political power. Furthermore, cronyism is institutionalised by repressive taxation regimes,
with higher taxes placed on households and small- and medium-sized businesses, while transnational corporations and the wealthiest experience slight fiscal pressures and, in many instances, are rendered completely exempt from taxation.\textsuperscript{12} The ways in which politicians benefit from this dynamic are generally revealed through scandalous leaks. For example, the Panama Papers illustrate the extent to which politicians are involved in offshore tax havens. It has been documented that politicians are the most frequently referenced individuals in the Panama Papers.\textsuperscript{13}

Crony capitalism in the OPT shares striking similarities with what Gilbert Achcar terms ‘neo-patrimonial crony capitalism’ to depict the political–economic system prevalent in many Arab states, which is characterised by nepotism, the pillaging of public property, swollen bureaucracies, generalised corruption and the impotence of the rule of law.\textsuperscript{14} This system is defined not by state capitalism or neoliberalism but rather by a distorted mixture of both, whereby ‘the state and its resources are a cash cow at the disposition of the autocrat and his familial entourage, friends and henchmen’.\textsuperscript{15} In such contexts, the nature of crony capitalism is exacerbated by autocratic and military regimes, unproductive capitalists and an entrenched state security system. Yet, cronyism in the context of PA remains distinct in that it operates in a context characterised by ongoing colonisation, international aid rentierism and the absence of a state.

**The modern formation of the Palestinian political and economic elite**

The Nakba and displacement of 1948 led to a radical shift in the composition of the Palestinian class structure. The old traditional elite, comprising urban ‘notables’ and semi-feudal landowners who governed the Palestinian society in the pre-Nakba era, had disintegrated. In the 1950s and 1960s, a new process of class formation occurred among exiled Palestinian communities, which introduced two prominent elite groups. The first is represented by the leadership of the PLO and political factions that formed the backbone of the Palestinian National Movement (PNM). The second group is made up of an exiled Palestinian capitalist class whose wealth was largely acquired and developed as part of accumulation processes at the regional level, most importantly ‘as a distinct sub-sector of the Gulf capitalist class’.\textsuperscript{16}

The relationships between these political and economic elites depended on the ideological stances of Palestinian leaders and factions. The decades of 1960s and 1970s have witnessed tense debates among the forces of the PNM that aimed to settle the ideological identity of Palestinians’ anti-colonial struggle. Central to these debates was the relationship between the Palestinian capitalist class and the political movement, particularly the extent to which the former should be engaged and their expected roles in the anti-colonial struggle. Similar debates were integral to the development of national liberation and revolutionary movements at the time.\textsuperscript{17} They centred on whether national capitalists could and should serve as progressive allies of liberation and revolutionary movements or whether they would act as a counterrevolutionary force that leads such movements in conservative directions.

Fateh, the PLO largest faction, embraced a pragmatic understanding of the ‘national bourgeoisie’ and asserted its indispensable role in the PNM. From the beginning, Fateh maintained close relations with and received support from the exiled Palestinian capitalists. In contrast, the Palestinian left was divided on the question of the role of the ‘national bourgeoisie’, and this division affected its cohesiveness. The Popular Front for the Liberation of Palestine (PFLP) rejected the engagement of the capitalist class and viewed its interests as
‘linked with the business and banking interests of imperialism’, asserting that ‘this class will stand by its own interests, that is, with imperialism against the revolution’. However, the PFLP acknowledged the role of the petty bourgeoisie in advancing national liberation objectives. Opposition to this ideological stance was at the core of the defection of the Democratic Front for the Liberation of Palestine (DFLP) from the PFLP in 1969 by a Maoist group that rejected the strategy of engaging both the bourgeoisie and petty bourgeoisie classes and asserted the leadership of the working class and peasants in the anti-colonial struggle.

With Fateh dominance over the PLO institutions, the influence of exiled Palestinian capitalists gradually grew across the PLO’s centres of power. Although most capitalists were self-defined as independent nationalists with no formal affiliation with factional politics, these individuals in effect enjoyed a close affinity with the PLO chairperson, Yasser Arafat, and the dominant leadership. These relationships allowed these individuals to occupy leading and representative positions within key PLO institutions, such as the Palestinian National Council and the Palestinian Central Committee.

While nationalist impulses drove the material and moral support for the PLO by the Palestinian capitalists, this support should be understood within the limitations imposed by the process of capital accumulation. This was politically expressed in the capitalists’ conservative position, frequently attempting to streamline the PLO’s political programme towards a compromise with moderate Arab regimes and subsequently with Israel. For example, the capitalist members of the PLO National Council threw their weight behind Fateh’s ‘10-point programme’ of 1974, which envisaged a national authority over any liberated part of Palestine, thus supplanting the PLO’s original objective of anti-colonial liberation with the two-state paradigm that gradually developed into the Oslo Accords.

Influential capitalists mediated between the PLO and regional and international powers in several pre-Oslo stages. For instance, following Black September, the battle between Palestinian guerrilla fighters and the Jordanian regime in 1970, the Palestinian–Jordanian business tycoon Munib Al-Masri, who was then the minister of public works of the Jordanian government, established a formal channel of negotiations between the two conflicting parties, resulting in the expulsion of PLO bases from the Jordanian territory. Another example concerns the instrumental role of businessman Hasib Sabbagh in establishing secret diplomatic channels between Arafat and the US in the 1980s, which, despite initial obstructions by the Reagan administration, resulted in the PLO accepting the American condition of openly denouncing the use of ‘terrorism’, as echoed in the 1988 ‘declaration of independence’.

Global changes of the late 1980s and early 1990s, including the disintegration of the Soviet Bloc and the rise to dominance of the neoliberal paradigm, accelerated the PLO leadership’s search for political compromise with Israel, which subsequently influenced Palestinian economic thought toward liberalism as expressed in the signing of the Oslo Accords in 1993.

**Structural context of PA–business cronyism**

The Oslo framework entailed a dynamic and coordinated interplay among three structural factors that shaped the interactions between the political and economic elites. These factors have paved the way for the evolution and consolidation of crony capitalism in the PA.

The first concerns the fact that the Oslo Accords and its economic annex – the Paris Economic Protocol (PEP) of the 1994 – did not alter the gross power asymmetries between the Palestinians and Israel; indeed, Israel remains the sole sovereign power that tends to
manipulate the internal Palestinian affairs to its ends.\textsuperscript{23} More specifically, the PEP agreement granted Israel an exclusive power over key PA economic resources such as monetary policies, trade and fiscal revenues, labour flows and industrial zoning rights. The PEP has institutionalised the Palestinian economic dependency on Israel thus effectively restricting the PA capacity to pursue independent macroeconomic policy.

The Oslo framework helped nurture the PA cronyism in two fundamental ways. First, the Oslo process was structured on the logic of ‘peace dividends’ which prioritised the liberal peace logic of economic cooperation and prosperity to achieve political settlement. Some studies have dubbed the Oslo process as the ‘peace of business’ and the ‘peace of markets’ to signify the profitable dimension of the inter-elite accommodations, which came at the expense of major political issues that lie at the heart of the conflict.\textsuperscript{24} In the process of stabilising the PA structures and functions, Israel embarked on economic pacification techniques by devising a wide range of incentives and opportunities to a section of Palestinian political and economic elite who have vested interests in stability. These incentives included privileged access to essential resources such as easing of movement, trade and financial transactions, in addition to initiating joint business ventures.\textsuperscript{25} Inevitably, therefore, the interactions between the PA state-building and economic development have been shaped by a policy framework set forth by the Israeli manipulation of the PA political and economic elite. Second, the PEP arrangements established the revenue clearance system which allows Israel to collect and transfer income taxes from Palestinian workers and customs duties on imports from ports and borders controlled by Israel to the PA. The revenue clearance system has in recent years become the single largest source of PA revenue, accounting for nearly two-thirds of its budget.\textsuperscript{26} Besides ensuring a fiscally and economically dependent PA on Israel, the revenue clearance system represents a strategic source of political rent that maintains the PA’s survival and stabilises its internal patron–client networks. Using economic leverage to ensure PA political compliance, these transfers are often withheld by Israel to pressure or punish the PA whenever it pursues policies not approved of by Israel (e.g. following the electoral victory of Hamas in 2006, the PA UN bid for statehood in 2012 and the PA’s accession to the International Criminal Court in 2014).

The second factor pertains to the central involvement of Western donors and International Financial Institutions in guiding PA institution-building and economic development. Donors’ involvement is strategically driven by the imperative of ensuring PA functionality and ability to maintain stability, regardless of Israel’s colonial dynamics on the ground.\textsuperscript{27} One could argue that donor policies in the OPT interact with Israeli colonial dynamics in subtle ways in shaping PA crony capitalism. International aid to the PA is generally conditioned with the Oslo framework and the promotion of neoliberal governance, private sector-led development, lax regulatory mechanisms for investors and regressive taxation regime. In fostering the private sector, donors appear to favour a few privileged capital groups who would invest in large-scale projects, mainly in the service sector rather than in agriculture and industries.

Interestingly, donor-driven neoliberalisation of the Palestinian economy is carefully balanced with the vast public sector because PA bureaucracy, employment services, social provision and security forces constitute the institutional pillar of stabilisation. It is also clear how donor politics tend to preserve the reinter nature of the PA while disregarding its authoritarian character, widespread corruption and repressive security practices in exchange for enforcing stability. Turner notes that donor promotion of these practices constitutes ‘a layer of pacification techniques through the pursuit of a political economy that stabilises from the
inside in partnership with a section of Palestinian elites. Accordingly, donors’ aid to the PA and certain private actors represents a strategic source for the formation of collusive networks in which the favoured PA–business elites are at the forefront of those capturing the benefits of political rent and investments.

The third factor is associated with the neo-patrimonial politics in the Fateh-dominated PLO and the PA, which serve to exert control over local constituents. The PA ensures a formal rational-legal apparatus that accommodates donors’ technical requirements while simultaneously extending its informal patron–client system across the bureaucratic hierarchy and the structures of governance. The coexistence between these arrangements is mutually inclusive: meeting Israel’s and donors’ demands ensures the flow of external rent, which, in turn, is redistributed by the PA to its loyal constituents, and as long as the PA’s neo-patrimonial system secures political stability and weakens opposition, the donors cannot object. This situation is exacerbated by the absence of democratic and accountability mechanisms thus encouraging a broad range of corruption. The PA neo-patrimonial system rests on two mutually sustaining pillars. At its base pillar, the PA relies heavily on forging patron–client networks to ensure that constituents are subservient and stabilise its regime. Thus, a large public sector and multiple security forces were established to absorb a large segment of the population and connect this segment to the PA’s webs of interest. From the top, the returning political and business elite have formed the backbone of the new political–economic reality of the OPT. While these elite have been ostensibly distributed in both the public and private sectors, they have jointly operated to construct public–private ventures and informal partnerships. Therefore, the PA has forged neo-patrimonial capital networks that bind elite business actors to the PA officials, while the latter and their cronies venture into the private business realm.

Oslo economic giants

Following the initiation of the Oslo process in 1994, and in preparation for the establishment of new political and economic structures, the PLO chairperson and PA president Yasser Arafat invited his pre-Oslo business allies to invest in building a viable economy to underpin the state-building process. In response, a section of wealthy expatriate Palestinians directed part of their capital surplus towards establishing large conglomerates that have enjoyed considerable market power.

The Palestinian Development and Investment Company (PADICO) was founded in 1993 and registered in Liberia by small group businesspeople headed by the Al-Masri family with declared capital of US$1 billion and paid-up capital of US$250 million. As the largest and most influential holding company in the OPT, PADICO was initially formed to assume a leading role in the Palestinian private sector by bringing together multiple large business groups whose capital was mostly headquartered in Jordan and the Arab Gulf region. PADICO established subsidiaries in various vital sectors, including the real estate (AQARIA and Rabiyat AlQuds), tourism (JIT, PTIC and Jericho Gate), telecommunications (Paltel), industrial (PIIC and VOICE), industrial estate (PIEDCO), electricity (PEC and PPGC), poultry (PPC), electronics (PEEC), plastics (PPIC), security exchange (PSEC), stock (PEX) and agricultural (Nakheel Palestine Company) sectors. PADICO enjoys substantial political influence in PA policy formulation and in peace negotiations with Israel. For example, as a staunch advocate of the free-market economy, Maher Al-Masri, who served as a member of PADICO’s board and in
the Fateh ruling party, acted as the PA’s Minister of Economy, Trade and Industry from 1996 to 2002 and played a central role in the formation of the PA’s institutional and legal frameworks. Maher Al-Masri was also central to the PEP negotiations with the Israelis in 1994 and joined the Palestinian negotiating team during the Camp David Negotiations in 2000.

Another influential group of investors founded The Arab Palestinian Investment Co. Ltd (APIC) in 1994 with authorised paid-up capital of US$70 million led by the Al-Aggad group. APIC was registered in the British Virgin Islands. It quickly became an economic giant that controlled various sectors of the Palestinian economy. APIC has several subsidiaries that invest in key sectors, such as the Palestine Automobile Company, the Medical Supplies and Services Company, the Siniora Food Industries Company, the National Aluminium and Profiles Company, the Arab Palestinian Shopping Centres, the Arab Palestinian Storage and Cooling Company, the Unipal General Trading Company and Sky Advertising Public Relations and Events. Similarly, APIC has been influential in the political sphere by maintaining warm relationships with the PA political elite. As an example of these relationships, consider the multiple senior positions occupied by Tareq Abbas, son of PA president Mahmoud Abbas.

While other business entities are active in the Palestinian economy, PADICO and APIC are the most dominant in terms of market share and political influence. PADICO’s and APIC’s subsidiaries seem to have been carefully distributed across different economic sectors to avoid direct competition and, therefore, facilitate quasi-monopolies across strategic sectors of the economy. As noted by Hanieh, ‘these companies completely dominate the political economy of the Palestinian territories, and it is almost impossible to find a large- or medium-sized company in which they do not own a significant stake’. Thus, these companies have virtually dominated the Palestinian economy by not only preventing the development of smaller firms but also widening the socioeconomic gaps between the elite and the population. In a striking example, LeVine suggests that the total GDP of PADICO members is roughly US$20 billion, which is nearly seven times that of the OPT.31

The 1990s: the era of predatory monopolies

The striking aspects of crony capitalism during the 1990s were expressed in different practices of predatory rent-seeking, financial corruption and neopatrimonialism. These practices can be jointly summed up in the form of classical monopolies that characterised the collusive PA–business relations in dominating the local economy. The driving dynamic of these monopolies involved the expansion of rent-seeking opportunities and the consolidation of the PA’s rentier structure and patron–client system. Strategically, the monopolies were driven by a particular configuration of factors and interests that aimed to empower the emergent PA political and business elite and marginalise non-compliant political actors. These monopolies were embedded in a complex network of private companies in partnership with political and security officials who went into business either directly or through protégés. This process was essentially predicated on top-down linkages that were fully managed by the PA’s president Yasser Arafat and his advisers. The institutionalisation of the complex networks that operated these monopolies throughout the initial decade of the PA state-building was described as a ‘security-monopolistic complex’. Moreover, this dynamic was sustained by the direct involvement of Israeli authorities, individual contractors and businesses, resulting in the mutual forging of beneficial deals through informal Palestinian–Israeli arrangements. These monopolies can be divided into two distinct but
interrelated monopolies distributed between the PA and conglomerates and included public–private partnerships.

Private monopolies are exclusive rights granted by the PA to a selected group of private investors to run large infrastructure projects such as telecommunications and electrifications. These vital sectors were privatised from their initiation, thus echoing the World Bank’s policy recommendation of fostering a private sector-led development. One of the early private monopolies involved the establishment of the Palestinian Telecommunications Company (Paltel) in 1995, which subsequently became the OPT’s largest private investment company, with an initial authorised capital of US$63 million (raised to US$95 million in 1999). Paltel is a subsidiary of PADICO and is chaired by Sabih Al-Masri. Paltel consists of five arms that provide the largest telecommunications service network in the Palestinian market involving fixed lines, mobile operators, internet services, contact centre and media services. In 1996, the PA granted Paltel an exclusive license to operate the telecommunications sector of the OPT for 20 years (the contract was renewed for another 20 years in 2016). Since its initial operations, Paltel has faced accusations of monopoly, misuse of power, corruption and clientelism because it ‘does not collect telephone bills from ministries, governmental establishments, major shareholders and officials, and it redistributes these costs to other customers in the form of higher charges’.34 Another source of Paltel’s monopolistic power was the involvement of the Israeli Peace Technology Fund (PTF) in pursuing a 3.3% share of Paltel, thereby providing undeclared Israeli protection to the Palestinian telecommunications company.

Public monopolies are companies that are effectively owned by the PA. According to a report published in 1999 by the Council of Foreign Relations, the PA created unregulated and unaccountable public import monopolies that have led to ‘undisclosed commercial dealings by public servants and to privileged access for private actors to the award of contracts, licenses, and exclusive dealerships’.35 Public monopolies were evident in the establishment of the Palestinian Commercial Services Company (PCSC) in the West Bank in 1994, which was chaired by Arafat’s chief financial adviser Mohammad Rashid, and its equivalent in Gaza, the Al-Bahr Company, which was operated by Hashem Abu Nada, another economic adviser to Arafat. Both companies held shares in dozens of other private companies, including APIC. Both companies controlled various imported products, such as tobacco, flooring, meat and fuel, and oversaw the commercial activities of multiple public–private companies, such as the Gaza Water and Sanitation Service, the Palestine Industrial Estate Development and Management Company (PIEDCO), and the Electricity Distribution and Management Project. Public monopolies have devastated Palestinian economic well-being. For example, the PA’s fuel monopoly operated by the Palestinian Petroleum Commission has resulted in high prices for essential petroleum and gas products, which subsequently devastated other economic activities such as the industrial and agricultural sectors.36

Moreover, these monopolies were characterised by complex collusion between PA and Israeli political and security officials and businessmen. Israeli authorities supported the PA’s public monopolies through the involvement of former Israeli security personnel in partnering with Palestinian officials and businessmen to supply and facilitate the entry of imported commodities from Israel.37 Cooperation with Israel benefited PA businesses by reducing transaction costs and other expenses at borders controlled by Israel. The revenues earned from these monopolies were off budget and outside the supervision of the Ministry of Finance, and they served to finance Arafat’s ‘secret accounts’ in several foreign banks,
including Israeli Bank Leumi. While these secret accounts helped consolidate Arafat’s power over local constituents during the 1990s, some amounts were utilised in support of the PLO fund to sustain martyrs’ families, prisoners and the refugee camps.


Over the previous decade (2007–2017), the political–economic relationships and interests representing a continuation of the 1990s networks have grown in sophistication. The unprecedented ascendency of crony capitalism in the West Bank can be attributed to several factors. First, the reforms undertaken by the PA Prime Minister Salam Fayyad (2007–2013) and the resulting structures and policies maintained by the subsequent Prime Minister Rami Al-Hamdallah not only developed and stabilised the crony nature of PA–business elite relations but also transformed these relations into a legitimate practice protected by legal and institutional frameworks. Second, the PA’s growing authoritarianism, the professionalisation of its internal policing and the complete absence of legislative oversight promoted the concentration of power in the PA’s executive. In the absence of accountability mechanisms, the ‘Law on the Encouragement of Investment in Palestine’ or the Investment Law of 1998 was amended in 2011 and 2014 by presidential decrees and awarded large businesses numerous benefits, such as exemptions from capital gain taxes and other tax and non-tax incentives without referring to the Council of Ministers or the Legislative Council. Third, the PA’s success in incorporating several political factions and civil society organisations, including labour unions, into its patron–client networks ensured that cronyism and business elite dominance continued unchallenged. Fourth, the capacity of Israeli authorities to maintain compliant elites through a wide variety of economic and political incentives, such as economic normalisation projects and VIP cards, was central to the empowerment of the PA political–economic elites.

The aftermath of the intra-Palestinian division in 2007 has seen new forms of governance and policies that altered the political economy of the West Bank. These changes were the product of two simultaneous processes. The first process was associated with the systemic implementation of neoliberal policies introduced by Salam Fayyad. While neoliberalism had constituted the guiding framework of the PA’s economic policies since its early years of establishment, Fayyad’s neoliberal re-arrangement involved technical professionalism, systemic implementation and acceleratory dynamics. Echoing recommendations by international financial institutions, Fayyad’s governmental programmes emphasised the central role of the private sector in promoting export-led economic development and building a state. This neoliberal vision was sustained by efforts to introduce institutional modernisation and security reform within an increasingly authoritarian context. By appointing pro-free-market technocrats and people in business to ministerial positions in his 2007 and 2009 governments, Fayyad hoped to implement his vision professionally, uninterrupted by Fatah’s internal competitions over the control of the PA’s ministerial positions. Fayyad’s overall objective was to create the institutional and economic conditions necessary to establish a Palestinian state. However, his vision suffered myriad limitations and flaws because it was heavily dependent on technical approaches and disregarded the structures of colonial power relations.

The second process was engineered by the Israeli right-wing strategy of ‘economic peace’, which promised to unleash market forces to improve socioeconomic standards and economic development in the West Bank. Key international donors aided these developments,
primarily the US and EU, which undertook policy measures referred to in certain circles as ‘The West Bank First Strategy’, which was designed to ‘asymmetrically influence economic conditions in the newly politically divided areas of the OPT in a bid to influence the political orientation of their respective populations’.44

Critics suggest that ‘Fayyadism’ and ‘economic peace’ are two sides of the same coin, hinting at an ideological encounter between the coloniser and colonised.45 In effect, this encounter has been vastly profitable to Palestinian capitalists, who have benefited from various institutional and legal reforms implemented by the PA and by Israel’s relative facilitation of trade, movement and opportunities for Israeli–Palestinian economic partnerships. In 2008 and 2010, the Fayyad government organised the internationally celebrated Palestinian Investment Conference (PIC) in Bethlehem, entitled ‘Palestine Open for Business’. PIC was attended by American and EU officials as well as Palestinian, Arab, Israeli and international investors and was facilitated by Israel’s easing of control over checkpoints and borders to allow unhindered access to the business delegates. PIC resulted in several large-scale economic projects involving Palestinian, Arab and regional capital with the implicit involvement of Israeli business interests. In its ‘success stories’ report, PIC proclaims that it attracted substantial investment in various sectors: initiated the construction of the new city of Rawabi; established industrial zones; developed the banking and financial sectors; and spurred investments in IT and telecommunications, particularly through the Paltel group.46 Unsurprisingly, PIC business partners, such as PADICO and APIC, received the lion’s share of these investments.

By 2012, Fayyad’s economic policies had proven to be harmful to the socioeconomic well-being of Palestinians in the West Bank. The crisis was partially caused by a shortfall in international funding and the government’s inability to collect taxes from large businesses due to exemptions granted by the Investment Law. This crisis led Fayyad to introduce austerity measures that affected public sector salaries. In September 2012, weeks of demonstrations and protests occurred throughout the West Bank, denouncing the government’s economic policies and demanding Fayyad step down. Driven by concerns regarding his political ambition, Fayyad presented a new plan of ‘progressive taxation’ that aimed to increase taxes on large businesses and prevent tax evasion to allow the government to meet its financial obligations and mitigate the uncertainties created by the PA’s dependence on international aid. However, two powerful forces challenged Fayyad’s ‘progressive taxation’ plan. The first force involved a coalition of influential business lobbies that rejected Fayyad’s plan because it would have hindered their capital operations and profits. The second powerful force involved the Fateh party, which felt that Fayyad was externally imposed on PA to weaken the party’s dominance over public institutions. Pressures from the coalition of large business lobbies and the Fateh party led to Fayyad’s resignation in 2013. Following Fayyad, the PA president appointed Rami Al-Hamdallah, who served as the president of the wealthy Al-Masri family-backed Annajah University in Nablus. The appointment of Rami Al-Hamdallah, who lacked Fayyad’s charisma and professionalism, was widely considered a reflection of the power and influence of business elites, particularly of the Al-Masri family, over the PA.


Despite the institutional and legal reforms implemented since 2007, the old-fashioned monopolistic arrangements that hardened the crony relations between the PA and large business groups in the 1990s have not entirely disappeared. While a few of these monopolies
are still active, the monopoly system has been replaced by the second generation of monopolistic practices that primarily rely on the inordinate market power and dominant market share of large companies. Conglomerates such as PADICO and APIC have developed their economic dominance by manipulating market prices, controlling profit margins and disabling new entry into the market. Accordingly, the monopolies have transformed from predatory, absolute and illegal practices to more subtle, sophisticated and relative monopolies facilitated by the absence of effective legislative bodies and protected by the PA's executive. This transformation has further fuelled the process of power concentration whereby PADICO and APIC have acquired far-reaching power.

Certain private monopolies remain persistent in strategic sectors. For instance, after holding a 20-year monopoly over the field of telecommunications (1996–2016), the PA agreed to extend the Paltel group's cellular and fixed line licenses for another 20 years. The deal was signed secretly, consultation with consumer protection groups and civil society never occurred, and the deal's contents remain unpublicised. A brief official declaration stated that Paltel would pay the PA the low amount of US$290 million (US$14.5 million annually) for the upcoming 20-year period, and the company's annual profits would amount to US$120,000. Critics suggest that by agreeing to the deal, the PA will lose a key source of revenue that could help limit its reliance on international aid. Given that the telecommunications sector is vital to the public interest, the deal sparked public outrage, resulting in several campaigns complaining about Paltel's expensive and poor services and calling for a boycott of its services. Accusations by the public suggest that Paltel is able to continue its monopoly over the telecommunication sector by bribing PA and Israeli officials to facilitate its operations and hinder the entry of competitive companies into the local market.

Furthermore, while PA appears to have ostensibly abandoned direct public monopolies, its current involvement in the market remains substantial. This involvement is managed by 'independent entities,' most notably the Palestinian Investment Fund (PIF). The PIF was established in 2003 to replace the infamous PCSC and act as the PA's sovereign wealth fund. While the PIF is supposed to enjoy financial, administrative and legal independence within the framework of the PA reform programme, its Board of Directors is appointed by the PA's president. In reality, the PIF Board of Directors and General Assembly exemplify the marriage between the PA's political elite and business elites, with both comprising representatives of PADICO and APIC and other key figures of the PA's upper echelon. This composition likely fosters conflicts of interest and influences decision-making processes in favour of members' overlapping political and economic interests. In testimony before the subcommittee of the Middle East and North Africa of the US House Foreign Affairs Committee in 2014, former US adviser to the PA James Prince stated the following:

"The Palestinian Investment Fund (PIF) is one of the most obvious and controversial tools used by Abbas to wield influence and direct favours … the PIF has largely operated as an extension of the Presidency, a tool by which to curry favours, lavish gifts, and marginalize critics … Under the rubric of creating jobs, the PIF serves as an economic powerbroker. Increasingly, the Fund is viewed by average Palestinians as epitomizing the corruption associated with the intertwining of power, politics, and business."

The intertwining of power, politics and business is echoed in the case of the Fund’s Chairman, Mohammad Mustafa, who also serves as a senior economic adviser to Mahmoud Abbas. Mohammad Mustafa has also combined key positions in the PA’s government,
including the former Minister of the National Economy and Deputy Prime Minister, and has played a central role in launching various private sector initiatives in addition to serving as a founding CEO of Paltel. Also, he is a member of APIC’s Board of Directors and, simultaneously, the PIF owns the sizeable share of 17.47% of APIC. As the main link between the PIF and APIC, Mohammad Mustafa’s name appeared in the Panama Papers.49 While the involvement of APIC/PIF in offshore activities is not discussed in detail, the Panama Papers confirm that Palestinian political–economic collusion has become transnational.

The PIF manages several companies and investment portfolios in a range of vital sectors, including real estate, energy, tourism, banking and the financial market. The PIF 2017 report shows that it controls total assets of US$990 million, with a growth of 16% relative to the prior year.50 The Fund’s most prominent monopolistic practice is represented by its ownership of the Construction Industries Company (Sanad), which controls over 90% of the West Bank’s cement market. The Israeli Nesher Cement Enterprise, which has a monopoly over the Palestinian cement market, is the main supplier of raw materials and cement to Sanad. However, due to its market power, Sanad has a broad capacity to manipulate the local market regardless of the changing prices in the Israeli market. For instance, in March 2016, Sanad announced a sudden increase in cement prices, even though cement prices had decreased by 5% in the Israeli market. This price increase led to soaring construction and housing prices that caused the Palestinian Contractors Union and the Palestinian Society for Consumer Protection to protest Sanad’s decision, accusing it of monopoly and manipulation.

Conclusion

The growing interest in the critical political economy of the OPT has equipped the field of Palestine studies with crucial analytical perspectives regarding subtle dynamics that are not easily detectable by other single disciplines, and which play key roles in prolonging the Oslo status quo. As part of this effort, this article demonstrated how crony capitalism as an integral feature of PA–business relations has functioned as a mechanism to serve the narrow interests of the elite, to ensure social control, and to dominate the political and economic spheres. While crony capitalism has very much been in evidence since the establishment of the PA, the practices of cronyism have grown in sophistication during the last 10 years. This system emerged out of the exigencies of the Israeli colonial framework and, unwittingly, international donors provided a conduit for its institutionalisation by fostering local political–business alliances.

Moreover, cronyism is internally structured and promoted by powerful interest groups who rely on neo-patrimonial and patron–client networks that operate across public institutions, large private firms and Fateh-affiliated social constituents. The primary objective of sustaining the PA’s robust cronyism networks is to maintain the compliance of the elite and to ensure the stabilisation of the Oslo political status quo. For the PA political–business elite, the continuation of the Oslo status quo constitutes a lucrative industry, and it is systemically maintained by constant security coordination and economic normalisation with Israel.

The understanding of crony capitalism presented in this article offers some explanations to the persistent unwillingness of the PA’s leadership to reintroduce a new strategy that would break with the Oslo framework and challenge Israel’s colonialisation. On the surface, it is clear that the PA crony capitalism helped stabilise the political status quo for a while. In
reality, however, crony capitalism is fed by excessive corruption and wealth concentration in the hands of a few self-interested actors. The more crony practices prevail the more the internal contradictions of the system intensify and become exposed to the crisis. Crony capitalism in the West Bank is even more vulnerable because it operates in the highly repressive context of neoliberal colonisation, which has produced vast inequalities and insecurities. These outcomes are the antithesis of stabilisation. Indeed, recent years have seen growing popular mobilisations that place socioeconomic demands at the forefront of the struggle against PA policies, including the anti-Fayyad government protests in 2012, the teachers’ strike in 2016 and the series of countrywide protests that have broken out against the social security law in 2018. Such dynamics will likely continue and increase in intensity, particularly in light of the recent dramatic decrease of international aid to the PA and the subsequent shift toward higher taxes and credit expansion; a matter that may lead to severe crisis and probably blow the whole system apart.

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Notes

1. Abed, The Palestinian Economy; Farsakh, Palestinian Labour Migration to Israel; Hever, The Political Economy.
2. Turner, “Peacebuilding as Counterinsurgency.”
3. Clarno, Neoliberal Apartheid, 89.
7. Faccio, “Politically Connected Firms”; Kelsall, “Neo-Patrimonialism, Rent-Seeking and Development.”
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