Obstacles in Palestinian Economy

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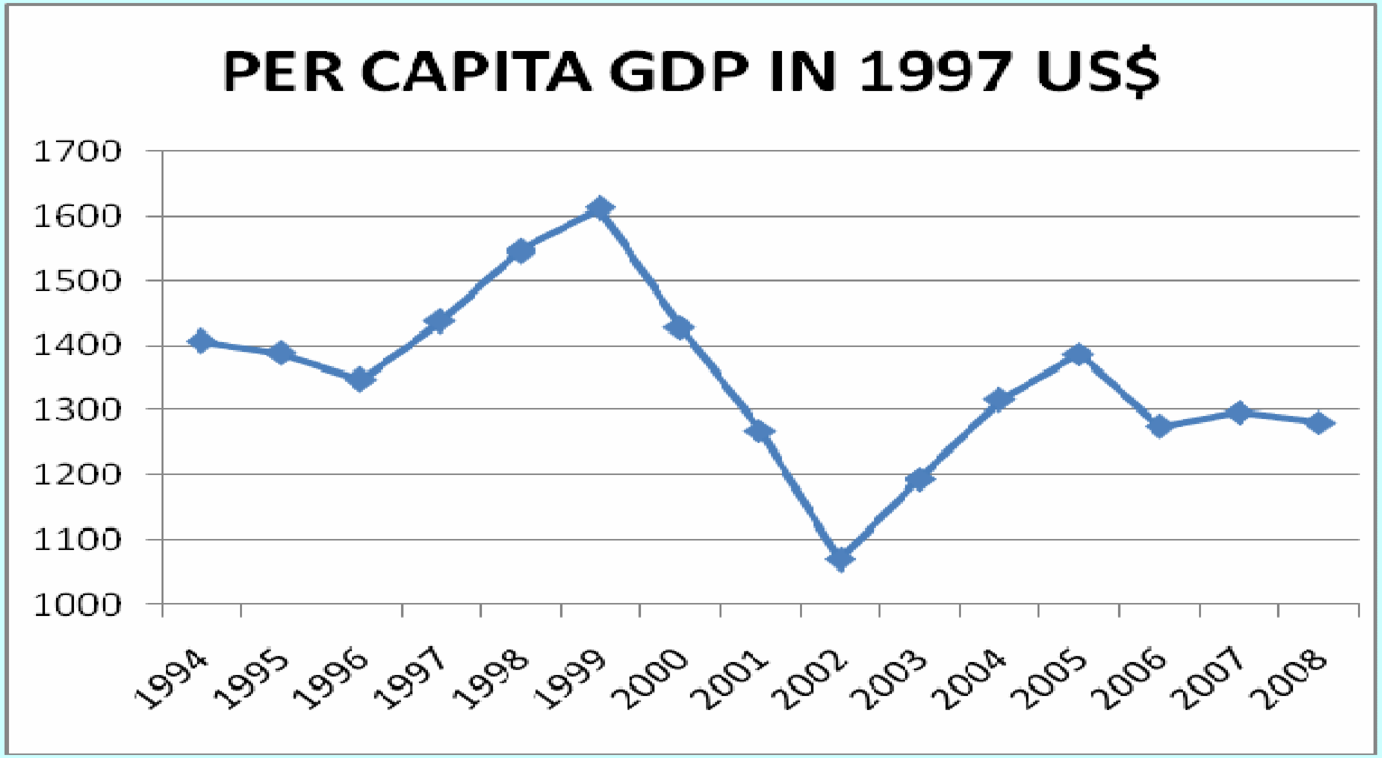
Lebanon
Syria
Haifa
Sea of
Galilee
Mediterranean
Sea
Jenin
Nablus
Tel Aviv
Ramallah
Amman
Jerusalem
Bethlehem
Dead
Sea
Gaza
Rafah
Jordan
Egypt
Sinai
Peninsula
Saudi
Arabia
Gulf of
Suez
Gulf of
Aqaba

Background

- According to the Palestinian Central Bureau of Statistics (PCBS), in 2008, the total population in the West Bank & Gaza is 3,831,646.
- Despite the numerous economic and development projects that were initiated in 1994, the PT are still totally dependent on support from outside. Palestinian economy is dominated by services, while industry remains underdeveloped and at a low level, and the agricultural sector from the lack or restrictive access to natural resources.
- The main reason behind the current economic crisis is the general **closure and separation policy** imposed by Israel in March 1993, which has never been lifted ever since?
- In 2008 as the economy not only failed to recover but continued to lose ground for the ninth year in a row (figure below).



- Gross domestic product (GDP) growth was well below potential despite substantial foreign aid and institutional reforms carried out by the Palestinian Authority within the framework of the PRDP.
- The continued isolation of the occupied Palestinian territory under a tight Israeli closure policy and blockade of Gaza has further fragmented the economy.
- As a result, real GDP is estimated to have grown by only 2 per cent in 2008; leading to a 1.2 per cent decline in per capita GDP.
- The cumulative effect is a 34 per cent drop in real per capita GDP between 2000 and 2008.

- **Contribution to GDP in Palestine!!!**
  - The Industrial Sector's share of Palestinian GDP was estimated at 14% in mid 2008 and its share of total employment at 12.3%.
- **Overall Number of SME’s in Palestine:**
  - In 2007 the overwhelming majority of enterprises in the West Bank and the Gaza strip are small in size. Of a total of 132,874 registered establishments in the West Bank and Gaza, 99.9% are SME’s, with the majority of that percentage going to micro- sized enterprises.
  - PFI estimates that 98% of Gaza industrial operations are currently inactive, with only 23 of Gaza´s 3,900 industries operating (world bank).

- Economic recovery will not emerge spontaneously and needs concerted action by the Palestinian Authority, the international community and Israel.
- The Palestinian Authority implemented a number of reform measures under the PRDP in 2008, despite the volatile political conditions.
- They focused on enhancing the efficiency and transparency of government institutions, curbing the fiscal deficit and improving security in the West Bank.
- These reforms were supported by substantial donor aid, with total external support to the Palestinian Authority reaching $1.9 billion in 2008, including $1.8 billion for budgetary support (up from $1 billion in 2007).
- However, Israeli policy persistently pulled the economy along an adverse path, with heightened internal and external barriers to the movement of Palestinian people and goods within/from/to the West Bank and Gaza.
- Such restrictions are the main mechanisms undermining the recovery of the Palestinian economy by pre-empting the intended benefits of foreign aid and reform.
- The private sector's inability to cope with mobility restrictions and other Israeli measures and the resulting inability to create jobs, combined with the Palestinian Authority's pursuit of fiscal sustainability and the exhaustion of its ability to act as an "employer of last resort", resulted in the rise of the unemployment rate from 28 per cent in 2007 to 32 per cent in 2008.

- Agricultural is no longer capable of providing displaced workers with low productivity underemployment – as it has been doing since 2000 – due to internal and external closures, the loss of fertile land in both the West Bank and Gaza and inadequate access to the remaining agricultural land.
- 40 per cent of West Bank Agricultural land has been lost to settlements and related infrastructure.
- The Separation Barrier resulted in the confiscation of about one fifth of the West Bank’s most fertile cultivable land.
- The destruction of physical infrastructures and limited access to water resources.
- Farmers have restricted access to their land. The barrier has forced 3,551 enterprises out of business and disrupted the road and water networks of 171 villages.
- The barriers to the movement of goods and people within the occupied Palestinian territory have fragmented what is left of the economy and given rise to price differentials and limited factor mobility.
- Goods are damaged at checkpoints and transportation costs have doubled in some areas.
- The situation is even worse for exporting sectors, which have to pay an additional cost at external borders.
- These factors, and the uncertainty they create, not only make business planning impossible and undermine the viability of existing businesses but also discourage potential domestic and foreign investment.

The Palestinian economy (West Bank and Gaza Strip): key indicators

(UNCTAD)

	1995	1999	2002	2004	2005rev.	2006rev.	2007prl.	2008est.
Macroeconomic performance								
Real GDP growth (%)	6.0	8.8	-13.3	12.0	8.6	-5.2	4.9	2.4
Gross domestic product – GDP ($ million)	3 220	4 179	3 433	4 198	4 634	4 619	4 672	4 784
Gross national income – GNI ($ million)	3 699	4 932	3 656	4 430	4 992	5 047	5 220	5 507
Gross disposable income – GDI ($ million)	4 099	5 306	4 708	5 151	6 120	6 323	7 314	7 747
GDP per capita ($)	1 400	1 493	1 125	1 317	1 410	1 363	1 337	1 331
GNI per capita ($)	1 608	1 763	1 199	1 390	1 519	1 489	1 494	1 532
Real GNI per capita growth (%)	0.7	4.1	-16.7	8.7	7.2	-6.5	3.7	1.0
Population and labour								
Population (millions)	2.34	2.96	3.23	3.41	3.51	3.61	3.72	3.83
Unemployment (% of labour force	32.6	21.7	41.3	32.5	28.9	29.6	27.9	31.7
Total employment (in thousands)	417	588	477	578	633	666	666	648
In the public sector	51	103	125	131	145	152	146	151
In Israel and settlements	68	135	49	50	63	64	63	75

	1995	1999	2002	2004	2005[rev.]	2006[rev.]	2007[prl.]	2008[est.]
External trade								
Net current transfers ($ million)	400	399	1 090	730	1 171	1 479	2 361	2 750
Exports of goods and services ($ million)	499	1 039	522	644	746	710	926	885
Imports of goods and services ($ million)	2 176	3 567	2 876	3 479	3 320	3 795	4 432	4 640
Trade balance (% of GDP)	-52.1	-60.5	-68.6	-67.5	-55.5	-66.8	-75.0	-78.5
Trade balance with Israel ($ million)	-922	-1 598	-886	-1 500	-1 945	-1 887	-2 260	-2 678
Trade balance with Israel (% of GDP)	-28.6	-38.2	-25.8	-35.7	-42.0	-40.9	-48.4	-56.0
Palestinian Authority trade with Israel/total Palestinian Authority trade (%)[c]	92.3	62.6	48.4	60.4	73.0	64.9	71.5	80.8
Palestinian Authority trade with Israel/total Israeli trade (per cent)	4.3	3.9	2.0	2.4	2.7	2.3	2.6	2.8

Source: Data from PCBS, the World Bank, the International Monetary Fund (IMF), the International Labour Organization (ILO) and the Israeli Central Bureau of Statistics.

Where are SME’s in Palestine?

- The uneven allocation of numbers of SME’s between the West Bank and Gaza indicates, amongst others, the, different demographic distributions in the region.
- SME’s are concentrated in urban areas. Hebron Governorate has the highest number of establishment (17,661), followed by Nablus (14,582) and Gaza city (14,053); while Jericho has the lowest number (1,388) (world bank).
- 90.7% of the total establishments are owned by private sector, 4.9% to the government, 3.35 to NGOs and 1.1% to local authorities, UNRWA and international organisations.
- The Main economy activity of 54% of the establishment is wholesale, retail trade and repairs, while 14% is manufacturing.

The end result is a shrinking economy that has become more localized, as sections of the West Bank get cut off from each other.

Stats

- According to the **PCBS**, the relative **poverty line** and the absolute poverty line for a six-member household in the Palestinian Territory in 2006 stood at NIS 2,300 (US$ 518) and NIS 1,837 (US$ 414) respectively.
- **Poverty** has reached unprecedented levels, with around 53% of households (with an average size of six members) living below the national poverty line of $385 per household per month in 2005. According to the World Bank, an estimated 71% of public employees fall under the poverty line based on income estimates, and 46% do not have enough food to meet basic needs. The number of people in deep poverty nearly doubled in 2006, to more than 1 million (*OCHA, 2007)*.
- The World Bank estimates that the **separation barrier** costs the Palestinian economy 2-3 percentage points of GDP annually! (World Bank, West Bank and Gaza Investment Climate Assessment, March 2007).

- At present, Palestinian enterprises are mainly dependent on Israeli port facilities for export and import activities.

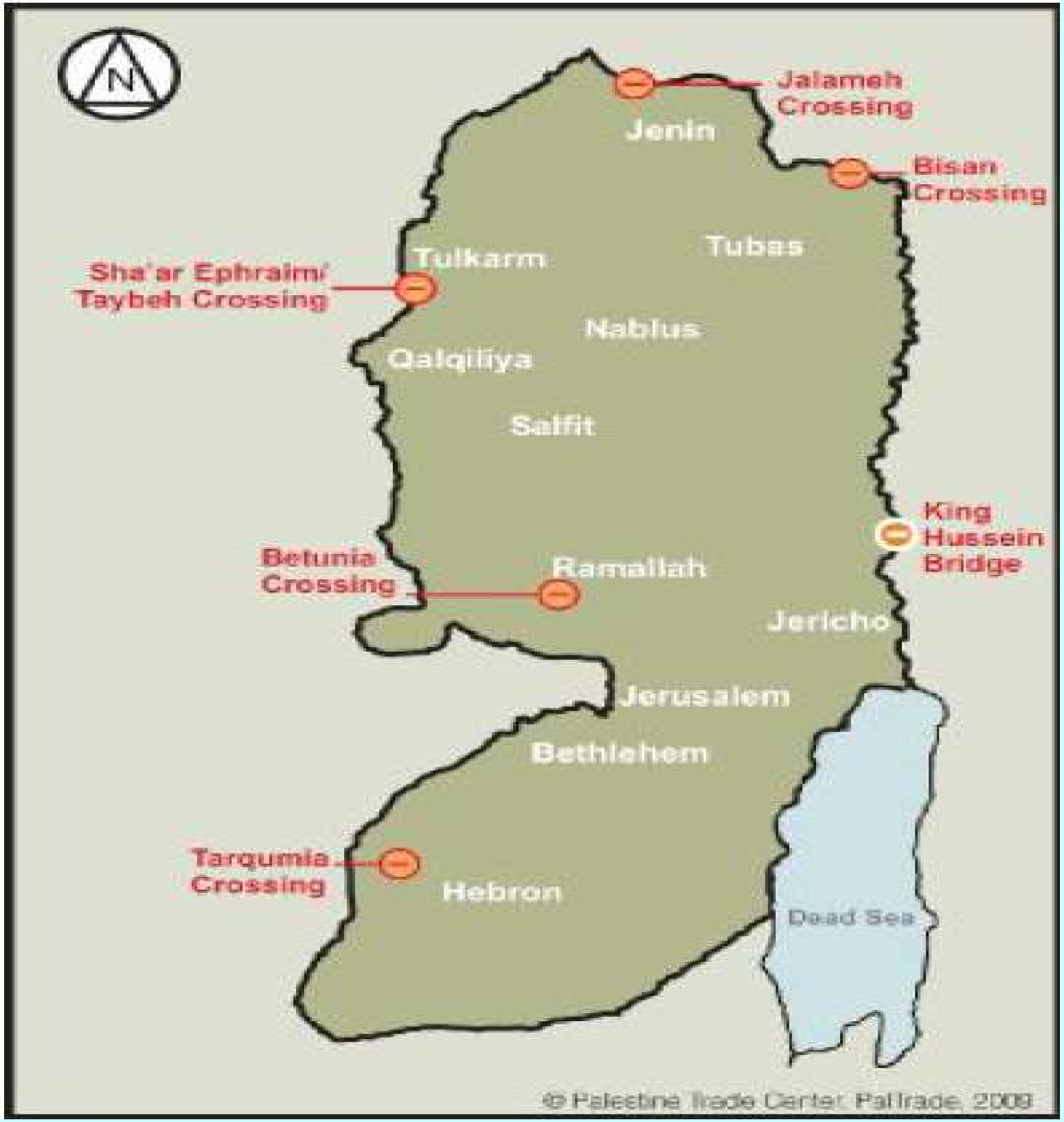
- Palestinian traders use mainly Israel's Ashdod and Haifa ports, as well as Ben-Gurion airport, for both direct and indirect imports and for most exports.

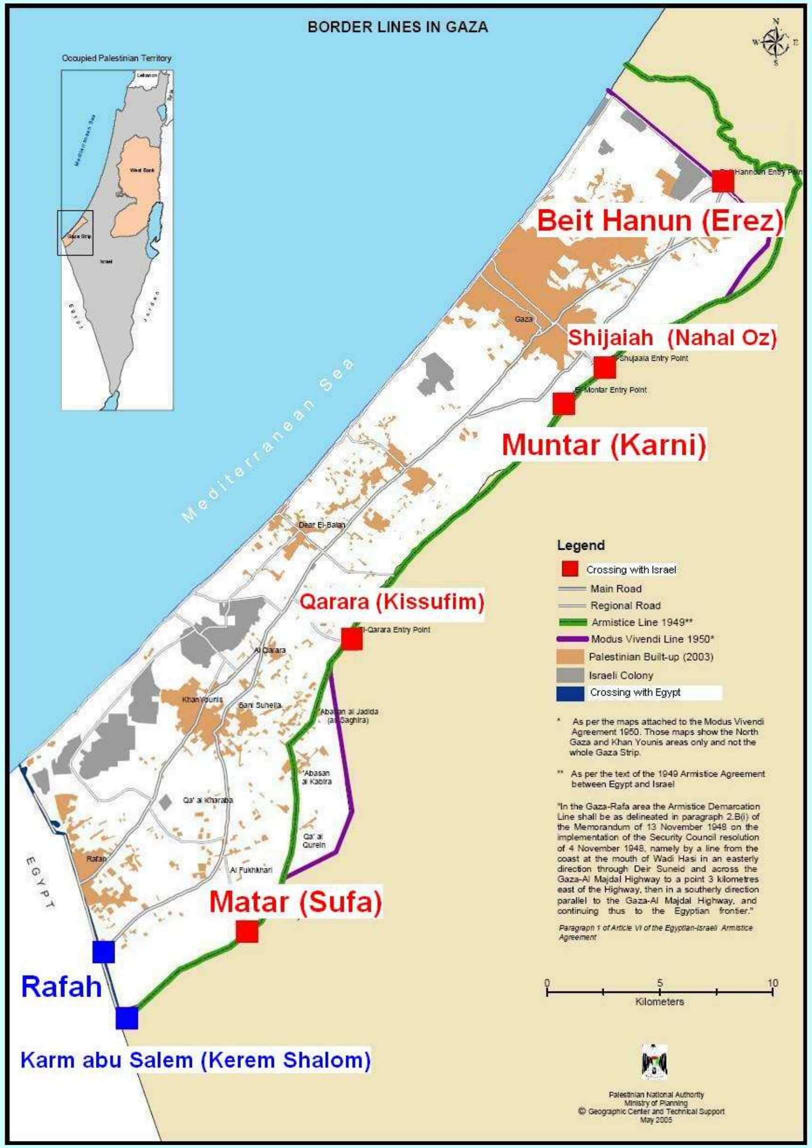
- Only limited merchandise trade flows through the Allenby and Rafah (Palestinian Authority-PA) border crossings with Jordan and Egypt, respectively, and Nitzana/Auja Israel-Egyptian border crossing.

- Moreover, around one-third of total Palestinian imports from the rest of the world (i.e. excluding Israel) is registered as destined to the Palestinian territory while Israeli shippers, who deal with the two economies as one market, indirectly imports the rest.

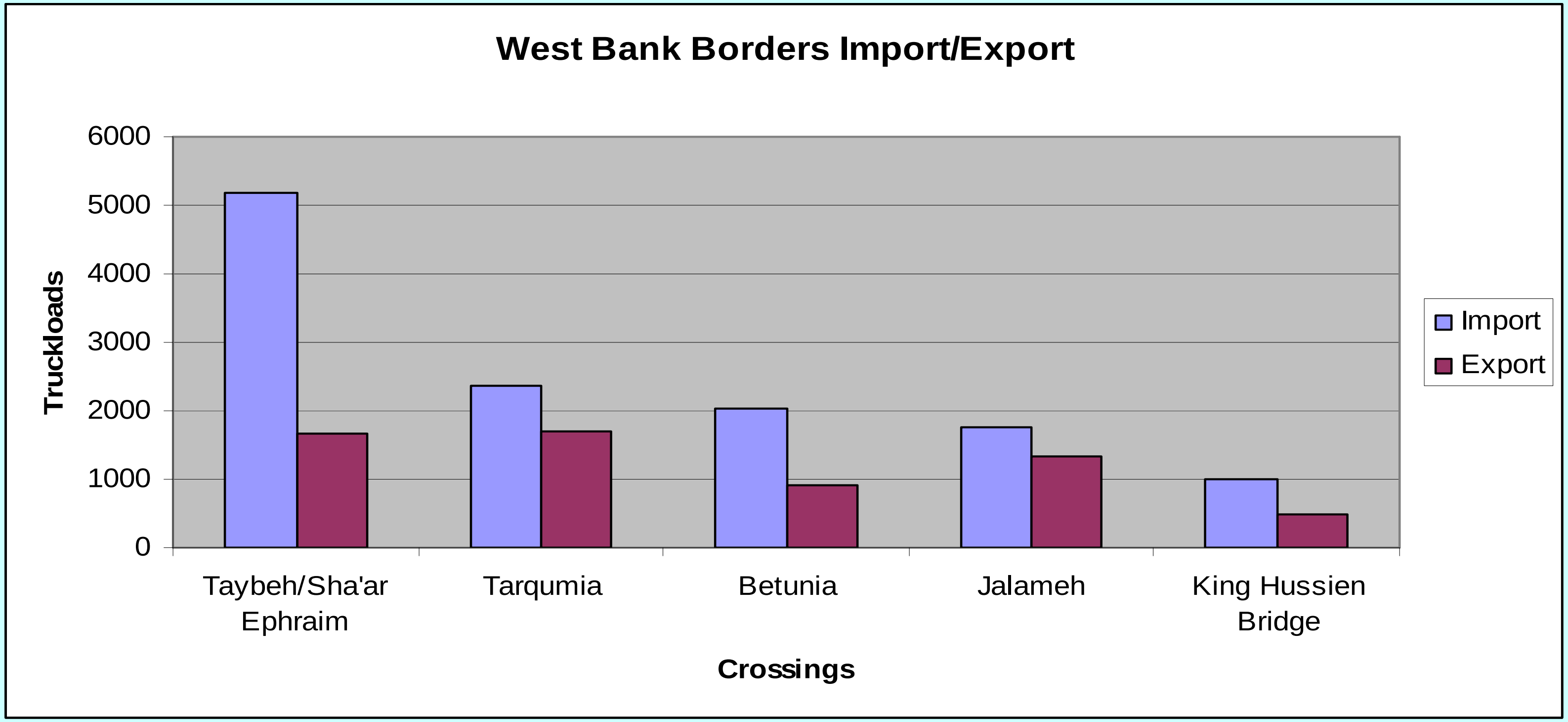
- **Commercial crossing points /borders in the West Bank & Gaza are a key factor behind today's economic crisis in the area**. The fragmentation of Palestinian land combined with the Israeli policy of closure has eroded the economic viability of the Palestinian private sector.

Commercial Borders in the West Bank & Gaza

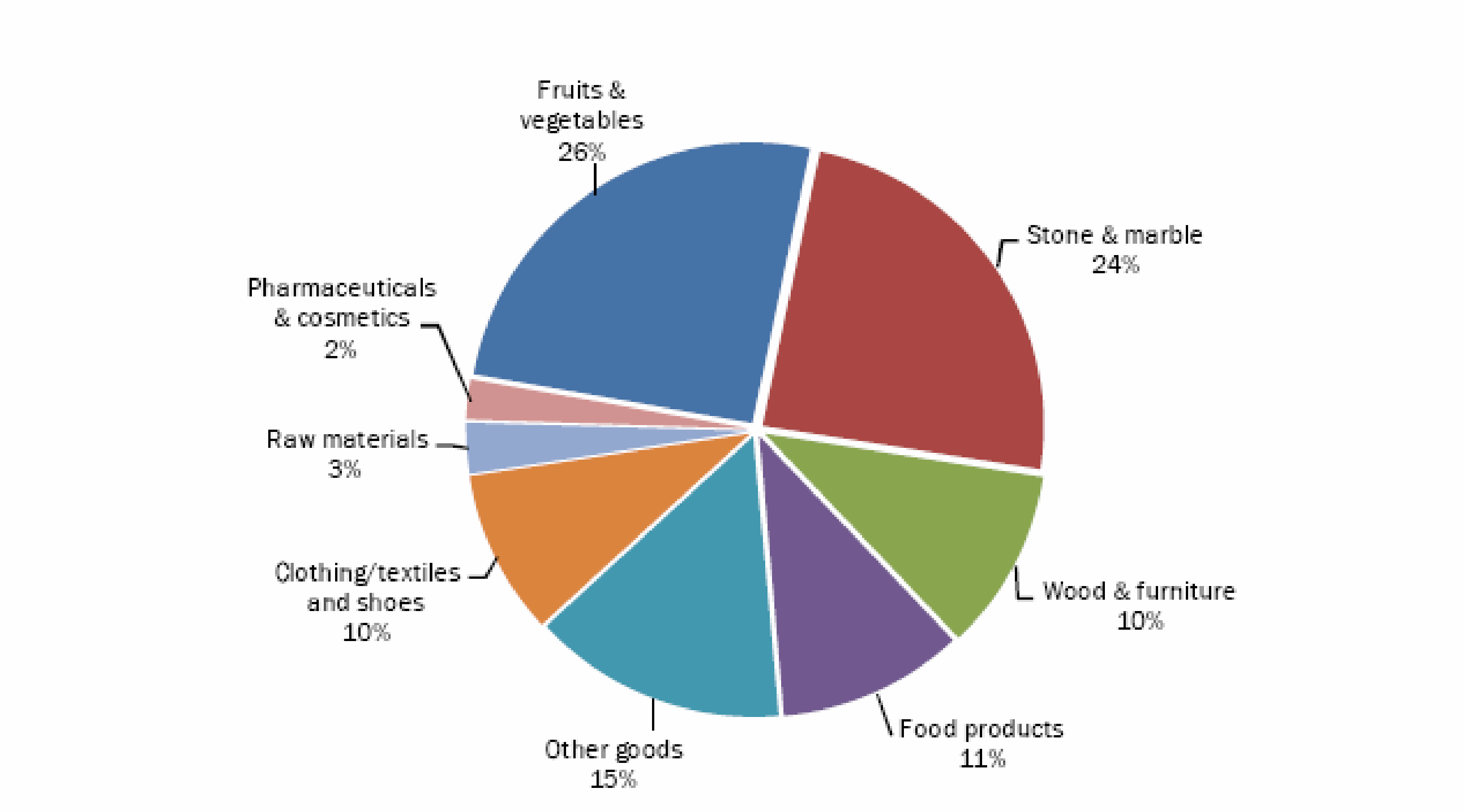




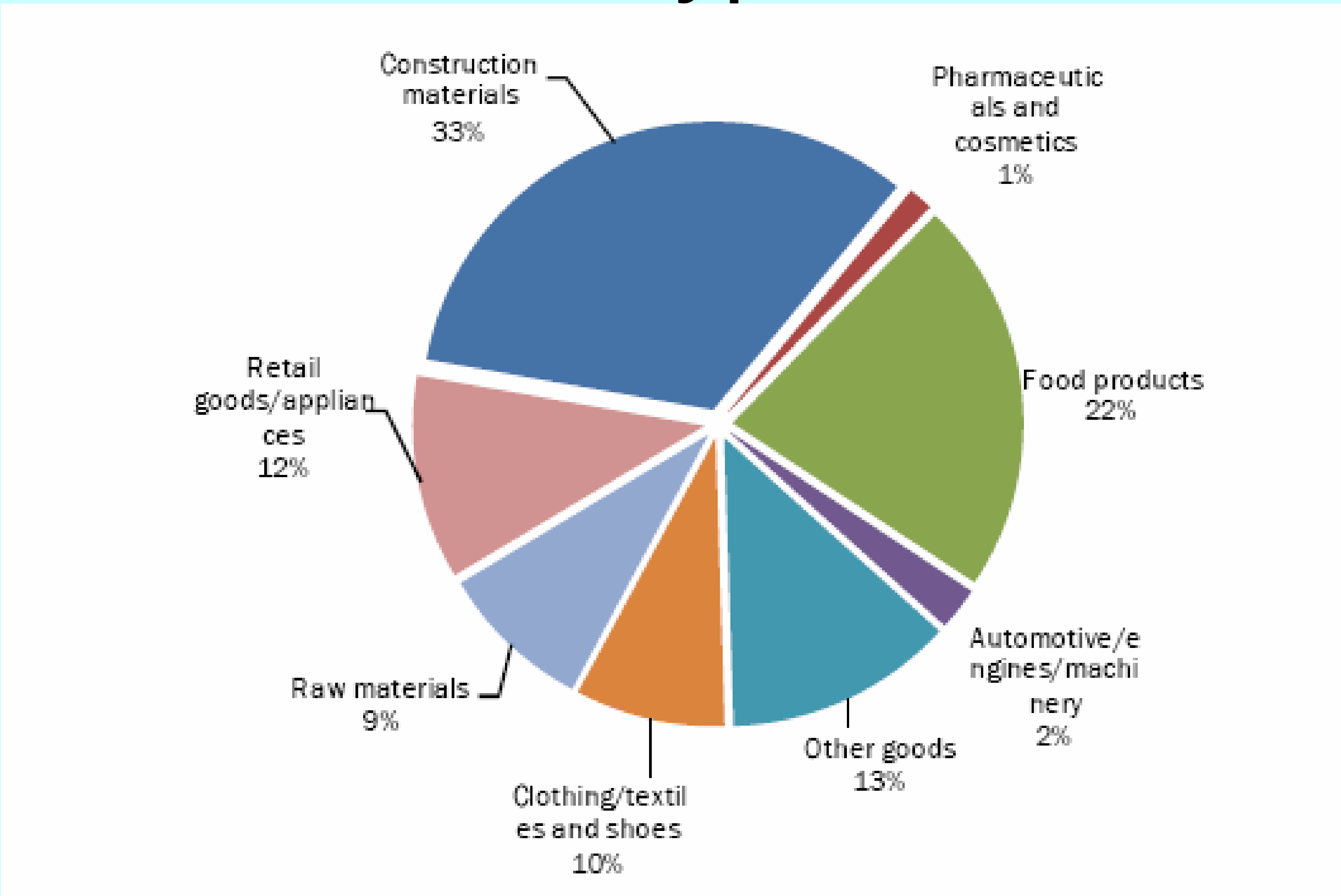
BORDER LINES IN GAZA
Occupied Palestinian Territory
Mediterranean Sea
Beit Hanun (Erez)
Gaza
Shijaiah (Nahal Oz)
Shujaaia Entry Point
Muntar Entry Point
Muntar (Karni)
Deir El-Balah
Qarara (Kissufim)
Al-Qarara Entry Point
Al Qarara
Khan Younis
Bani Suheila
Abasan al Jadida (as Saghira)
Abasan al Kabira
Qa' al Kharaba
Qa' al Qurein
Al Fukhkhari
Rafah
EGYPT
Matar (Sufa)
Rafah
Karm abu Salem (Kerem Shalom)
Legend
Crossing with Israel
Main Road
Regional Road
Armistice Line 1949**
Modus Vivendi Line 1950*
Palestinian Built-up (2003)
Israeli Colony
Crossing with Egypt
* As per the maps attached to the Modus Vivendi Agreement 1950. Those maps show the North Gaza and Khan Younis areas only and not the whole Gaza Strip.
** As per the text of the 1949 Armistice Agreement between Egypt and Israel
"In the Gaza-Rafa area the Armistice Demarcation Line shall be as delineated in paragraph 2.B(i) of the Memorandum of 13 November 1948 on the implementation of the Security Council resolution of 4 November 1948, namely by a line from the coast at the mouth of Wadi Hasi in an easterly direction through Deir Suneid and across the Gaza-Al Majdal Highway to a point 3 kilometres east of the Highway, then in a southerly direction parallel to the Gaza-Al Majdal Highway, and continuing thus to the Egyptian frontier."
Paragraph 1 of Article VI of the Egyptian-Israeli Armistice Agreement
0 5 10
Kilometers
Palestinian National Authority
Ministry of Planning
© Geographic Center and Technical Support
May 2005


West Bank Borders Import/Export
Truckloads
6000
5000
4000
3000
2000
1000
0
Taybeh/Sha'ar Ephraim
Tarqumia
Betunia
Jalameh
King Hussien Bridge
Crossings
Import
Export

Distribution of Exports by Cargo Type



Distribution of Imports by Cargo Type



International Trade Agreements

1. The Paris Protocol

The Paris Protocol is the framework establishing the interim-period economic relations between Israel and the Palestinian Authority. The Protocol was signed in April 1994 and is part of Oslo1, which was signed a few days later. **The model established in the Protocol is known as a "customs union," the primary characteristic of which is the absence of economic borders between members of the union at the time of the agreement (this is not the case now)**. The practical effect of selecting this model was preservation of the economic relations that had existed until then, i.e., a Palestinian economy integrated in and dependent on the Israeli economy.

Effect of restrictions on the economy and its implication on PP

- It is generally undisputed that the sweeping restrictions on movement since the outbreak of the second Intifada are a major reason for the deterioration of the Palestinian economy and the increase in unemployment and poverty.

- Tens of thousands of Palestinians lost their jobs in Israel.

- Within the West Bank, the restrictions make it very hard for Palestinians to get to their jobs and to transport goods from area to area. This has led to an increase in transportation cost and consequently to lower profits,

- Trade from one section to another in the West Bank has become expensive, uncertain, and inefficient. The economy in the West Bank has been split into smaller, local markets.

- Tourism, which began to flourish after the Oslo Agreements, has also suffered greatly because of the inability of Palestinians to get to the vacation and holy sites.

- The restrictions imposed on the commercial crossing points between the West Bank and Israel have critically impaired trade ties carried out by Palestinian importers and exporters with the rest of the world.

- *The harm is especially grave in light of the dependence of the Palestinian economy on foreign trade, which constitutes about 80 percent of its gross domestic product.*

- *The closing of the crossings also harms internal trade between the West Bank and the Gaza Strip, which was totally stopped following the Hamas elections.*

- *Israel also controls all movement to and from Gaza, including imports and exports. Gaza's foreign trade is almost exclusively with Israel or is conducted via Israeli ports.*

- *Most of the restrictions on the movement of workers and goods are sweeping and indefinite in duration.*

2. Agreement on Movement and Access

The AMA sought to facilitate the movement of Palestinian people and goods between:

1. **Gaza and Israel** "*The agreement stipulated that the passages will operate continuously. On an urgent basis, Israel will permit the export of all agricultural products from Gaza during 2005 harvest season"*

2. **Gaza and the West Bank** *"The agreement stipulated that Israel will allow the passage of convoys to facilitate the movements of goods and persons" Specifically, there will be established "bus convoys by December 15, 2005" and "truck convoys by January 15, 2006"*

3. **Palestinian communities in the West Bank, including East Jerusalem** (by working to dismantle the internal closure regime, which consists of hundreds of checkpoints and fixed obstacles to movement between Palestinian communities in the West Bank).

4. **Gaza and the West Bank, and third countries** (by opening the Rafah Crossing Point between Gaza and Egypt, by allowing Palestinians to build a seaport in Gaza, and by allowing Gaza's airport to re-open)

3. Trade Agreement with EU.

4. Trade Agreement with USA.

5. Trade Agreement with Egypt.

6. Trade Agreement with Jordan.

Recommendations

- The Israelis in cooperation with all Palestinian Ministries should facilitate the process of all necessary documents, and comply with all International Trade Agreements that are signed either with Israel – PLO or PLO with the rest of the world.
- Israel and the Palestinian Authority should start the process of having Free Zone Areas, Bonded or Dry Port that will allow Palestinians to have full control of their own imported/exported goods. The EU can supervise such areas and capacity builds the Palestinians in this field, similar or quasi similar to the EU BAM at Rafah crossing.
- Legalising Palestinian Custom Agents and Freight Forwarders. This should protect the interest of the Palestinians and the Israelis. Palestinians amongst themselves will arabise their own documents.

- A coordinated effort between Palestinian Standard Institute (PSI) and Israeli Standard Institute on issues concerning Palestinian Importers specifications and checks.
- Key members of the Israeli and Palestinian private sectors recommended in a joint study that peace negotiators adopt a "Free Trade Agreement Plus" (FTA Plus) as the basis for economic relations between Israel and any future Palestinian state. (This agreement compliments the PP and it avoids its pitfalls). (This can also be a new trade agreement). (PA might be in the process of negotiating such new agreement)
  - Provides a free trade in goods and services but with economic borders and hence economic sovereignty.
  - Involves deeper integration of the two economies to make doing business easier.

- Israel must reduce time spent or processed on high security inspection on export and import at all ports and airports including Allenby Bridge (with Jordan). And increase the security area and reduce the exposed area to any weather conditions.

- Containers are not allowed to and from Jordan due to lack of infrastructure. Palestinians can benefit a lot from this route if allowed via Aqaba port. (Competitive advantage)

- Reinstall the Palestinian presence at the Allenby Bridge as it was the case in 1995, when Palestinian customs acquired a joint responsibility with Israelis after signing PP.

- Not to limit export and import through Allenby to open Damyia Bridge as well.

- Sustained commitment from the EU and the international community in a similar manner as the AMA was brokered in order to bridge the economical gap between Israel and Palestine and to ensure that all trade agreements are properly implemented by both parties.

- Retain the productive capacities of key viable private sector enterprises and minimize their losses.
- Avoid stopping the economic activities of viable enterprises thus converting their assets into non-productive assets and forcing them to think over distress sale of their assets at depressed valuations.
- Ensure that financially viable private sector enterprises remain well positioned to take advantage and benefit from the anticipated recovery in the Palestinian economy.
- Enable private sector enterprises to sustain their current employment levels, retain released employees and generate new employment opportunities.
- Support private sector enterprises to restructure their existing debt to help them to continue or restart operation and work toward renewed viability.
- Enhance the ability of private sector enterprises to offer settlement of their debt based on their future cash flow earning capacity.

- Restoring the territorial integrity of the West Bank and the Gaza Strip, as affirmed in the Protocol on Economic Relations (PER) and as undeniably necessary for viable statehood;
- Recognizing the separateness of the Palestinian Authority customs territory, which is implicit in the choice made in 1994 by Palestine to opt for a customs union with the separate customs territory of Israel;
- Addressing the special needs of a newly independent, war-torn state as it emerges into the community of nations and ensuring that it has access to all possible tools to manage and gradually enhance its economic policy space as its development needs evolve;
- Beginning today to form the institutions for a viable state rather than pursuing the incessant reform of institutions of self-government that function according to a set of promises whose fulfilment remains elusive – a policy process leading nowhere.
- Although expanded policy space on its own cannot shield the economy from the impact of occupation, empowering national institutions (even under occupation) is essential to enhancing enterprises' and households' resilience in the face of crisis.

Thank You

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