

The Palestinian Strategic Report 2009/10



Edited By

Dr. Mohsen M. Saleh



Al-Zaytouna Centre For Studies & Consultations

Chapter Eight

*The Economic Situation in the
WB and GS*

The Economic Situation in the WB and GS

Introduction

The Palestinians continue to suffer from the Israeli occupation which is persistent about plundering their wealth and preventing any access to Palestinian human resources. In addition, the Israeli occupation exerts relentless efforts to tie the Palestinian economy to its Israeli counterpart while making the WB and GS a market for the Israeli products.

This chapter casts light on the Palestinian economic situation in the WB and GS during 2009, and it presents a detailed analysis of the Gross Domestic Product (GDP), per capita income, the PA's revenues and expenditures in addition to foreign aid. Moreover, the chapter illustrates the contribution of the different industrial and agricultural sectors to the Palestinian economy and it studies the size of the labor force, poverty and unemployment in the WB and GS. To these, the chapter highlights the repercussions of the Israeli siege on GS and the losses resulting from the war on GS to conclude the opportunities to implement the General National Plan 2011–2013.

First: An Overview of the Leading Economic Indicators

1. GDP

The GDP is considered one of the main indicators which reflect the overall economic growth in any country through the comparison of its evolution across two time periods, thus showing the overall performance of national economy. Tracking the GDP of the WB and GS shows an increase from \$4,820.9 million in 2008 to \$5,147.2 million in 2009, i.e., an increase by \$326.3 million and a 6.8% annual growth rate. From 1999 till 2009, the GDP has undergone sharp fluctuations which could be divided into four phases as shown in table 1/8. These phases are:



- a. **The downward trend during 1999–2002:** This period witnessed a yearly decline in the economic growth due to the Israeli strict measures and practices. Thus, the decline continued for three consecutive years.
- b. **The upward trend which witnessed an improvement in the GDP during 2003–2005:** This improvement was due to local and international efforts made to alleviate the suffering and provide an appropriate economic environment.
- c. **The downward trend in 2006:** This decline was the result of the economic siege imposed on the WB and GS and which led to a decline in the GDP by 5.2% in 2006 as compared to 2005.
- d. **The return of the growth once again during 2007–2009:** During this period, there was a relative improvement despite the losses in the Palestinian economy which resulted from the Israeli war on GS. The main reason which led to this improvement was the aid and support funds provided by donor countries which covered much of the general budget deficit and enabled the PA to cover much of its expenses including wages, salaries, transfer and operational spending, development expenditures, etc. It is worth of mention here that the economic growth in the WB is way higher than that in the GS.

Table 1/8: GDP in WB and GS 1999–2009 at Constant Prices* (\$ million)¹

| Year | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007** | 2008** | 2009*** |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| GDP | 4,511.7 | 4,118.5 | 3,765.2 | 3,264.1 | 3,749.6 | 4,198.4 | 4,559.5 | 4,322.3 | 4,554.1 | 4,820.9 | 5,147.2 |
| Average annual growth or deterioration % | 8.8 | -8.7 | -8.6 | -13.3 | 14.9 | 12 | 8.6 | -5.2 | 5.4 | 5.9 | 6.8 |

Note: Excluding that part of Jerusalem, which was annexed after the 1967 occupation by Israel.

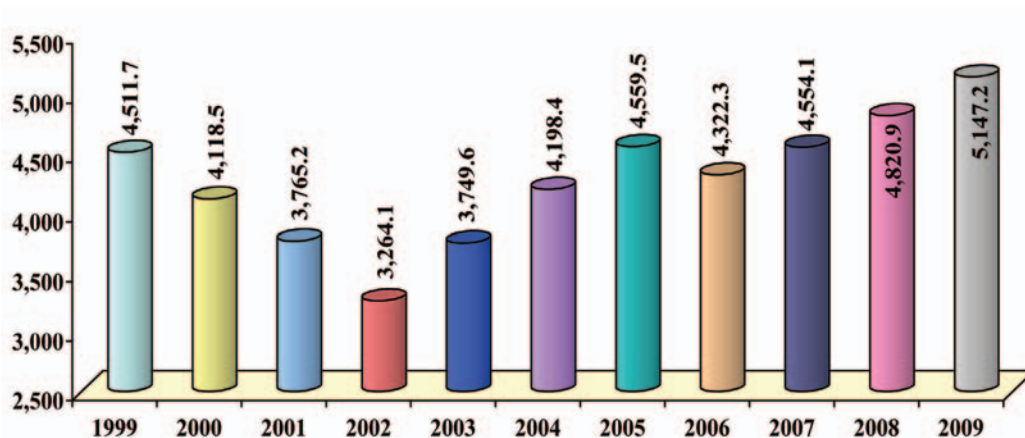
* Base year for the period 1994–2003 is 1997 and for 2004–2009 is 2004, and this should apply to all tables.

** First revision.

*** Flash estimates.



GDP in WB and GS 1999–2009 (\$ million)



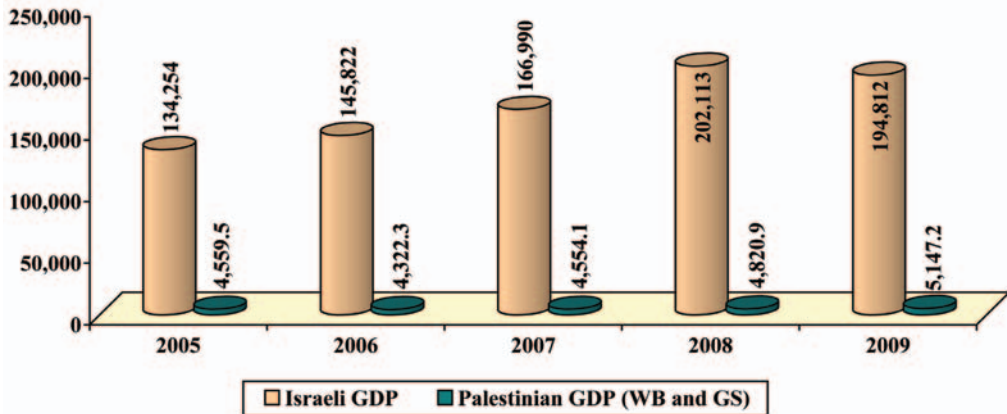
On the other hand, when observing the Israeli GDP which amounted to \$202,113 million in 2008 and \$194,812 million in 2009, we notice that this product is forty-fold its Palestinian counterpart (around 4,000%). This is a clear indication of the hideous impact of the Israeli occupation on the Palestinian economy, the extent of the Israeli exploitation of the Palestinian resources and how much the Israelis are preventing the Palestinians from using their potentials freely and efficiently.

Table 2/8: Comparing the Israeli GDP to the Palestinian GDP 2005–2009 (\$ million)²

| Year | Israeli GDP | Palestinian GDP (WB and GS) |
|------|-------------|-----------------------------|
| 2005 | 134,254 | 4,559.5 |
| 2006 | 145,822 | 4,322.3 |
| 2007 | 166,990 | 4,554.1 |
| 2008 | 202,113 | 4,820.9 |
| 2009 | 194,812 | 5,147.2 |



Comparing the Israeli GDP to the Palestinian GDP 2005–2009 (\$ million)



2. The GDP per Capita 1999–2009

This indicator illustrates the GDP per capita, thus it reflects the average income earned by the individual. The annual increase in the GDP leads to an increase in the individual’s income and boosts his ability to meet his need for goods and services, both necessities and luxuries and vice versa. However, it should be noted here that this indicator remains an estimated figure which does not necessarily reflect the equitable distribution of national income since there are around 170 thousand Palestinian families living under poverty line.³ Nonetheless, the GDP remains one of the key indicators used in economic analysis due to its efficiency in tracing growth and comparing one country to another.

When observing the GDP in the WB and GS, the available data show that the GDP per capita was \$1,612 in 1999 then it declined and fluctuated in the following years without retaining its previous value.

In 2009, the GDP per capita was \$1,390 as compared to \$1,290 in 2008, with a 7.8% increase as illustrated in table 3/8. This growth, although a sign of positive development, has been simultaneous with continuous foreign aid and a high level of unemployment; hence, it does not necessarily indicate a substantial growth.



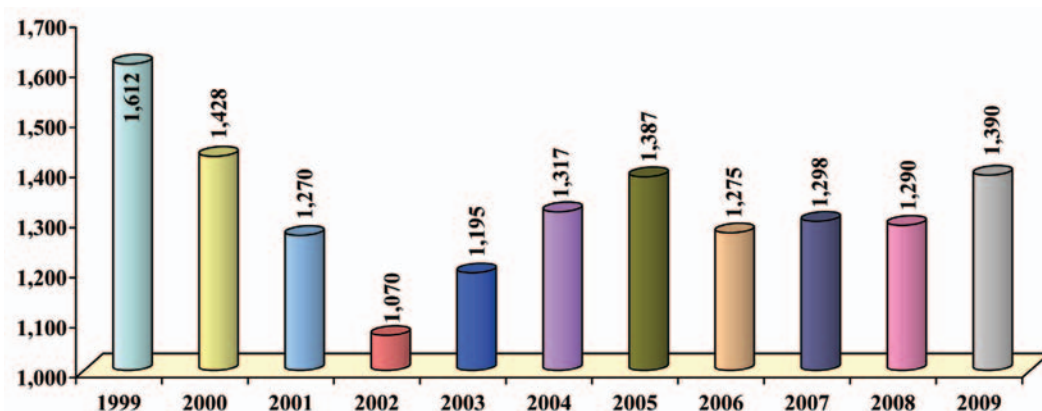
**Table 3/8: GDP per Capita in WB and GS 1999–2009
at Constant Prices (\$)⁴**

| Year | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009* |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Annual estimate | 1,612 | 1,428 | 1,270 | 1,070 | 1,195 | 1,317 | 1,387 | 1,275 | 1,298 | 1,290 | 1,390 |

Note: The figures are based on the statistics of the PCBS excluding that part of Jerusalem, which was annexed after the 1967 occupation by Israel.

* Flash estimates.

GDP per Capita in WB and GS 1999–2009 (\$)



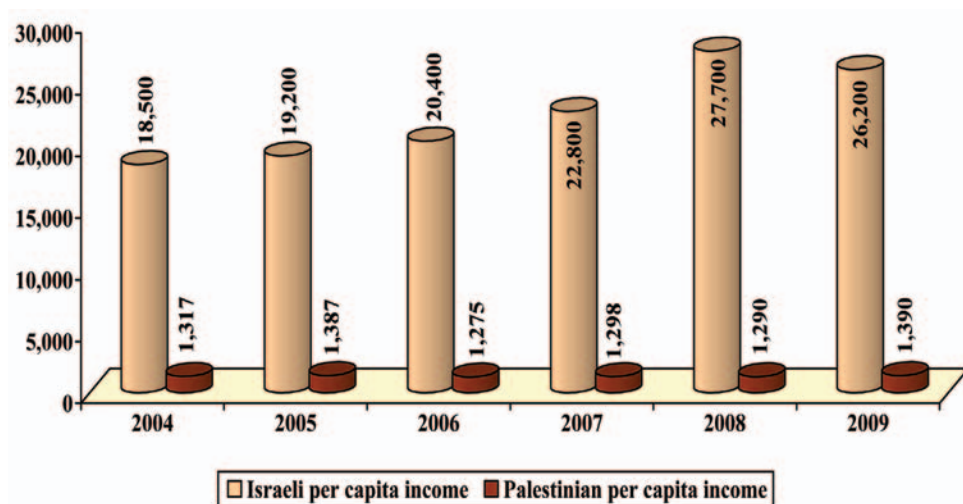
If we consider the Israeli GDP per capita which amounted to \$27,700 in 2008 and \$26,200 in 2009, we clearly notice how the Israeli individual enjoys a better level of living at the expense of the suffering and pain of the Palestinian individual. In 2008, the Israeli GDP per capita was twenty three-fold the Palestinian one and nineteen-fold in 2009. If we take into consideration that the Palestinian individual is not short of human resources and personal capabilities, we could pin down the Israeli role in weakening the Palestinian development opportunities, as well as the improvement of the Palestinian individual’s living standards.



**Table 4/8: Comparison of the Israeli and Palestinian GDP per Capita
2004–2009 (\$)⁵**

| Year | Israeli per capita income | Palestinian per capita income (WB and GS) |
|------|---------------------------|--|
| 2004 | 18,500 | 1,317 |
| 2005 | 19,200 | 1,387 |
| 2006 | 20,400 | 1,275 |
| 2007 | 22,800 | 1,298 |
| 2008 | 27,700 | 1,290 |
| 2009 | 26,200 | 1,390 |

Comparison of the Israeli and Palestinian GDP per Capita 2004–2009 (\$)



3. Consumption, Saving and Investment Indicators

These indicators enjoy special importance as they outline the relation with the achieved income and the aspects of disposition of this income in the mentioned areas. Thus, the total consumption indicates the part of expenditure used to acquire goods and services in a specific year, while the remaining part represents the savings which could be considered a postponed consumption used when needed. This allows the banking system to compile these savings and prepare them for investors who need money to fund projects to be established, increase the production capacity of existing projects or maintain the level of this capacity without any decline during maintenance operations.

The special case of these indicators in Palestine has different connotations, since the size of total consumption is much higher than the GDP which makes the savings indicator negative and the investment levels low (see table 5/8).

Table 5/8: Percentage of Total Consumption, Total Investment and Domestic Savings of the GDP 2000–2009⁶

| Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009* |
|------------------------------|-------|-------|-------|-------|-------|-------|------|-------|-------|-------|
| Total consumption (%) | 125.7 | 136.6 | 140.9 | 138.9 | 142.2 | 143.1 | 143 | 139.9 | 139.4 | 138.9 |
| Total investment (%) | 31.4 | 20.7 | 24.7 | 26.8 | 25.1 | 24.1 | 20.7 | 17.8 | 19.1 | 23.4 |
| Domestic savings (%) | -25.8 | -36.6 | -40.9 | -38.9 | -42.2 | -43.1 | -43 | -39.9 | -39.4 | -38.9 |

* The figures of 2009 are estimated numbers representing average of the recent nine years.

Percentage of Total Consumption and Total Investment of the GDP 2000–2009 (%)

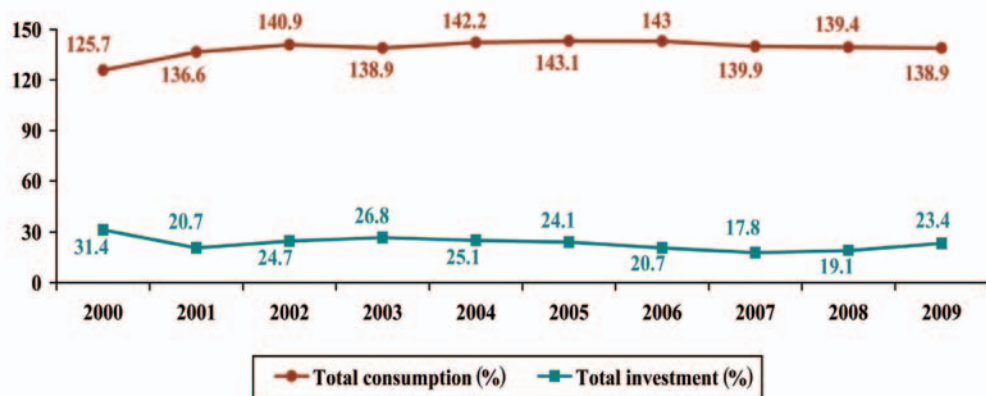


Table 5/8 shows that the total consumption exceeded the GDP and stood at 125.7% in 2000, then it took an upward, fluctuating trend till it reached 138.9% in 2009. This could be referred to the low incomes in Palestine and the steady gains in prices which cause the population to compensate for the lack in their real income by spending their entire income, let alone the consumption which has exceeded the current income levels thus eliminating any ability to save. Given this increase in consumption, the percentage of saving reached around -38.9% in 2009 as shown in table 5/8.



On the other hand, total investment reached low levels with a decreasing trend where the ratio of total investment to GDP decreased from 31.4% in 2000 to 23.4% in 2009. This is due to the absence of favorable investment climate with a negative impact on production and growth.

Since the size of total consumption is high and unusual in the WB and GS, and that is due to the dramatic rise in prices and the dependence on costly Israeli commodities, it is possible to say that all this was at the expense of the domestic savings. Thus the size of savings not only deteriorated but also reached negative levels, especially with the tendency of many consumers to withdraw their savings and deposits, or to borrow money or use aid and external funding to meet their consumption needs.

4. Public Debt

Public debt constitutes an obligation which governments have to meet and pay including the debt installments and their interest. It is not uncommon for countries to resort to borrowing money to finance development projects or to pay off the deficit in their general budget. Nonetheless, the delay in fulfilling these obligations increases burdens on the government and the citizens as well. Faced by increasing burdens, the PA had to resort to borrowing while its debt rose year after year as demonstrated in table 6/8. This debt comes from different sources which include internal loans from domestic banks or the General Authority for Insurance and Pensions, the General Petroleum Corporation (GPC) and the private sector. The sources of debt could also be external whether from governments or international organizations such as the International Development Association (IDA).

The figures in table 6/8 show that the growth of public debt was high until 2008 where it increased from \$795 million to \$1,544 million in the period 2000–2008, by an annual growth rate 8.65% and 94.2% increase in the same period. Although the public debt decreased in 2009, it remained a high one where the share of the individual in the WB and GS was estimated at around \$327, knowing that there was no increase in economic growth or in the size of goods and services exports compared to the size of public debt. The percentage of public debt as compared to the GDP is still a high one estimated at around 26.8% in 2009. Similarly, the percentage of this debt as compared to the total exports is also high where it reached 230%, i.e., 2.3 times the size of exports of goods and services. This entailed more burdens on the PA which faces difficulties to meet its obligations in spite of donations and foreign aid.

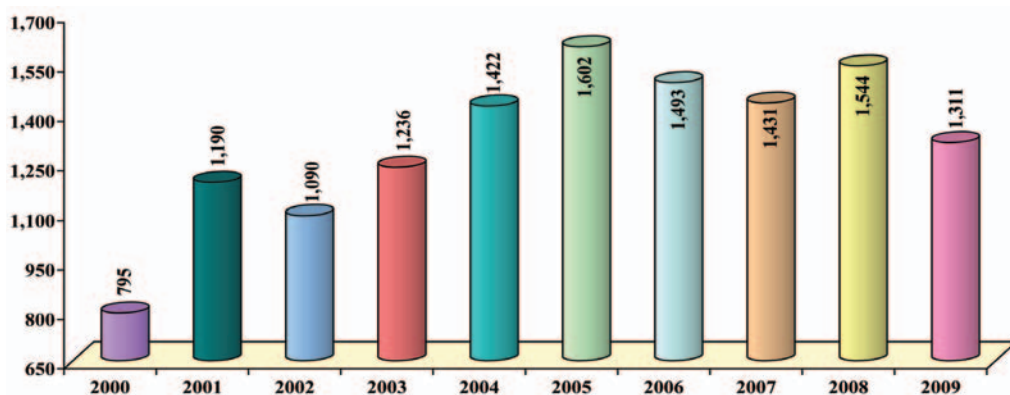


Table 6/8: Public Debt of the PA 2000–2009 (\$ million)⁷

| Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Public debt | 795 | 1,190 | 1,090 | 1,236 | 1,422 | 1,602 | 1,493 | 1,431 | 1,544 | 1,311* |
| Its percentage of GDP (%) | 17.9 | 31.8 | 34.5 | 34.1 | 34.9 | 35.8 | 32.3 | 27.5 | 23.8 | 26.8 |
| Its percentage of goods and services exports (%) | 91.7 | 212.4 | 234.3 | 265.7 | 265.7 | 272.5 | 279 | 267.1 | 181.7 | 230 |

* Public debt of 2009 is an estimated number representing average of the recent nine years.

Public Debt of the PA 2000–2009 (\$ million)



Second: PA's Fiscal Budget

1. Developments in the Fiscal Operations

The PA depends on three sources to finance its expenditure, the most important of which is the external financing such as grants and foreign aid which constitute 50–55% of budgetary support. The second important source is the clearance revenues (collected by Israel on behalf of the PA), and lastly the domestic revenue source which ranks third in importance.

Thanks to grants and foreign aid, the PA budget could achieve a fiscal surplus which amounted to \$269.8 million in 2008, yet the Palestinian government has faced many difficulties since the beginning of 2009 in providing the necessary



liquidity to meet its obligations. This situation urged the government to resort to borrowing from local banks where loans reached \$530 million in June 2009.⁸ The financial crisis persisted due to the irregular flow of foreign aid caused by the political situation and developments on the Palestinian arena.

2. Developments in the Financial Performance in 2009

a. Revenues

According to table 7/8, the amount of domestic revenues actually received in 2009 was around \$585 million; thus, the size of domestic revenues was less 6.4% compared to its size in the budget, and 22.9% less than what was collected in 2008. This was caused by the decline in non-tax revenues by 19.7% as compared to what has been allocated in the budget, and the increase in tax revenues by 10.4% only as compared to the amount allocated in the budget (see table 7/8).

Considering clearance revenue which reached \$1,137 million in 2008, the number dropped to \$1,090 million in 2009, around a 2.9% decline as compared to the budget allocation. While in comparison to the clearance revenue in 2008, the decline is estimated at 4.1% approximately. Based on this analysis, we find that the total net revenues (gross domestic revenue plus clearance revenue after deducting tax revenue) has declined in 2009 by 5% in comparison to budget allocation and by 13% compared to 2008 thus amounting to \$1,548.7 million. The following figure shows the evolution of gross domestic, clearance and total revenues in the quarters of 2009.

The external budgetary support and development financing which the donor countries have promised to the PA have deteriorated since the end of 2008. Thus, in the first half of 2009, the PA was in a financial crisis which caused it to intensify efforts to urge Arab and international donors to meet their obligations. The USA was prompted to pay \$198.5 million to support the Palestinian budget in July 2009 and the KSA a sum of \$202.8 million in August 2009, i.e., the third quarter of 2009. Here, we notice that the third quarter witnessed a large increase in external budgetary support and development financing as compared to the second and fourth quarters where it reached \$668.7 million, in attempt to save the PA from its crisis. The total external budgetary support and development financing amounted to \$1,414.7 million of the balance specified in the budget, i.e., \$1,953 million. Hence the sum of external budgetary support and development financing for 2009 was 27.6% lower than the budget allocation. This figure declined by 19.7% compared to the 2008 budget.



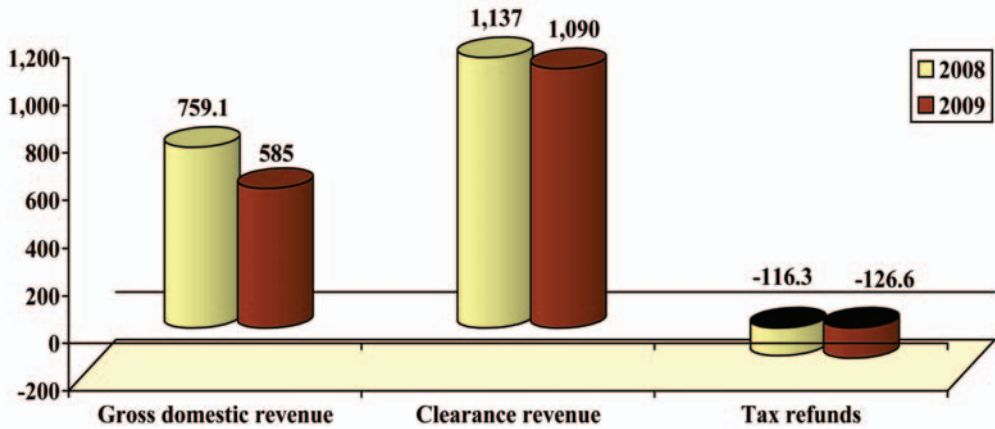
Table 7/8: Public Revenues and Financing Sources (Cash Basis) 2008–2009
 (\$ million)⁹

| Fiscal operations | Budget 2008 (actual) | Budget 2009 | Quarters (Q) of 2009 (actual) | | | | Sum of quarters | Change according to budget 2009 (%) | Change according to budget 2008 (%) |
|--|----------------------|--------------|-------------------------------|--------------|----------------|--------------|-----------------|-------------------------------------|-------------------------------------|
| | | | Q1 | Q2 | Q3 | Q4 | | | |
| Gross domestic revenue | 759.1* | 625 | 111.4 | 100.3 | 242.7 | 130.6 | 585 | -6.4 | -22.9 |
| - Tax revenue | 272.8 | 273 | 71.2 | 60.8 | 84.1 | 85.4 | 301.5 | 10.4 | 10.5 |
| - Non-tax revenues | 486.2* | 353 | 40.2 | 39.6 | 158.6 | 45.2 | 283.6 | -19.7 | -41.7 |
| Clearance revenue | 1,137 | 1,123 | 241.2 | 259 | 312 | 277.8 | 1,090 | -2.9 | -4.1 |
| Total revenues | 1,896.1 | 1,748 | 352.6 | 359.3 | 554.7 | 408.4 | 1,675 | -4.2 | -11.7 |
| Tax refunds (-) | -116.3 | -118 | -10.5 | - 4.1 | -100.9 | -11.1 | -126.6 | 7.3 | 8.9 |
| Total net revenues | 1,779.8* | 1,630 | 342.1 | 355.3 | 453.9 | 397.4 | 1,548.7 | -5 | -13 |
| External budgetary support and development financing | 1,762.7 | 1,953 | 272 | 179.9 | 668.7 | 294.1 | 1,414.7 | -27.6 | -19.7 |
| The sum of total revenues, external budgetary support and development financing excluding deducting tax refunds | 3,658.8 | 3,701 | 624.6 | 539.2 | 1,223.4 | 702.5 | 3,089.7 | -16.5 | -15.6 |

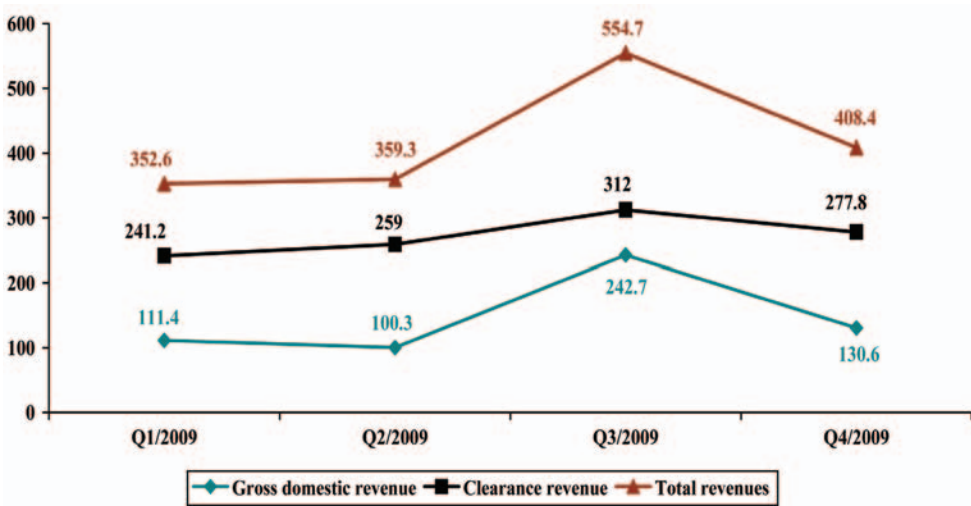
* Non tax revenue and gross domestic revenue in 2008 includes \$197.1 million received as dividend from the Palestinian Investment Fund (PIF) to repay the PA's debt to the PIF which is included under net domestic bank financing.



PA Revenues 2008–2009 (\$ million)



The Development of Gross Domestic, Clearance and Total Revenues in the Quarters of 2009 (\$ million)



b. Expenditures

The wage expenditure is considered the main expenditure provision in the budget where it constituted around 54.1% of total expenditure and net lending for 2008. When observing table 8/8, the available data show that what has

actually been spent as wage expenditure in 2009 amounted to \$1,423.2 million, thus exceeding the amount allocated in the budget by 0.9%, although it declined by \$347 million and 19.6% as compared to what has been spent in 2008. This refers to many reasons, notably that the wage expenditure in 2008 have included deferred cash payments that have not been disbursed in timely manner which made the expenditure of 2009 relatively high. On the other hand, public wage expenditure for 2009 was accompanied by a reform policy to reduce bloated public expenditures by limiting the new governmental appointments, cash allowances and promotions. This happened while encouraging early retirement to benefit from its advantages and facilitations, in addition to the suspension of payment of salaries to those who work within the context of conditions related to Palestinian division.

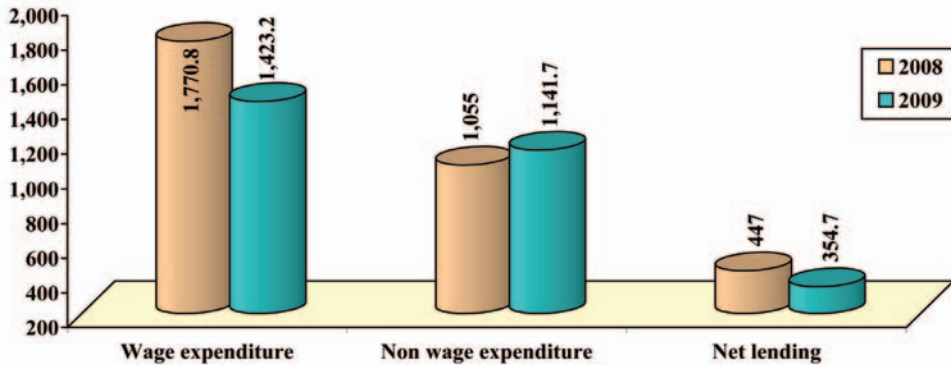
Table 8/8: Total and Development Expenditures (Cash Basis) 2008–2009
(\$ million)¹⁰

| Fiscal operations | Budget 2008 (actual) | Budget 2009 | Quarters (Q) of 2009 (actual) | | | | Sum of quarters | Change according to budget 2009 (%) | Change according to budget 2008 (%) |
|--|----------------------|--------------|-------------------------------|--------------|--------------|-------------|-----------------|-------------------------------------|-------------------------------------|
| | | | Q1 | Q2 | Q3 | Q4 | | | |
| Wage expenditure | 1,770.8 | 1,410 | 321.3 | 341.1 | 509 | 251.8 | 1,423.2 | 0.9 | -19.6 |
| Non wage expenditure | 1,055 | 1,290 | 328.2 | 221.6 | 327.9 | 264 | 1,141.7 | -11.5 | 8.2 |
| Net lending | 447 | 380 | 76.5 | 81.7 | 115.3 | 81.2 | 354.7 | -6.7 | -20.6 |
| Total expenditure and net lending | 3,272.7 | 3,080 | 726 | 644.3 | 952.2 | 597 | 2,919.5 | -5.2 | -10.8 |
| Development expenditures | (...) | 503 | 8.7 | 61.8 | 56.8 | 58.6 | 185.9 | -63 | (...) |

Note: (...) means there is no available data.



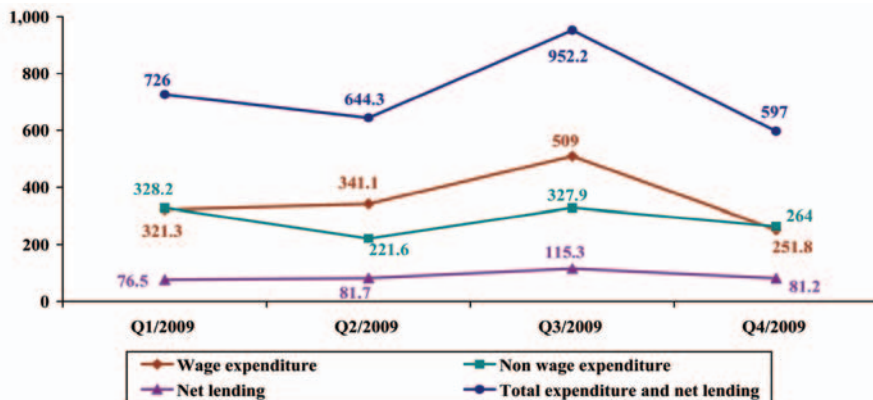
PA Expenditures 2008–2009 (\$ million)



The non-wage expenditures which include transfers, operating and capital expenditures, accounted for 32.2% of total expenditure and net lending in 2008, and in the 2009 budget they were allocated a sum of \$990 million, which increased to \$1,290 million after a cabinet decision, on 29/9/2009, which added \$300 million to this provision. What was actually spent in 2009 amounted to \$1,141.7 million; thus the value of real expenditure dropped \$148.3 million and by 11.5% compared to what was appropriated in the budget. Comparing this expenditure to the budget of 2008, we notice that it is higher by \$86.7 million, i.e., by 8.2%.

Regarding the net lending provision, the 2009 budget allocated around \$380 million for this provision which is \$67 million less than that in the 2008 budget. Net lending accounted for \$354.7 million in 2009, i.e., \$25.3 million and 6.7% less than the budget, while if compared to the 2008 budget it is 20.6% less. The following figure illustrates the evolution of expenditure in the quarters of 2009.

The Development of PA’s Expenditures in the Quarters of 2009 (\$ million)



As for the development expenditure related to projects, a sum of \$503 million was allocated in the budget where \$8.7 million were spent in the first quarter of 2009 then \$61.8 million in the second, \$56.8 million in the third and \$58.6 million in the last quarter of the same year. Hence, the actual development expenditures in 2009 reached \$185.9 million, i.e., 37% of the sum appropriated in the budget. The reason of this decline which is estimated at 63% is that the priority is to support wages and salaries and similar expenditures, while operating expenditure comes next. It is worth of mention here that commitment to spending on development projects remains subject to available surpluses and aid.

c. Budget Deficit

Budget deficit in 2008 amounted to \$1,492.9 million after deduction of total expenditure from total net revenues. According to the 2009 budget, the deficit was expected to drop to \$1,450 million. Yet with the decrease in the collected revenues and the delay in foreign aid in the first and second quarters of 2009, and despite the efforts to cut costs, the deficit in 2009 reached \$1,370.9 million, 5.5% less than the sum appropriated in the budget and 8.2% decrease as compared to the 2008 budget (see table 9/8).

The deficit after adding development expenditure for 2009 amounted to around \$1,556.8 million, a decrease equivalent to 20.3% compared to the sum expected in the budget. This is due to the significant depreciation in the development expenditure. On the other hand, when external budgetary support and development financing are added to total net revenues, total deficit including development expenditure in the end of 2009 reached \$142.1 million while the estimated budget expected that the sum of total net revenues, including external budgetary support and development financing, be equal to total expenditure including development expenditure and the deficit would be reduced to none. To face this situation, the PA has resorted to borrowing from Palestinian local banks to cover the deficit, and by the end of the year it had a surplus of \$33.8 million (see table 9/8).



Table 9/8: The Development of the Actual Budget Balance for 2009 and Comparing It to the Estimate Budget (Cash Basis) 2008–2009 (\$ million)¹¹

| Fiscal operations | Budget 2008 (actual) | Budget 2009 | Quarters (Q) of 2009 (actual) | | | | Sum of quarters | Change according to budget 2009 (%) | Change according to budget 2008 (%) |
|--|----------------------|-------------|-------------------------------|--------|--------|--------|-----------------|-------------------------------------|-------------------------------------|
| | | | Q1 | Q2 | Q3 | Q4 | | | |
| Budget deficit before external budgetary support (excluding development expenditure) | -1,492.9 | -1,450 | -383.9 | -289.1 | -498.3 | -199.6 | -1,370.9 | -5.5 | -8.2 |
| Budget deficit including development expenditure (before external budgetary support)* | (...) | -1,953 | -392.6 | -350.8 | -555.2 | -258.2 | -1,556.8 | -20.3 | (...) |
| Budget deficit including development expenditure (after external budgetary support and development financing)** | (...) | 0 | -120.6 | -170.9 | 113.5 | 35.9 | -142.1 | ∞ | (...) |
| Net Domestic Bank Financing | | | 90.6 | 225.3 | -175.6 | 35.5 | 175.8 | | |
| Residual | | | -30 | 54.4 | -62 | 71.4 | 33.8 | | |

Note: ∞ means infinity and is equal to the sum of the four quarters of 2009 divided by the 2009 budget which was zero.

* Budget deficit including development expenditure before external budgetary support: total net revenues - (total expenditure + development expenditure).

** Budget deficit including development expenditure after external budgetary support and development financing (total net revenues + external budgetary support - total expenditure).

According to the draft budget of 2010, which is estimated at about \$3.8 billion, the deficit is expected to reach around \$1,211 million, i.e., 16% of the GDP, which is the lowest level since 2000. In addition, the public budget for 2010 expects a 20% growth in the gross domestic revenues so that they exceed \$2 billion, which is the highest level attained since the establishment of the PA 17 years ago.¹²

Third: Work and Unemployment

1. Palestinian Labor Force and the Rate of Participation and Unemployment

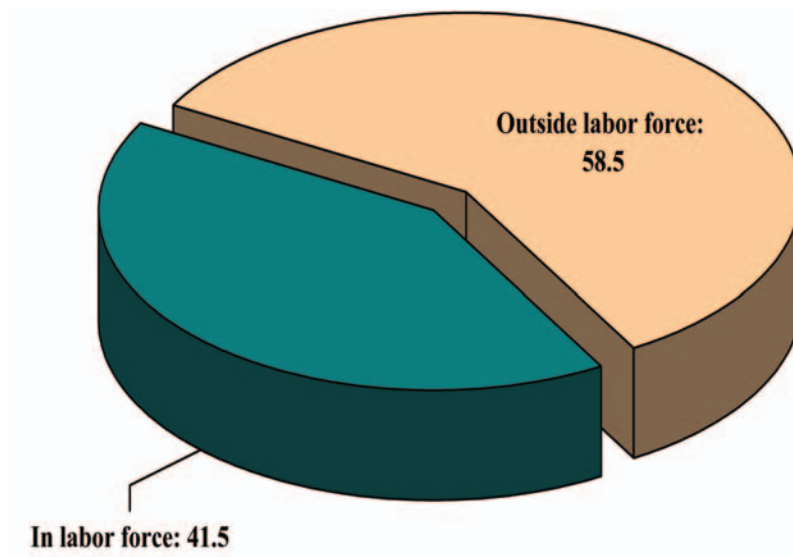
The WB and GS have been suffering from siege since more than two years. It suffers the closure of the crossings, the political, social and economic division between WB and GS and the seclusion of GS. This resulted in a decline in the size of trade, the deterioration of living standards, besides poverty and high level of unemployment.

Table 10/8: Distribution of Persons Aged 15 Years and over in the WB and GS by Labor Force Status and Sex¹³

| Labor force status | Q4/2008 | | Q1/2009 | | Q2/2009 | | Q3/2009 | | Q4/2009 | |
|----------------------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| | Number | % | Number | % | Number | % | Number | % | Number | % |
| In labor force | 896,100 | 41.4 | 934,000 | 41.4 | 949,800 | 41.7 | 955,400 | 41.6 | 963,500 | 41.5 |
| Males | 735,600 | 67.3 | 761,900 | 66.9 | 767,200 | 66.7 | 780,600 | 67.2 | 790,000 | 67.3 |
| Females | 160,500 | 15 | 172,100 | 15.4 | 182,600 | 16.2 | 174,800 | 15.4 | 173,500 | 15.1 |
| Outside labor force | 1,268,600 | 58.6 | 1,321,100 | 58.6 | 1,327,000 | 58.3 | 1,343,200 | 58.4 | 1,357,200 | 58.5 |
| Males | 357,400 | 32.7 | 377,800 | 33.1 | 383,500 | 33.3 | 381,300 | 32.8 | 383,200 | 32.7 |
| Females | 911,200 | 85 | 943,300 | 84.6 | 943,500 | 83.8 | 961,900 | 84.6 | 974,000 | 84.9 |
| Total | 2,164,700 | 100 | 2,255,100 | 100 | 2,276,800 | 100 | 2,298,600 | 100 | 2,320,700 | 100 |



Distribution of Persons Aged 15 Years and over in the WB and GS by Labor Force Status at the End of 2009 (%)



Distribution of Persons Aged 15 Years and over in the WB and GS by Labor Force Status and Sex at the End of 2009 (%)

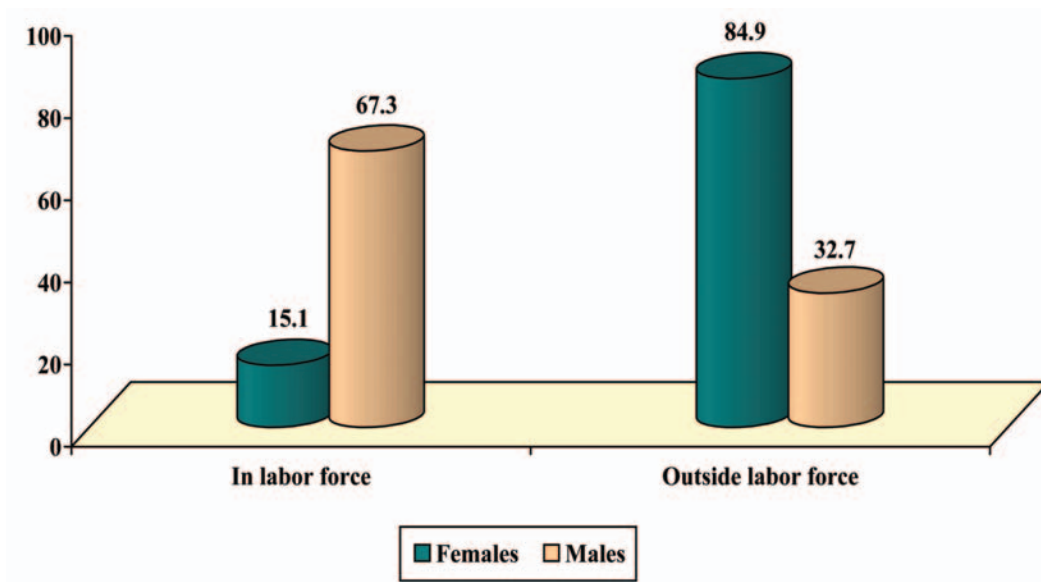


Table 10/8 shows that the total labor force in WB and GS in 2008 rose from 896 thousand in the fourth quarter of 2008, by 41.4% of the 2,164,700 Palestinians aged 15 and over, to around 964 thousand in the fourth quarter of 2009, i.e., by 41.5% of the Palestinians over 15, numbering 2,320,700 individuals.

The number of males within the labor force increased from 736 thousand in the fourth quarter of 2008 to 790 thousand in the fourth quarter of 2009, yet it maintained the same ratio, i.e., 67.3% of total males aged 15 and over. The same thing applies for females within labor force where their number increased from around 161 thousand in the in the fourth quarter of 2008, i.e., by 15%, to around 174 thousand in the fourth quarter of 2009, which accounts for 15.1%.

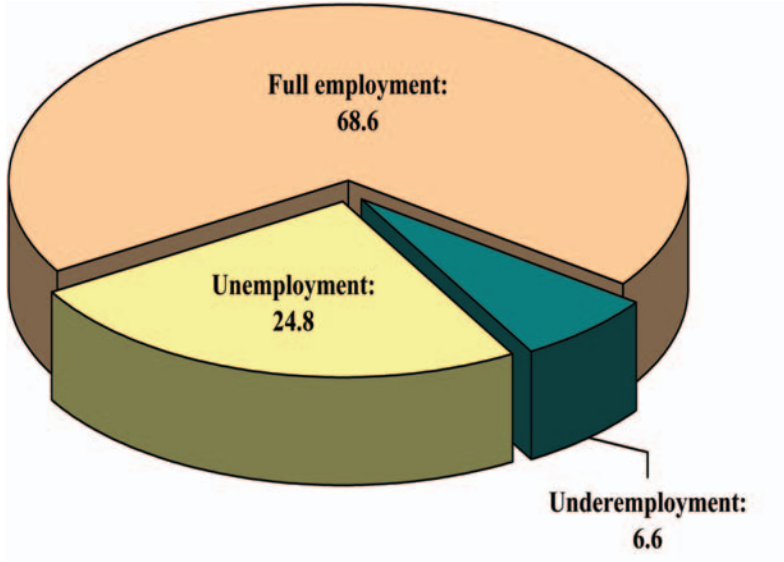
Upon comparing the percentage of participants in labor force in 2008–2009, we notice an increase from 41.3% to 41.6% respectively and from 875 thousand to around 946 thousand (see table 13/8).

Table 11/8: Distribution of Labor Force Participants Aged 15 Years and over in the WB and GS¹⁴

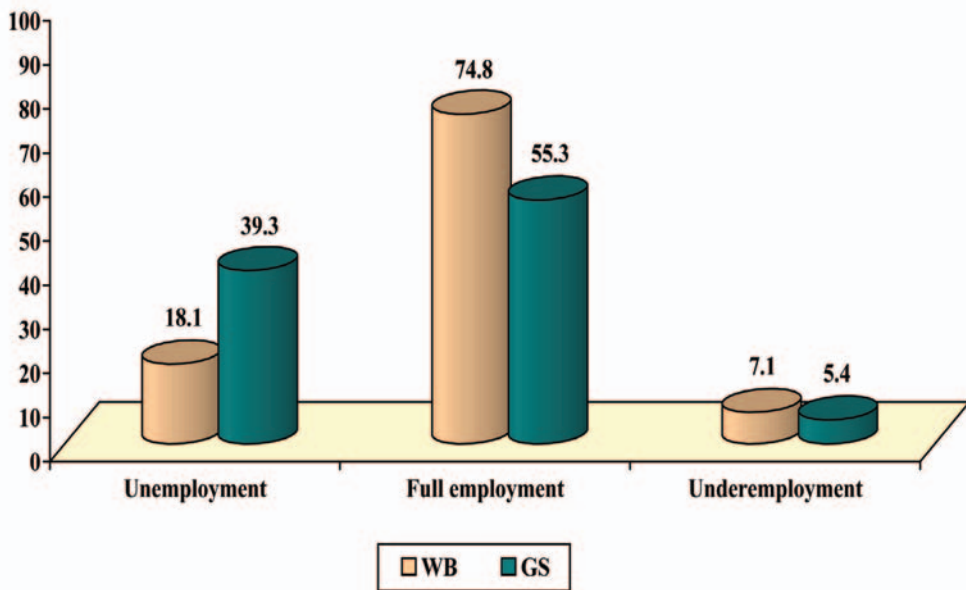
| Labor force components | Q4/2008 | | Q1/2009 | | Q2/2009 | | Q3/2009 | | Q4/2009 | |
|------------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| | Number | % | Number | % | Number | % | Number | % | Number | % |
| Unemployment | 250,400 | 27.9 | 236,900 | 25.4 | 211,100 | 22.2 | 246,200 | 25.8 | 239,300 | 24.8 |
| WB | 119,600 | 19.8 | 120,800 | 19.5 | 103,200 | 15.9 | 114,900 | 17.8 | 119,000 | 18.1 |
| GS | 130,800 | 44.8 | 116,100 | 37 | 107,900 | 36 | 131,300 | 42.3 | 120,300 | 39.3 |
| Full employment | 588,400 | 65.7 | 641,800 | 68.7 | 680,400 | 71.6 | 660,400 | 69.1 | 660,800 | 68.6 |
| WB | 447,600 | 74.1 | 461,700 | 74.4 | 507,000 | 78 | 495,500 | 76.9 | 491,200 | 74.8 |
| GS | 140,800 | 48.2 | 180,100 | 57.5 | 173,400 | 57.7 | 164,900 | 53.1 | 169,600 | 55.3 |
| Underemployment | 57,300 | 6.4 | 55,300 | 5.9 | 58,300 | 6.2 | 48,800 | 5.1 | 63,400 | 6.6 |
| WB | 36,800 | 6.1 | 37,900 | 6.1 | 39,400 | 6.1 | 34,400 | 5.3 | 46,700 | 7.1 |
| GS | 20,500 | 7 | 17,400 | 5.5 | 18,900 | 6.3 | 14,400 | 4.6 | 16,700 | 5.4 |
| Total | 896,100 | 100 | 934,000 | 100 | 949,800 | 100 | 955,400 | 100 | 963,500 | 100 |



Distribution of Labor Force Participants Aged 15 Years and over in the WB and GS at the End of 2009 (%)



Labor Force Participants Aged 15 Years and over in the WB and GS at the End of 2009 (%)



Regarding unemployment, the percentage of unemployed individuals looking for a job in WB and GS dropped from 27.9% in the fourth quarter of 2008 to 24.8% in the fourth quarter of 2009, which means an improvement in the operational level. The decline was notable in GS where it dropped from 44.8% in the fourth quarter of 2008 to 39.3% in the fourth quarter of 2009.

As per the labor force surveys conducted by the PCBS, Hebron recorded the highest unemployment rate in WB in 2009 by 23.6%, while in GS Khan Yunus occupied the first rank by 50.4%.¹⁵

Table 12/8: Unemployment Percentage Rate of Participants in the Labor Force Aged 15 Years and over in the WB and GS by Age Group (%)¹⁶

| Age group | Q4/2008 | Q1/2009 | Q2/2009 | Q3/2009 | Q4/2009 |
|-----------|---------|---------|---------|---------|---------|
| 15–19 | 43 | 39.4 | 28.7 | 39 | 38.2 |
| 20–24 | 41.1 | 39 | 38.6 | 41.8 | 40.4 |
| 25–29 | 30.1 | 28.8 | 27.6 | 33.2 | 29.1 |
| 30–34 | 22.7 | 20.6 | 17.9 | 19.9 | 19.4 |
| 35–39 | 22.3 | 19.5 | 13.7 | 16.8 | 17.1 |
| 40–44 | 21.7 | 19.5 | 15.8 | 16.8 | 16.3 |
| 45–49 | 19 | 16.4 | 14.1 | 16.9 | 17.9 |
| 50+ | 20.1 | 16.7 | 13.7 | 14.2 | 15.9 |

Unemployment Percentage Rate of Participants in the Labor Force Aged 15 Years and over by Age Group (%)

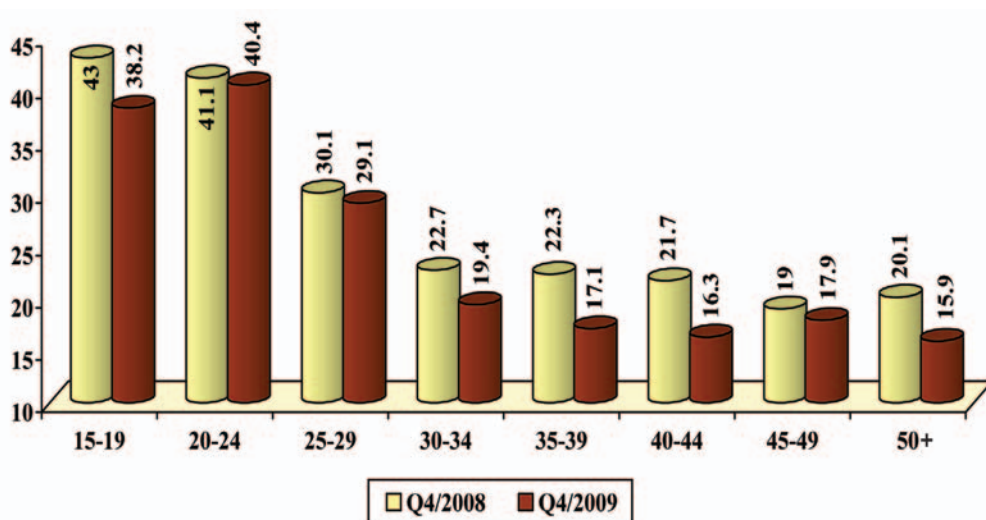
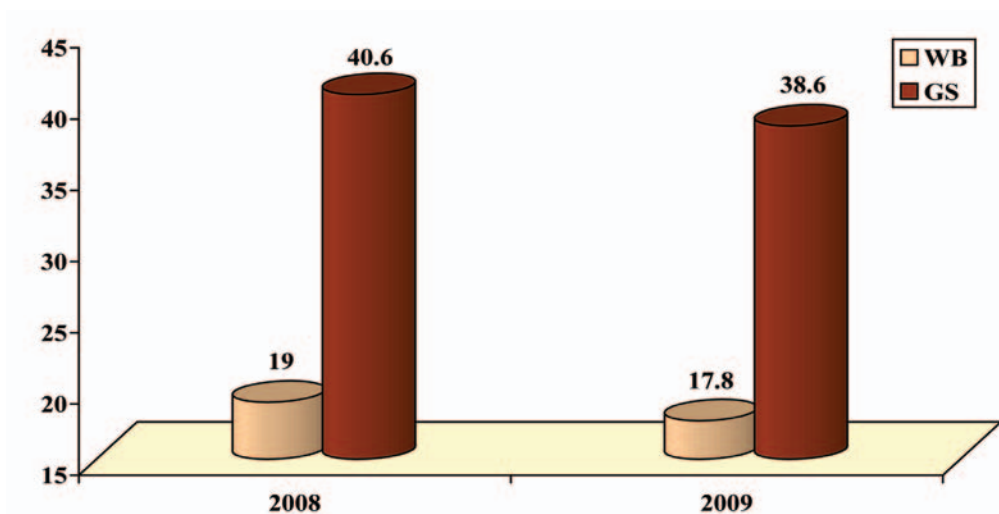


Table 12/8 shows that unemployment rate is higher among youths from 15 to 29 years. On the other hand, the youth category 15–19 years recorded the highest unemployment level in the fourth quarter of 2009, then age category 20–24 years which reached 41.1% in the fourth quarter of 2008 and 40.4% in the fourth quarter of 2009.

Table 13/8: General Framework of the Palestinian Labor Force in WB and GS 2008–2009¹⁷

| Year | 2008 | | 2009 | |
|---|---------|------|---------|------|
| | Number | % | Number | % |
| Labor force participation (15 yrs & over) | 975,000 | 41.3 | 946,400 | 41.6 |
| The unemployed among the labor force participants | 227,000 | 26 | 231,400 | 24.5 |
| - WB | 112,000 | 19 | 112,967 | 17.8 |
| - GS | 115,000 | 40.6 | 118,433 | 38.6 |

General Framework of the Palestinian Labor Force in WB and GS 2008–2009 (%)



Observing table 13/8 where the level of unemployment reached 24.5% in 2009, and upon comparing the levels of unemployment in the WB and GS in 2008 and 2009, we notice that the level of unemployment dropped from 26% in 2008 to 24.5% in 2009, which is a low level counting 4,400 persons. The level of

unemployment was divided between the WB and GS where it reached 17.8% in WB in 2009 compared to 38.6% in GS, whereas it reached 19% in 2008 in WB and 40.6% in GS.

Concerning the distribution of workers in the economic sector, surveys indicated the rise of the number of workers in WB and GS between the fourth quarter of 2008 and the first quarter of 2009 by approximately 51 thousand where it reached around 697 thousand workers in the first quarter of 2009 compared to around 646 thousand in the fourth quarter of 2008. In addition, the number of workers in the WB and GS in the second quarter increased by 42 thousand workers where it amounted to around 739 thousand. Observing the surveys of the third quarter of 2009, we notice that the number of workers declined by around 30 thousand to reach approximately 709 thousand; whereas in the fourth quarter of 2009 it reached around 724 thousand workers in WB and GS.

Table 14/8: Distribution of Employed Persons by Economic Activity for the Fourth Quarter of 2008 and the Quarters of 2009¹⁸

| Economic Activity | Q4/2008 | | Q1/2009 | | Q2/2009 | | Q3/2009 | | Q4/2009 | |
|--|----------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|
| | Number | % | Number | % | Number | % | Number | % | Number | % |
| Agriculture, fishing and forestry | 83,941 | 13 | 81,561 | 11.7 | 90,860 | 12.3 | 75,884 | 10.7 | 89,801 | 12.4 |
| Mining, quarrying and manufacturing | 71,673 | 11.1 | 87,835 | 12.6 | 84,212 | 11.4 | 83,686 | 11.8 | 91,249 | 12.6 |
| Construction | 69,735 | 10.8 | 77,378 | 11.1 | 90,860 | 12.3 | 86,522 | 12.2 | 82,559 | 11.4 |
| Commerce, restaurants and hotels | 129,786 | 20.1 | 128,963 | 18.5 | 135,182 | 18.3 | 141,840 | 20 | 142,667 | 19.7 |
| Transportation, storage and communication | 36,159 | 5.6 | 39,038 | 5.6 | 39,151 | 5.3 | 41,843 | 5.9 | 43,452 | 6 |
| Services and other branches | 254,406 | 39.4 | 282,325 | 40.5 | 298,435 | 40.4 | 279,425 | 39.4 | 274,472 | 37.9 |
| Total | 645,700 | 100 | 697,100 | 100 | 738,700 | 100 | 709,200 | 100 | 724,200 | 100 |



Distribution of Employed Persons by Economic Activity at the End of 2009 (%)

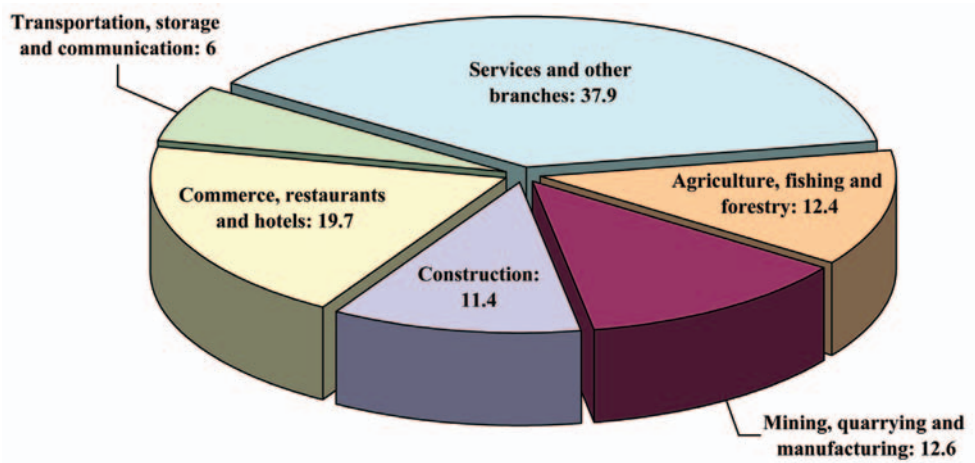


Table 14/8 shows that the services and other branches sector has the highest employment rate in WB and GS, whether in the fourth quarter of 2008 or the quarters of 2009, a rate which ranges between 37.9% and 40.5% followed by commerce, restaurants and hotels sector with employment rate ranging between 20.1% and 18.3% for the fourth quarter of 2008 and quarters of 2009. Mining, quarrying and manufacturing sector comes next in addition to the construction, agriculture, fishing and forestry sectors which employ the same percentage ranging between 10.7% and 13%. Transportation, storage and communication sector comes last with the lowest employment rate ranging between 5.3% and 6%.

2. Poverty

Data issued by the PCBS show that the rate of poverty among Palestinian families reached 34.6% with 23.6% in WB and 56% in GS, while children living in poverty constituted 41.9% with 28.8% in WB and 61.4% in GS. Around 800 thousand children lived in poverty while 33 thousand children practiced child labor in 2007.

On the other hand, the findings of the Palestinian Expenditure and Consumption Survey 2007 revealed that the poverty rate among Palestinian households according to income patterns is 57.3%. The poverty rate for households with children reached 59.3% while for childless households reached 47.2%. The findings also revealed that poor households in the WB reached 47.2% of total households, whereas poor households with children reached 48.6%, and poor childless households reached

41.3%. On the other hand, 76.9% of households in GS were poor, whereas 78.9% of these poor households have children, and 63.7% are childless ones.¹⁹

Poverty rate has witnessed notable increase in GS due to the tightened siege and the Israeli war on the Strip. Mohammad Eshtayyeh, the Minister in charge of the Palestinian Economic Council for Development and Reconstruction (PECDAR), noted on 24/2/2009 that the level of poverty has reached 85% in GS.²⁰ In addition, a report issued by the Arab League in September 2009 mentioned that 80% of the Gazans live under poverty line with an increase in unemployment rates to 60%.²¹ This was confirmed by the United Nations Conference on Trade and Development (UNCTAD) report which stated that poverty affects 90% of the population in Gaza.²²

Fourth: Industrial and Agricultural Production

1. Industrial Activity

Table 15/8: GDP by Economic Activity 1999, 2008 and 2009 at Constant Prices (\$ million)²³

| Year | 1999 | | 2008* | | 2009** | |
|-------------------------------------|--------------|------------|--------------|------------|--------------|------------|
| | Number | % | Number | % | Number | % |
| Mining and quarrying | 35.7 | 5.5 | 21.5 | 3 | 22.7 | 3 |
| Manufacturing | 566.4 | 86.4 | 539.3 | 75.2 | 566.9 | 75.2 |
| Electricity and water supply | 53.4 | 8.1 | 156.7 | 21.8 | 164.7 | 21.8 |
| Total | 655.5 | 100 | 717.5 | 100 | 754.3 | 100 |

Note: Excluding that part of Jerusalem, which was annexed after the 1967 occupation by Israel.

* First revision.

** Flash estimates.

Developed countries owe their achievements to industrial activity which allows a diversity of productions in enormous quantities where productivity increases considerably with the use of machinery and modern technology. Therefore, Industrial activity is considered one of the leading indicators of economic development. Nonetheless, those achievements depend on appropriate economic climate, abundant economic resources and the creativity of leading businessmen



and industrialists. Given the absence of the favorable economic climate due to the siege and tight blockade besides the harsh Israeli practices and the war on GS (27/12/2008–18/1/2009), the Palestinian industrial activity has witnessed a remarkable deterioration during *al-Aqsa Intifadah*; however its contribution to the GDP in 2009 retrieved its level in 1999 where it reached 14.7% in 2009 compared to 14.5% in 1999, noting that during 10 years it did not exceed 15% over the entire period.

Industry includes three main branches: mining, quarrying and manufacturing where each has its own importance in the industrial activity with manufacturing in the forefront. Yet, each of these branches contributes variably to the whole industrial sector due to the disparate trends in the domains of development. On the one hand, water, electricity and gas supplies achieved high growth over 1999–2009 which amounted to 208.4% with a significant increase between 2008 and 2009 by 5.1%. This refers to the importance of this activity for the demand of consumers, which increases every year thus representing the dire need for the consumer and the producer alike. This is contrary to the mining and quarrying sector whose relative importance declined drastically compared to the overall industrial activity from 5.5% to 3% over the aforementioned period of 10 years, where it deteriorated by 36.4%. This is due to the obstacles facing this activity on the levels of export and the need of the local building and construction market. On the other hand, the GDP for the manufacturing industry almost maintained the same level during 1999–2009 ranging between \$566.4 million and \$566.9 million, thus showing that that the Israeli occupation prevents the normal growth of these industries where no genuine growth was recorded during the last 10 years.

2. Agricultural Activity

The agricultural sector in Palestine is of considerable importance as the main source of food, employment and contribution in GDP despite the retreat in its role in the last decades. It contributed by 4.8% in 2009 compared to 5.9% in 2008 and 10.4% in 1999 as shown in table 16/8. The agricultural sector is considered one of the main components of foreign trade, where the percentage of exports of agricultural products reaches around 22% of total exports. These exports pass through four crossings in the WB: al-Jalameh, Taybeh, Beitunia and Tarqumia.²⁴ In GS the agricultural exports are very limited and reached



rock bottom in 2009 while they were confined to flowers and strawberry crops being exported via Kfar Salem crossing to the south of GS at the intersection of the Egyptian, Palestinian and Israeli borders.

Agricultural activity has yielded a product estimated at around \$471 million in 1999 which constituted 10.4% of the GDP as shown in table 16/8, then it deteriorated in a drastic manner in the following years with the fluctuation from one year to another till it reached its lowest level in 2009 scoring \$249 million only, thus representing 52.8% of its value in 1999, i.e., with a deterioration equivalent to 47.2% during 1999–2009.

Table 16/8: The Size of Agricultural Product and Its Contribution to the GDP 1999–2009 at Constant Prices (\$ million)²⁵

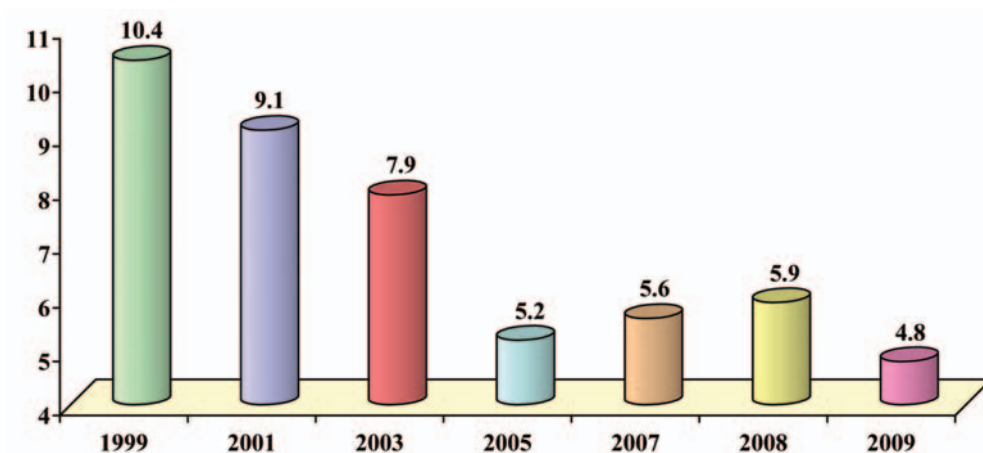
| Year | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008* | 2009** |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Agriculture and fishing | 470.7 | 403.6 | 340.8 | 251.3 | 297.6 | 296.7 | 236.2 | 240.3 | 252.2 | 286.1 | 248.5 |
| Share of the GDP (%) | 10.4 | 9.8 | 9.1 | 7.7 | 7.9 | 7.1 | 5.2 | 5.6 | 5.6 | 5.9 | 4.8 |

Note: Excluding that part of Jerusalem, which was annexed after the 1967 occupation by Israel.

* First revision.

** Flash estimates.

Percentage Contribution of Agricultural Production to the GDP, Selected Years (%)



a. Impediments to the Palestinian Agricultural Activity in WB and GS

This activity has been subject to a variety of factors, mainly:

1. The separation wall in the west and east sides of the WB which appropriated large areas of land amounting to more than 18% of fertile lands, thus depriving the Palestinians from investing these lands or benefiting from them, and depriving them from the sources of their livelihood.
2. The increasing number and continuous expansion of settlements in addition to the increasing number of settlers living there at the expense of the Palestinian lands.
3. The continued establishment of military checkpoints at city entrances and exits, thus hindering the movement of crops and livestock products which exposes them to damage and increases their cost. In fact, there are unjustifiable Israeli practices which target the exporters such as having them download their truck loads repeatedly, using dogs to search the products, and specifying a crossing point for them which might need them to cover longer distances despite the possibility to use shorter ones.
4. The hindrances which limit the import and export movement via crossings, bridges and ports and not allowing the Palestinian trucks to reach the Israeli ports where intensive searches are imposed for security reasons, thus delaying the process of export and import.
5. Repeated daily attacks by the settlers on the Palestinian lands and the farmers, including physical assault, looting of the crops, cutting trees and burning them and preventing these farmers from practicing their normal agricultural activity, especially in the harvest seasons. These practices are meant to scare the farmers and urge them to leave the lands fallow and then abandon them, which makes it easier for the settlers to take over these lands.
6. Controlling water resources in the WB and GS where an Amnesty International report issued in October 2009 notes that the Israeli occupation uses a high percentage of water rights of the Palestinians and deprives them of the use of River Jordan.²⁶ Note that the share of the Palestinians in water does not exceed 120 million meter cube per year compared to 700 million held by Israel,²⁷ which reflects the reality of the Israeli control of the Palestinian water and depriving its owners from their rights. In addition, there are impediments hampering the improvement of the quality of the coastal aquifer water in GS which



is contaminated by 90–95% and unfit for human consumption.²⁸ These obstacles include preventing the import of the machinery and equipment necessary to operate sewage plants and drilling new groundwater wells, besides the shortage in spare parts used to replace defective parts.

b. The Impacts of the Israeli Practices on the Agricultural Sector

1. The continued appropriation of large tracts of land in the WB. Based on the announced Israeli plans, the establishment of the two separation walls in the east and west parts of the WB leaves for the Palestinians only 45–50% of the original area of land.
2. A significant decline in employment with a continuous rise in the levels of unemployment. This means a drop in the Palestinian agricultural income, caused by the deterioration in economic situation in WB and GS, and a decline in the economic status of many Palestinian families and pushing them to poverty line.
3. The increased cost of agricultural production, reduction of quality level in addition to the deterioration of competitiveness as compared to Israeli products.
4. The increase in losses and direct damages whether being related to military checkpoints and similar hindrances, or resulting from the war on GS and the continuous siege. The value of losses and direct damages amounted to \$120 million in the WB and \$240 million in GS.
5. The deterioration in food security where estimations expect an increase in the level of its deficit to 25% in the WB and 61% in GS.

c. Lost Opportunities in the Palestinian Agricultural Activity Resulting from Israeli Hindrances

The World Bank estimates a potential increase of the GDP in WB and GS by 10%, i.e., this GDP could increase from \$4,896 million in 2009 to \$5,386 million when the Palestinians get all their water rights. Moreover, the World Bank believes that there is an opportunity to upgrade the Palestinian agricultural activity where the area of cultivated land could be increased from the current 240 thousand donums to 700 thousand, i.e., an increase by 460 thousand donums and 192%. This will pave the way for a notable increase in job opportunities that could reach to 110 thousand new jobs.²⁹



Fifth: Consequences of the Economic Linkage to Israel

There are many faces for the linkage of the Palestinian economy with the Israeli occupation due to its control over natural resources and potentials. It has direct impact on the Palestinian decision-making process. The following are some forms of dependency on Israel:

1. Keeping the WB and GS in a State of Self-Autonomy Without Sovereignty

The political status quo limited the power of the Palestinian authorities on the ground, a problem facing the local and foreign investor alike. Investors do not only need the license from the Palestinian authorities to start work but also the approval of the Israeli authorities to import the necessary equipment and expertise from abroad; this means that there is a considerable overlap between politics and economy making it impossible to advance the Palestinian economy before finding a political solution with Israel. Consequently, finding a successful development plan in WB and GS is unlikely without a lasting political solution in the region, which also means the overlap of economic development with the political solution of the Palestinian issue. For this reason, any betting on the possibility of developing a link between the Palestinians and Israel without pursuing a lasting solution is doomed to failure. This was reiterated on the Palestinian official level where Muhammad Mustafa, the senior economic advisor to the Palestinian President, stated that jumping over the political solution which is based on the two-state solution to the concept of economic peace is not feasible without political peace and stability.³⁰ In this context, the report issued by UNCTAD is skeptical about the 2009 announcement of “economic peace” initiative proclaimed by Israel. It added that:

It is important to examine the extent to which these ‘new’ Israeli initiatives differ from, or are a component of, long-standing Israeli policy towards the Palestinian economy. Through a review of 25 years of reporting by UNCTAD, a coherent argument emerges for a bold departure from the conventional international economic policy approach, which has left unchallenged the context, frameworks and policies of occupation. An alternative model recognizing the realities of the Palestinian economy and the evident incompatibility between occupation and development becomes imperative.

The UNCTAD report has clearly emphasized the need to give the Palestinians sovereignty over land, water and borders.³¹



2. Israeli Keeness for the Subordination of the Palestinian Economy

Israel is adamant about keeping the Palestinian economy under its control so that it continues to enjoy the privileges and benefits that come along with this control. For this reason, it picked two tracks at the same time, the first one aims at isolating the Palestinians from the outer world and limiting dealings with it to the narrowest possible point, whereas the second track is represented in making the Palestinian economy directly subordinate to the Israeli economy as an only available choice. The application of this trend began in the wake of the Israeli occupation of Arab lands in 1967, then it was specified and documented in the Oslo Accords signed between Israel and the PLO in 1993 and later in the Protocol on Economic Relations between the Government of the State of Israel and the PLO (Paris Protocol) signed in 1994, thus limiting economic tracks in a way that ties the Palestinian economy to Israel. Accordingly, the Palestinian economy has become heavily dependent on the Israeli economy in many respects.

Currently, the chances are weak for breaking the stalemate and the tightened siege, in addition unemployment and poverty have spread. Thus, the Palestinian economy seems to suffer severe conditions which make finding ways to meet the people's basic needs its highest aspiration. Thus, the subordination of the Palestinian economy to Israel was not the outcome of political agreement only, but also the result of the Israeli occupation. This occupation pursues, through systematic and thorough efforts, to curb the Palestinian economy and weaken it while keeping it dependent on the Israeli economy through a fan of cumbersome and stressful actions.³²

However, there could be some opportunities to break this subordination by moving towards the Arab world through the reactivation of the Greater Arab Free Trade Zone.³³

3. Palestinian Foreign Trade and Consolidating the Trade with Israel

The Palestinian foreign trade is linked to the outer world through land crossings only albeit without complete Palestinian control over these crossings, in addition to the lack of any sea or air ports. Despite the agreements for economic cooperation signed between the PA, Jordan and Egypt and which are supposed to open the opportunities for trade with these two neighboring countries, the implementation



of these treaties remains far-fetched. The trade with and via these two countries remained very limited in export and import, while being confined to direct trading with Israel via the crossings, which link the WB and GS with Israel, or through the Israeli ports.

Due to the obstacles facing the Palestinian businessmen in export and import, trading in most cases was made through Israeli dealers to avoid the complicated procedures Israel imposes in the ports. This has resulted in a huge increase in costs to be borne by exporters and importers who have to abandon their activity in many cases. Moreover, Israel has opened the doors for importing consumer goods which are less important for the Palestinian economy, whereas export movement remained limited causing a continuous deficit in the Palestinian trade balance ranging between \$2–3 billion annually.

This Israeli policy depended on keeping the national economy weak in terms of production, ruling out any chance to offset the deficit in the markets except by getting these needs from or through Israel. Accordingly, Israel achieves more benefits at the expense of marginalizing the Palestinian economy and curbing its development. The focus remains on meeting the basic needs of the population and their daily requirements, with a limited job market not to mention the high levels of unemployment. The obstacles facing export in GS persist, even after the end of war on 18/1/2009, where a “total of 20 truckloads of carnation flowers were exported after one year of the military operation vis-à-vis 5500 average annual exported truckloads before closure.”³⁴

The Protocol on Economic Relations between the Government of the State of Israel and the PLO remains one of the main obstacles facing foreign trade. In addition, the Israeli authorities require that the goods entering the Palestinian areas meet the Israeli standards including raw material necessary for Palestinian industry. This applies specifically to drugs and materials necessary for their production, which constitutes a major impediment for competitive trade and denies national industries the necessary attention or markets for their products.³⁵

The following table indicates the size of Palestinian foreign trade in selected years during 2000–2006 and it shows to what extent Israel controls the movement of export and import:



Table 17/8: Palestinian Foreign Trade, Selected Years (\$ million)³⁶

| Year | 2000 | 2002 | 2004 | 2005 | 2006 |
|---|--------------|----------------|----------------|----------------|----------------|
| Total value of exports | 401 | 240.9 | 312.7 | 335.4 | 366.7 |
| - Total value of exports from the WB | 323 | 208.1 | 272.8 | 294.2 | 332.8 |
| - Total value of exports from the GS | 78 | 32.7 | 35 | 41.2 | 33.9 |
| Total value of imports | 2,382 | 2,033.6 | 2,373.2 | 2,666.8 | 2,758.7 |
| Total value of imports from Israel | 1,739 | 1,117 | 1,747.9 | 1,872.9 | 2,002.2 |
| Total value of exports to Israel | 370 | 216 | 281.1 | 290.6 | 326.6 |

The following table shows the size of Palestinian foreign trade with the outside world and also with Israel for 2008 and 2009 where the value is rounded to the nearest million dollars.



Table 18/8: Palestinian Foreign Trade 2008–2009 (\$ million)³⁷

| Year | | 2007 (actual) | 2008 (actual) | 2009 (estimated) |
|---------|---|------------------|------------------|---------------------|
| Exports | Total exports of goods | 513 | 529 | 545* |
| | Total exports of goods to Israel** | 417 | 476 | 492 |
| | The ratio of exports of goods to Israel to the total exports of goods (%) | 81.3 | 90 | 90.3 |
| Imports | Total imports of goods | 3,141 | 3,772 | 3,960* |
| | Total Imports of goods from Israel** | 2,152 | 2,584 | 2,713 |
| | The ratio of imports of goods from Israel to the total imports of goods (%) | 68.5 | 68.5 | 68.5 |

* The figures of 2009 reflecting the total exports and imports with the outside world were calculated on the basis of 5% growth rate compared to 2008. This estimate is in line with the growth in the GDP. On the other hand, the exports were estimated at 3% as a continuation of the growth rate between 2007 and 2008.

** Exports to Israel for 2007, 2008 and 2009 were estimated on the basis of the ratio of the average exports to Israel to the average total exports to the outside world over the period 2000–2006. Imports from Israel were estimated on the same basis.

Based on the aforementioned, the basic link between the Palestinian foreign trade and Israel becomes clear with 68.5% for imports and 90% for exports according to the researcher's estimates in 2009. Figures of the PCBS related to foreign trade with world countries in 2008 are close to the estimates of the researcher, where they indicated that imports from Israel accounted for 72% of the total imports

which amounted to \$3,772 million, i.e., \$2,716 million. However, the Center has not yet provided, till the time of writing this report, any specific figures about the exports to Israel in the mentioned year. Nor are there any figures for exports and imports in 2009.³⁸ The Israeli hegemony over the Palestinian economy leads to depriving the Palestinians from freely dealing with international markets and in accordance with the policies of the World Trade Organization (WTO); which gives Israel more advantages and benefits at the expense of the Palestinian side.

4. Reliance on Israel for Sources of Energy

The Palestinians dedicate a high percentage of their income to import energy including oil products as gasoline and gas oil in addition to natural gas and electricity by 20% of total goods imports, which means a rise in imports and an increase in trade balance deficit. Moreover, in GS there is also a dependence on industrial gas oil which is imported from Israel to operate the generators of the only and main electricity generating company in GS. Over the last four years, Israel has diminished the amount of this kind of fuel so that generators generate 65 megawatts compared to 170 megawatts capacity. Then in January 2010, the amount of fuel was further diminished to reach an operating level of 30 megawatts. Generally speaking, petroleum products which Israel has allowed into GS in 2009 were very limited, where only 46% of needed cooking gas was allowed into GS.³⁹ In fact, natural gas was discovered off the coasts of GS after the PA granted rights for oil exploration in that region to British Gas Group (BG Group) and its partner Consolidated Contractors Company (CCC) in return for 10% of profit. However, Israel continues to monopolize this gas and pump it into its lands. This came after Israel capitalized on the international controversy over Hamas's victory in the Palestinian parliamentary elections in 2006 to tighten its grip on the gas in the coasts of Gaza ostensibly preventing Hamas from benefiting from its proceeds, let alone signing a contract with BG Group to export it to Israel. This results in depriving the Palestinians of their rights to have access to their legitimate rights to their natural resources and it dedicates Israel's hegemony on these sources. This also leads to an increase in prices of energy the Palestinians have to endure compared to the neighboring countries.⁴⁰



5. Competitive Israeli Goods and Products and Settlement Products

The flow of Israeli products into GS is yet another form of dependency on the Israeli economy as these products easily enter the Palestinian markets and are sold widely and without restrictions, which means that the Arab boycott efforts are not effective. The flow of the Israeli products into the WB and GS refers to the government support, which makes the products' cost low and able to compete with the Palestinian products. Thus, their marketing in the WB and GS is easily facilitated. Under these circumstances, the opportunities open for Palestinian businessmen are diminished so they have to contract with Israeli shipping companies to transfer their goods to the rest of the world. This happens via the crossings with Israel, where the goods are moved to the trucks of the shipping company within complex security procedures, which could be as long as eight hours. These measures lead to the damage of the goods in addition to huge losses for traders and business owners⁴¹. Although Israel regularly promotes in the media that it has introduced improvements as facilitations for the Palestinians, the World Bank notices that nothing has changed regarding freedom of mobility, and accordingly import and export processes.

6. Israel's Control over the Money It Collects on Behalf of the Palestinians

Israel collects taxes and customs duties on the goods which the Palestinians import via the Israeli air and sea ports in a sum that amounts to \$60 million per month. However, Israel has used this money as a means for political pressure and bargain, especially when Hamas was in power from 2006 till mid 2007. Delaying money payment is not the only problem; there is also the arbitrary deduction of this money as a payment of the due Palestinian obligations in return for electricity and water imported from Israel, in addition to the expenses of treating patients among other things. Thus, the delay in disbursement of these funds is used as a means for pressure on the PA, since it depends on them basically to cover its expenses.



Sixth: Foreign Aid and Its Orientation

Foreign aid to the WB and GS has been significantly linked to the PA Reform and Development Plan (PRDP) 2008–2010. This plan essentially aimed at reforming and restructuring the Palestinian institutions and pushing towards comprehensive development, in the wake of the Annapolis Conference and International Donors' Conference for the Palestinian State (Paris Donors' Conference) in 2007.

The PA was keen in 2009 to continue its application of the PRDP. It tried to provide a better investment environment for the private sector and to strengthen its role and participation in the development process, including reforms in the security status and financial system. Donor countries persisted with their policy of providing aid and funds for WB in 2009. They excluded the GS from the reform and development projects since Hamas's victory in the parliamentary elections in January 2006, the increasingly tightened siege on GS after June 2007 and Hamas's control of GS.

1. The Development and Sources of Foreign Aid for the PA in 2008 and 2009

In a continuation of the policy of international support for the PA to build its institutions, the sources of funding in 2009 have been diversified as in the recent years, with the contribution of the Arab countries and the international community. Foreign aid for PA amounted to \$1,401.7 million in 2009 where the Arab countries have contributed by \$461.6 million, PEGASE by \$433.2 million, the USA by \$273.2 million while the World Bank contributed by \$135.1 million (see table 19/8).

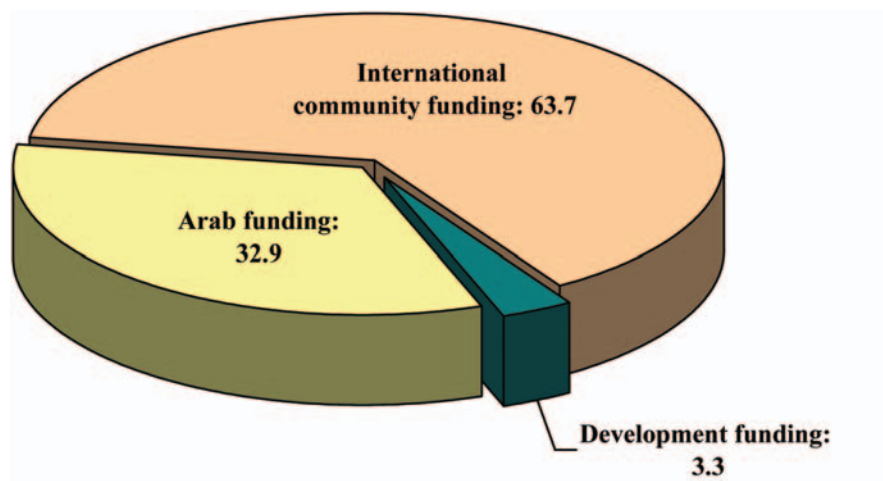
Foreign aid for the PA reached \$1,763 million in 2008, including \$1,317 million in the form of international aid and \$446 million Arab funding, whereas it reached around \$1,402 million in 2009. PEGASE and the EU were the major supporters for the PA by \$651 million in 2008, followed by the USA by \$302 million, then the World Bank by \$283 million while the KSA provided \$234 million.



Table 19/8: Sources of Foreign Funding for the PA 2009 (\$ million)⁴²

| Year | 2009 | |
|---|----------------|-------------|
| | Value | % |
| Arab funding | 461.6 | 32.9 |
| KSA | 241.1 | 17.2 |
| UAE | 173.9 | 12.4 |
| Algeria | 26 | 1.9 |
| Egypt | 17.8 | 1.3 |
| Oman | 2.9 | 0.2 |
| International community funding | 893.3 | 63.7 |
| PEGASE | 433.2 | 30.9 |
| USA | 273.2 | 19.5 |
| World Bank | 135.1 | 9.6 |
| France | 27.7 | 2 |
| Turkey | 10.3 | 0.7 |
| India | 10.1 | 0.7 |
| Greece | 2.7 | 0.2 |
| Grants for the Ministry of Social Affairs | 1.1 | 0.1 |
| Development funding | 46.8 | 3.3 |
| Total | 1,401.7 | 100 |

Sources of Foreign Funding for the PA 2009 (%)



Despite the increase in external funding surplus as compared to what was planned in the 2008 budget, by 8%, the year 2009 witnessed deterioration in the funding it received from Arab countries and international organizations with a 20.5% deficit.

2. Planned and Actual External Funding in 2009

The PA received 71.8% of the foreign funding planned and required to cover the deficit in the 2009 budget, by a total of \$1,402 million. The funding mainly targeted the deficit in public expenditure by around \$1,355 million, and by 93.4% of the funding planned and required for this provision. On the other hand, development funding was scarce and 10% less than the funding planned and required in the 2009 budget (see table 20/8).

Table 20/8: Foreign Funding for PA 2009 (\$ million)⁴³

| Year | 2009 | | Paid (%) |
|------------------------------|--------------|----------------|-------------|
| | Planned | Actual | |
| Budgetary support | 1,450 | 1,354.9 | 93.4 |
| Development funding | 503 | 46.8 | 9.3 |
| Total foreign funding | 1,953 | 1,401.7 | 71.8 |



Foreign aid targeted the deficit in expenditure including salaries, wages, and assistance for poor families in addition to basic public services and covering some debts which the PA owes to the private sector. Concerning international monitoring mechanisms, work proceeded through the World Bank PRDP Trust Fund where a part of this support was allocated for the development of public services such as education, health, water and energy.

Development funding received only limited international support due to the non-existence of a clear mechanism and an official policy regarding the work of the developmental arms of donor countries. In most cases these arms directly contract with institutions of civil society and the private sector, without explicitly notifying the Palestinian Finance Ministry about these contracts.

3. The Trends of Foreign Aid and the Developments in the Palestinian Economic Situation

With the beginning of 2009, foreign aid aimed at enhancing trust in the PA and its capacity to keep things under control. Therefore, the funding targeted a set of projects in infrastructure and institutional reform besides private sector support.

Based on the available data, there are positive indicators, for the first time in many years, showing that the GDP per capita grew in 2008 and 2009. Nonetheless, the Israeli occupation and the regulations it imposes still undermine the investors' confidence and limit access to natural resources such as lands of Area C which constitute 60% of the WB, water and communications frequencies.

After the 22-day war on GS, which lasted till 18/1/2009, donations to GS targeted contribution to mitigating the repercussions of the Israeli offensive, and pumping more humanitarian aid into the Strip. According to final damage assessments reports after the war on GS, and while the tightened siege continues, many international organizations estimated the accumulated losses at around \$4 billion which is close to the Palestinian GDP.

In order to mobilize the efforts of the donor countries for the reconstruction of GS, an international conference was held in Sharm el-Sheikh in March 2009. Donors approved of the damage and needs assessments as they were presented by the PA in an emergency plan known as the Gaza Early Recovery and Reconstruction Plan (GERRP). The donor countries pledged providing \$4.3 billion to carry out this plan in order to rebuild GS and support the Palestinian budget of 2009.

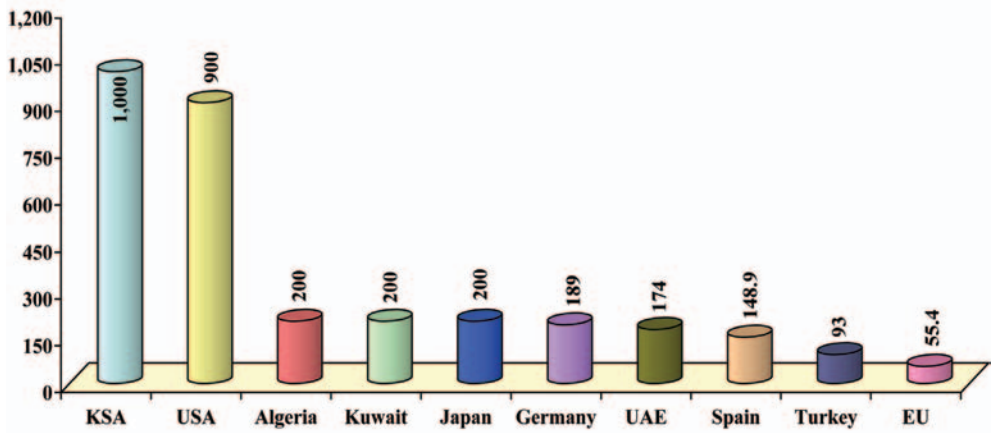


Table 21/8: Pledges at Gaza Conference, Sharm el-Sheikh, 2/3/2009
 (\$ thousand)⁴⁴

| Arab donors | | European donors | | USA and others | |
|------------------|--------------------|------------------|--------------------|------------------|------------------|
| Country | Pledge | Country | Pledge | Country | Pledge |
| Algeria | 200,000 | EU | 55,440 | USA | 900,000 |
| | | Austria | 7,500 | | |
| Bahrain | 23,000 | Belgium | 50,000 | Japan | 200,000 |
| | | Denmark | 220,000 | | |
| Kuwait | 200,000 | Finland | 50,400 | South Korea | 15,000 |
| | | France | 37,800 | | |
| Lebanon | 1,000 | Germany | 189,000 | Australia | 12,900 |
| | | Greece | 5,000 | | |
| Morocco | 15,000 | Ireland | 3,250 | Brazil | 10,000 |
| | | Italy | 100,000 | | |
| Qatar | 250,000 | Luxembourg | 6,260 | China | 2,200 |
| | | Netherlands | 170,100 | | |
| KSA | 1,000,000 | Portugal | 3,000 | India | 1,000 |
| | | Spain | 148,900 | | |
| Tunisia | 1,300 | Sweden | 78,900 | Singapore | 1,000 |
| | | Turkey | 93,000 | | |
| UAE | 174,000 | UK | 30,000 | Malaysia | 100 |
| | | Others | 2,534.7 | | |
| Sub-total | 1,864,300 | Sub-total | 1,251,084.7 | Sub-total | 1,142,200 |
| Total | 4,257,584.7 | | | | |



**Pledges at Gaza Conference, Sharm el-Sheikh, 2/3/2009, Selected Countries
(\$ million)**



However, the continued siege on GS and the political environment based on the Quartet’s conditions towards Hamas hindered the reconstruction of the battered Strip and directed all the support to the intensified humanitarian aid for the Gazans. In this context, donor countries have formed joint work groups led by the UN organizations with the membership of non-governmental and international organizations, in addition to the establishment of the Consolidated Appeal Process (CAP) that was formed especially to address the growing humanitarian crisis in the GS. Aid was limited to relief work besides improving humanitarian and essential services such as drainage systems, temporary and emergency housing, some forms of support for the agricultural activity and providing temporary jobs.

In the WB on the other hand, foreign aid has contributed to the development of growth through supporting the budget, institutional reform, developing the relation and partnership between the private and public sectors which might lead to achieving sustainable development in the WB including East Jerusalem.

Seventh: PA Management of the Economic Situation

The government bears a great deal of responsibility towards its people and society to manage the economic activity through its different ministries in the best possible performance. It is the duty of the government to determine the enforceable policies in addition to preparing plans and programs for social and economic development to ensure achieving its goals. It also bears the responsibility of monitoring the implementation of the systems and laws concerning the consumer or the producer. Following is a display of the main aspects of government performance:

1. The Government's Performance to Face the Economic Repercussions of the Continued Palestinian Schism

Despite the lapse of three years since the division, no reconciliation has been achieved till this time. Nor has the government's performance been up to the level of the crisis, which negatively influenced government economic, political and social performance. This led to the crippling of potentials and waste of resources where thousands of citizens earn their salaries without actually practicing their jobs, while there are many missed opportunities due to division. Regardless of who stands behind this impasse, the dangers have their impact on the country and all the citizens.

The instructions of the Palestinian presidency and Fayyad's government regarding public servants in the GS have created an anomalous situation. According to these instructions, employees are not required to go to work except for those working in some ministries and institutions which directly impact the life of the citizens, such as the ministries of health and education besides the governorates and the PCBS. The result was that the PA in Ramallah was paying salaries to those sitting at home while those who went to work were not being paid except for the exceptions it specified. According to statistics by PEC DAR, the number of the employees in the GS amounts to 78 thousand including 31,350 military men and 45,650 civilians, where the number of those who go to work is 17,750 employees by 22.7%, most of whom work in the Ministry of Education (12,300 employees) and the Ministry of Health (5,000 employees). In addition, the salaries and wages paid represent 14.2% of total salaries paid to the PA employees in GS, which means that 86% of total salaries which the PA pays goes to those sitting at home, who complied or had to comply with its decisions,



i.e., \$386 million were being paid without any production or services in return.⁴⁵ News and reports from human rights institutions showed that there are many employees who were denied their salaries for political reasons including lots of employees from the ministries of health and education. According to a report for Al Mezan Center for Human Rights published in April 2008, the salaries of 3,615 employees were cut including 1,549 from the Ministry of Health and 693 from the Ministry of Education.⁴⁶

2. The Government's Performance to Provide Employment and Curb Unemployment

The high percentage of unemployment in WB and GS was and is still the most dangerous socio-economic dilemma, and the challenge which has faced the PA and its partners since 2000 till now. The high level of unemployment among the youths represents a major threat to the National Project since it forced them to leave their country in search for a job. This unemployment in its turn needs high investments and favorable investment climate.

The high level of unemployment in Palestine and its persistence over time especially at the end of 2000 in the wake of the outburst of *al-Aqsa Intifadah* has been coupled with a short vision despite the PA's awareness of the problem and its seriousness. In this sense, the government did not pursue clear employment policies to solve this problem which has been associated with the economic blockade and Israeli hindrances besides rationing work inside Israel and the settlements.

In fact, there were two tracks the government pursued in tackling the problem of unemployment, the first is represented in expanding public sector jobs to accommodate the highest number of job seekers especially university graduates. The second track aimed at the implementation of temporary operational programs which depend on foreign aid without allocating specific investments to permanent jobs, which yielded a limited effect only. This comes despite the persistent efforts to encourage investments through international conferences held in the cities of Bethlehem and Nablus in 2008 with an intense Arab presence.

Among the efforts to limit unemployment levels was the foundation of the Palestinian Fund for Employment and Social Protection and the Partners for Temporary Employment in the Private Sector.⁴⁷



3. The Government's Performance in Dealing with the Housing Problem

The demand on housing will increase in the Palestinian regions in the next 10 years by around 400–450 thousand residential units, i.e., by an annual average ranging between 40 and 50 thousand units, whereas the residential units available currently do not exceed 16 thousand. Thus, there is a significant deficit in the housing sector, which comprises a major challenge to the government.

In response to the needs of those living on limited income for housing units, the Palestinian Investment Fund has prepared plans for the next five years to establish 20–30 thousand residential units for people with low income, in addition to other projects such as building a new residential city called Rawabi. These projects do not only need funding but also require that the government adopt a reform program to support mortgage finance and develop regulations to protect borrowers besides other regulations.⁴⁸

4. The Government's Performance in Price Control

Tracing the indices of prices of commodities and services, the general trend seems to be clearly heading towards increasing the prices of many essential goods including water, medicine and different kinds of food such as grains, oil, sugar, meat, fish and dairy products among others. This leads to increasing the burden on the consumers in poor and middle classes, especially in the light of the decrease in wages as compared to the increase in unemployment levels and the increased number of families living under poverty line. Thus, the actual income is decreasing and the gap between the poor and the rich increasing. It is obvious also that the government grants the right to monopolizing a set of essential goods for some traders, which contributes to the continuous increase in their prices. Needless to say, activating means to control prices of goods, especially the basic ones, is one indicator of the government's success, and this did not happen.

5. The Government's Performance in Combating Expired Goods

Given the eagerness of some traders to gain high profits in every possible way, these traders do not hesitate to sell expired food commodities, which leads to substantial health problems. This was revealed by the campaigns of the Consumer Protection Department in the Ministry of National Economy which disposed these food commodities and transferred the traders to the judicial



authorities. Given the greed of some merchants and their pursuit of the highest profits which make them store these goods to raise their prices, there is a general demand that commodities be subjected to laboratory tests to verify their period of validity and consistency with international and Palestinian standards prior to distribution.

6. The Government's Performance in Solving Cash Liquidity Crisis, Especially in GS

The Palestine Monetary Authority (PMA) has not yet issued Palestinian national currency awaiting the declaration of the Palestinian state. Thus, Palestinians continue to deal with different currencies: the US dollar, the Jordanian dinar and the Israeli shekel in accordance with what was regulated in the Paris Protocol. Consequently, PMA could not determine a monetary policy for the country in the absence of control over these currencies which remained in circulation according to the exchange rates in the market.

The Israeli siege on GS expanded to include dollar and even shekel transfers, thus the banks failed to provide the needed currency. This paved the way for the emergence of an official market for these currencies, in which the banks deal, and another one for money-changers. What exacerbated the cash liquidity crisis was the dollar leakage to the outside to cover the prices of goods imported through underground tunnels which link the two border cities of Rafah.

In the light of dollar shortage and the urge to get currency in Israeli shekel, dealers suffer a loss which amounts up to 5% of their money that is wasted in the form of commissions and currency exchange difference. Small borrowers also have to bear this amount of loss at the time when their activity is limited and their profits are marginal. This means that the microfinance sector, where women constitute around 48% of its activity, faces additional pressure.

In the light of the tight siege and the current schism, banks are unable to act or pose appropriate solutions. The same applies to the PMA especially that these conditions cast their shadow on various aspects of the financial and business sectors.



Eighth: The Siege and Repercussions of the Palestinian-Israeli Conflict on the Economic Situation

The continuous Israeli occupation of the WB and GS and its practices there had its repercussions on the Palestinian economy starting with economic dependency and ending with the weak economic growth, if it was achieved in the first place. Some forms of these practices are the Israeli punitive measures including the crippling siege of GS and the continuous incursions in the WB besides the continuous existence of settlements and the separation wall.

The Israeli mass punitive measures continued throughout 2009. There were marginal steps to ease the restrictions on the movement in WB, where more of the 1948 occupied territories Arabs were allowed reach the markets of the WB as in Nablus and Tulkarm. This led to revitalizing local markets and achieving some economic recovery there. These developments helped in the relative increase of the investors' confidence and of the economic growth in the WB. However, reaching the markets outside the WB, whether in GS or Israel or any other place in the world, is still very limited.

According to the preliminary statistics of the specialized committees mandated by the Ministry of Planning in the GS, the total estimate of losses of the Palestinian economy due to the Israeli aggression on GS (27/12/2008–18/1/2009) amounted to \$2.734 billion (see table 22/8).

Table 22/8: Total Losses of the Palestinian Economy, Ministry of Planning—Gaza (\$ million)⁴⁹

| Category | Estimated losses |
|---|------------------|
| Direct losses | 1,704 |
| Indirect losses | 214 |
| Lost-opportunity losses | 287 |
| Funding of emergency relief programs | 529 |
| Total losses | 2,734 |



Displaying direct losses reveals that the construction sector was the primary affected sector where the losses accounted for 51.4%, followed by the agricultural sector with 12.8% of the total direct losses (see table 23/8).

The European Network of Implementing Development Agencies (EUNIDA) has issued a report on the losses of the various sectors during the war on GS. More than 40% of losses were of those of the productive economic sectors, and these were done in an intentional and systematic way. It included the industrial, commercial and agricultural facilities in the GS. The total damage was estimated by EUNIDA and reported by the GERRP, where the latter reported that the total damages amounted to \$892 million (see table 24/8).

Table 23/8: Distribution of Direct Losses by Sector, Ministry of Planning—Gaza (\$ million)⁵⁰

| Sector | Size of losses | % |
|--|----------------|------------|
| Industry | 240 | 14.1 |
| Trade | 50 | 2.9 |
| Agricultural | 218.2 | 12.8 |
| Tourism | 6.7 | 0.4 |
| Energy | 23.4 | 1.4 |
| Water | 6.5 | 0.4 |
| Construction (public buildings and houses) | 876.1 | 51.4 |
| Roads and ports | 173 | 10.2 |
| Media | 5.4 | 0.3 |
| Telecommunications | 3.9 | 0.2 |
| Environment | 100.5 | 5.9 |
| Total | 1,703.7 | 100 |

Table 24/8: Estimates of the Costs of Reconstruction of GS According to the PA's GERRP and EUNIDA (\$ million)⁵¹

| Sector | GERRP estimates | EUNIDA estimates |
|--|-----------------|------------------|
| Rubble removal and UXO/UXB clearance* | 6 | 6 |
| Transport | 115.9 | 28.8 |
| Water, waste water and solid waste | 6.7 | 6.7 |
| Energy | 10.5 | 10.5 |
| Telecommunications | 13.1 | 4.1 |
| Housing | 347.9 | 291.1 |
| Public buildings | 71 | 46.5 |
| Private sector | 140 | 140 |
| Agriculture | 180.7 | 125.6 |
| Total | 891.8 | 659.3 |

* Unexploded Ordnance (UXO) and Unexploded Bomb (UXB).

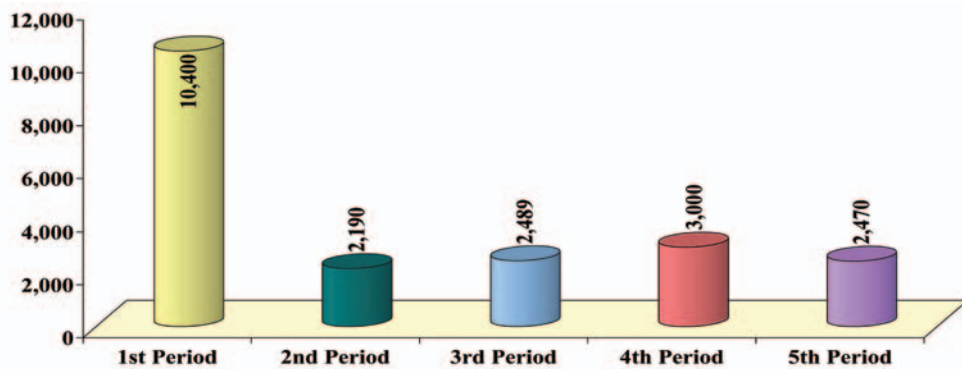
After the Israeli war on GS the siege persisted in the form of closing all commercial crossings from and to the GS, except for humanitarian aid and some essential needs through Karm Abu Salim crossing to the south of GS, and grains and animal feeds through al-Mentar (*Karni*) crossing besides allowing the limited export of some agricultural products. This siege had many economic repercussions, notably: ignoring the reconstruction of what was destroyed by the Israeli war machine, preventing the import of materials necessary for building and reconstruction and those that meet the needs of the population growth in GS, such as housing, health and educational facilities, in addition to the prevention of primary materials needed to operate industrial facilities. This aggravated the crisis of the production sector and the cumulative losses of the national economy that follow. Exceptionally, and under international pressure, Israel allowed the passage of 20 trucks carrying glass panes at the end of 2009 for humanitarian purposes to protect the damaged houses from cold and harsh winter.



Table 25/8: Comparison of Average Monthly Imports Through GS Crossings During Different Periods⁵²

| Time Period | | Number of trucks |
|-------------|------------------------------------|------------------|
| 1st Period | Monthly average 2005–2007 | 10,400 |
| 2nd Period | July 2007–June 2008 | 2,190 |
| 3rd Period | July 2008–December 2008 | 2,489 |
| 4th Period | During war (27/12/2008–18/1/2009) | 3,000 |
| 5th Period | Post war (19/1/2009–December 2009) | 2,470 |

Comparison of Average Monthly Imports Through GS Crossings During Different Periods (Number of Trucks)



Regarding the siege and its most important economic consequences in 2009, exports movement was limited and almost restricted to some agricultural products such as carnation flower and strawberries, while allowing the import of a very limited list of materials for humanitarian purposes not exceeding 72 commodities out of 4,000⁵³ which used to be imported before the siege was imposed.

The decline in trade between the WB and GS is yet another form of the punitive measures imposed by the Israeli authorities. A recent study by the Palestinian Federation of Industries showed that the size of losses caused by the closure and by not allowing the transfer of commodities from the industrial facilities in the northern governorates to the south exceeded \$42 million. On the other hand, the losses, due to prevention of export from GS to the WB, have exceeded \$12 million per annum. This caused the facilities to search for alternative products most of which came from the Israeli market or via Israeli ports, or through tunnels on the southern borders of GS, in addition to the search for new markets for the products.⁵⁴

The year 2009 witnessed a shift from commodity to service activities as a result of the continued Israeli siege and the closure of the crossings in GS, besides the limited movement of commodities and individuals in the WB due to the checkpoints and persistent building of the Separation Wall there. A recent study funded by the German foundation Friedrich-Ebert-Stiftung showed an increased growth in the services sector at the expense of traditional activities, especially in the GS. This sector which includes information technology, telecommunications and consultancy services bypasses the closed crossings. This sector mainly depends on human resources in addition to modern techniques to present these services through creative means by using the World Wide Web and the internet.

Ninth: Future Prospects for the Palestinian Economy

1. The Symbiotic Link Between Politics and Economy

There is a major overlap between political and economic considerations in Palestine where they mutually affect each other. Thus, the economic situation in Palestine is closely linked to the political situation due to the continuing conflict. Tracing the current political situation shows that nothing is clear about the political future despite setting a deadline from time to time since the Oslo Accords, besides the efforts to conclude a final settlement are still ineffective.

The Israeli closure regime has stymied the development of the Palestinian private sector, a key condition for aid to catalyze sustainable economic development.⁵⁵ Consequently, any breakthrough in the Palestinian economic growth, in the near future, or substantial improvement seems unlikely. Thus, the track closest to reality is the continuation of the current political situation without any substantive change since the Separation Wall is still there, building and expansion of settlements have not stopped in addition to the relentless Judaization of East Jerusalem.

2. The Purpose of Establishing Statehood and Ending the Occupation in Two Years

Within the frame of defining the interventions of absolute importance which assume a foremost position among the aspirations of Fayyad's government in Ramallah, the government's program for 2010 was announced in August 2009. It includes mobilizing the national efforts of the Palestinian society and the efforts of



friends in the international community to assert the necessity of standing against the Israeli occupation and establishing the Palestinian state within two years. Yet the possibility of the success of this step remains unclear, given that Israel has the final say with respect to compliance.

3. The Odds of Implementing PRDP 2008–2010 and the General National Plan of 2011–2013

This national plan is prepared for 2011–2013 to be adopted as an extension of PRDP, the three-year fiscal plan which was implemented in 2008–2010, while filling its gaps and introducing any amendments deemed necessary. Thus, there is an importance in the new planning approach which “seeks to link policies to planning as well as planning to budget preparation. The approach also integrates recurrent and development budgets into one budget and shifts from budgeting on a line item basis to programme-based budgeting.”⁵⁶

Moreover, completing the PRDP in 2010 remains linked to the continued foreign aid which is mostly used to cover the budget deficit, while a limited part goes to development projects. This support is exceptional and limited and might stop at any time, which will affect the implementation of this plan when the support is cut.

Accordingly, we expect that any chances to correct essential economic indicators would be limited and within a narrow framework, especially with the decline in the economic growth, the high levels of unemployment rates, high rates of poverty and the gap between the rich and the poor together with the unfair distribution of income and wealth. In addition, there are the factors of increase in total consumption, the weak investment, and the decrease in savings. Therefore it is expected that the destitution perseveres and even extends to new segments of the society especially in the light of high prices.

4. Suggested Prospects to Alleviate the Crisis of the Palestinian Economy

In order to mitigate the difficult conditions of the Palestinian economy where all political, economic and social considerations overlap, whether on the external or internal level, there is a dire need to find non-traditional methods that help alleviate the suffering of the Palestinian economy and the Palestinians. At the same time, these methods must work in a systematic way towards reforming the structural distortions that resulted from dependency on the Israeli economy,⁵⁷ including:



a. Opening up to International Markets through Innovative Ways

There is a big potential to open up to Arab, regional and international markets, especially in the services domain. This domain could bypass the restrictions imposed on the crossings and the current economic siege, through innovative methods provided by new technology through the use of the World Wide Web. This is even more possible if we take into consideration that Palestinian institutions have various and promising capabilities in the field of information technology. This should lead to an improvement in this field which is able to absorb a large number of university graduates specialized in these services and this in its turn would contribute to economic growth besides increasing the revenues of services exports thereby improving the Palestinian services balance with the outside world.

b. Maximizing the Use of Palestinian Capacities in the Diaspora

In the light of the continuous increase in the number of Palestinians and their spread at home and Diaspora where they amounted to 10.88 million expatriates at the end of 2009, including 5.63 million living in Diaspora which amounts to 51.8% of the total population,⁵⁸ there is a big chance to benefit from these human capacities which include high qualifications in different professions and specializations. They would serve the national economy whether through transferring money to their families at home or dedicating a part of their savings to invest in safe local projects. In addition, their increased demand on the Palestinian traditional and nontraditional commodities should contribute to increasing the industrial and agricultural production in Palestine besides increasing exports revenues.

c. Benefiting from the Palestinian Surplus Funds in Diaspora

Despite the difficulties in providing a favorable economic climate and the efforts to rectify this climate through conferences to encourage investment, it is advisable to benefit from the surplus of funds from Palestinian expatriates. They could establish joint projects with countries that seek to attract these investments. Indeed, there are many countries which followed this track through the establishment of sovereign funds capable of attracting the necessary investments. These would finance agricultural projects that contribute to achieving food security for involved countries at reasonable prices. Hence, the investments would help them face the increase in the price of grains in particular and food in general.



d. Exerting the Effort to Enhance Economic Activity to Create a Reliable, Trustworthy Investment Climate

The attempt to enhance investment in the WB and the GS requires, among other things, providing the local and foreign investors with a transparent, effective and trustworthy legal framework, in addition to depending on different forms of government support to provide the necessary facilitations besides risk-sharing. Indeed, the limits of these investments exceed the material aspects in as much as they contribute to helping the Palestinian individual hold on to his land and face the Israeli projects. These projects aim at tightening the noose on the Palestinians through different methods to force them to leave their homeland.⁵⁹ In addition, looking forwards to encouraging investment at the current time through the preparation for an international conference to be held in Bethlehem in May 2010, as an extension to the recent conferences held at home and abroad, represents the determination of the PA to intensify local, regional and international investment in Palestine, and the full belief in the feasibility of activating the investment activity.

Conclusion

The Palestinian economy in WB and GS still suffers the policies and practices of the Israeli occupation which is keen at keeping the Palestinian economy under its control in order to enjoy the profits that result from these practices. These practices include, but are not limited to, the isolation of the Palestinian economy from the Arab and international worlds alike, limiting the scope of these dealings and making the Palestinian economy subordinate to the Israeli economy as the only available and possible choice.

In addition, the Palestinian economy continues to suffer from closing the crossings and the siege imposed on the GS since more than two years, besides the political, social and economic separation between the WB and GS not to mention the complete isolation of GS from the outer world. All this resulted in major negative effects including the decrease in trade size, the deterioration of living standards, increase in prices and poverty and the level of unemployment.



Although the GDP of the WB and GS has achieved a growth by 5% in 2009, thus representing a positive trend, its dependence on foreign aid and the high levels of unemployment mean that it does not necessarily indicate a positive growth.

In light of the current situation represented in the limited chances of a political solution, besides the Israeli practices that curb the Palestinian economic activity, the chances for genuine economic growth or rectification of the track of this growth in the near future seem unlikely. This is true especially with the restrictions imposed on the movement of commodities and individuals in different Palestinian regions, in addition to the economic siege still imposed on GS.



Endnotes

- ¹ PCBS, *Press Release, Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2009)* (Ramallah: PCBS, March 2010), http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PresQ4-09_E.pdf
- ² *Ibid.*; For the Israeli GDP 2005–2009, see CBS, http://www.cbs.gov.il/hodaot2010n/08_10_049t11.pdf
- ³ *Al-Hayat al-Jadida*, 22/1/2010, <http://alhayat-j.com/details.php?opt=7&id=103636&cid=1757>
- ⁴ Palestine Monetary Authority (PMA), PCBS and Palestine Economic Policy Research Institute (MAS), *Economic and Social Monitor Quarterly*, Ramallah, vol. 18, December 2009, http://www.pal-econ.org/index.php?option=com_docman&task=doc_download&gid=243&Itemid=29; and PCBS, *Press Release, Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2009)*.
- ⁵ *Ibid.*; For the Israeli GDP per capita 2003–2007, see Bank of Israel Annual Report - 2008, Chapter 1. As for the Israeli GDP per capita for the Years 2008 and 2009, see CBS, http://www.cbs.gov.il/hodaot2010n/08_10_049t1.pdf
- ⁶ Research and Monetary Policies Department, Fourteenth Annual Report 2008 (Arabic), PMA, Ramallah, July 2009, [http://www.pma.ps/pdf/PMA_\(Annual_Report_2008\)-G.pdf](http://www.pma.ps/pdf/PMA_(Annual_Report_2008)-G.pdf)
- ⁷ *Ibid.*
- ⁸ See *al-Hayat*, 3/6/2009.
- ⁹ See Palestinian National Authority, Palestinian Reform and Development Plan (PRDP) Progress, Report January-September 2009, 15/10/2009; http://www.pmf.ps/news/plugins/spaw/uploads/files/table3_eng012009_1.pdf; and http://www.pmf.ps/news/plugins/spaw/uploads/files/accounts/2010/01/table3_eng.pdf
- ¹⁰ *Ibid.*
- ¹¹ *Ibid.*
- ¹² *Al-Ayyam*, Ramallah, 9/3/2010.
- ¹³ The Press Releases on Labour Force Survey Results (October-December, 2008) Round and the quarters of 2009, PCBS, <http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3355&lang=en>
- ¹⁴ *Ibid.*
- ¹⁵ Labour Force Survey (October-December, 2009) Round (Q4/2009), PCBS, 22/2/2010, http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LFs-E-122009.pdf
- ¹⁶ The Press Releases on Labour Force Survey Results (October-December, 2008) Round and the quarters of 2009, PCBS.
- ¹⁷ On the Occasion of May 1, International Workers' Day, PCBS Issues a Press Release: The Labor Force in the Palestinian Territory, PCBS, http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/worker_dayE.pdf; and Press Release on Labour Force Survey 2009, PCBS, http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/laborForce_E2009.pdf
- ¹⁸ The Press Releases on Labour Force Survey Results (October-December, 2008) Round and the quarters of 2009, PCBS.
- ¹⁹ On the Occasion of "International Day of the Child": Half of the Palestinian Society are Children below the Age of 18 years, PCBS, 19/11/2009, http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/child_int_day_E.pdf
- ²⁰ *Al-Khaleej*, 25/2/2009.
- ²¹ WAFA, 17/9/2009.



- ²² UNCTAD Report Says 2009 Represents an All-Time Low for Palestinian Economy and Policy Environment, 8/9/2009, UNISPAL, <http://unispal.un.org/UNISPAL.NSF/0/F04E5003379702F88525762C006A1233>
- ²³ PCBS, *Press Release, Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2009)*.
- ²⁴ Isma'il Da'iq, World Summit on Food Security (Arabic), Roma, 19/11/2009.
- ²⁵ PCBS, *Press Release, Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2009)*.
- ²⁶ Israel Rations Palestinians to Trickle of Water, 27/10/2009, site of Amnesty International, <http://www.amnesty.org/en/news-and-updates/report/israel-rations-palestinians-trickle-water-20091027>
- ²⁷ Ala' al-Rimawi, *Felesteen*, 28/1/2010.
- ²⁸ Israel Rations Palestinians to Trickle of Water, 27/10/2009, Amnesty.
- ²⁹ See West Bank and Gaza: Assessment of Restrictions on Palestinian Water Sector Development, The World Bank.
- ³⁰ Muhammad Mustafa, *Alroya.com* newspaper, Dubai, 4/5/2009.
- ³¹ See Report on UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory, Trade and Development Board, 56th session, Geneva, 14–25/9/2009, site of United Nations Conference on Trade and Development (UNCTAD), p. 10, http://www.unctad.org/en/docs/tdb56d3_en.pdf
- ³² Muhammad Mustafa, *Alroya.com*, 4/5/2009.
- ³³ Muhammad Fathi Shushar Shaqwarah, *The Economic Development Strategy in Palestine and Implementation Mechanisms (Arabic)*, A Ph.D. dissertation, Institute of Arab Research and Studies, Cairo, May 2009.
- ³⁴ Palestine Trade Center (PalTrade) and Palestinian Federation of Industries (PFI), One Year after the Military Operation, January 2010, <http://www.paltrade.org/cms/images/enpublications/Gaza%20Report%20-%20one%20year%20after%20war-ENGLISH.pdf>
- ³⁵ Rational Reform in the Face of Pressures (Arabic), Development News newsletter, Ramallah, Office of West Bank and Gaza Strip, World Bank Group, July 2009, p. 9.
- ³⁶ <http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3565&lang=en>
- ³⁷ PCBS Announces the Preliminary Results of the Palestinian Foreign Trade in Goods-2008, PCBS, http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/tejara_E_08.pdf; and see <http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3565&lang=en>
- ³⁸ PCBS Announces the Preliminary Results of the Palestinian Foreign Trade in Goods-2008.
- ³⁹ PalTrade and PFI, op.cit.
- ⁴⁰ Aljazeera.net, 21/1/2009; and see IslamOnline.net, 18/5/2007, http://www.islamonline.net/servlet/Satellite?c=ArticleA_C&cid=1178724190788&pagename=Zone-Arabic-Namah%2FNMALayout
- ⁴¹ Amjad Samhan, *Palestinian Economy: Tragic Figures and the Bleak Future (Arabic)*, site of PFLP-GC, 3/1/2010, <http://www.palestinesons.com/news.php?action=view&id=1446>
- ⁴² http://www.pmf.ps/news/plugins/spaw/uploads/files/accounts/2010/02/table7_arb.pdf
- ⁴³ For actual foreign funding 2009 see *ibid*.
- ⁴⁴ *Palestinian Economic Prospects: Gaza Recovery and West Bank Revival*, The World Bank, p. 37, citing Palestine Affairs, Ministry of Foreign Affairs, Egypt.
- ⁴⁵ See the study of PEC DAR on the financial situation in Gaza (Arabic).



- ⁴⁶ See the report of the site of Amad Info, 18/6/2008, <http://amad.ps/arabic/?action=detail&id=13095>; and The Arabic Network for Human Rights Information, 7/4/2008, <http://anhri.net/palestine/mezan/2008/pro407-2.shtml>
- ⁴⁷ Razi al-Hadmi, No “Economic Peace” Without a Just and Comprehensive Agreement (Arabic), 4/5/2009, <http://www.palvoice.com/index.php?id=17585>
- ⁴⁸ Reviving the Economy through the Housing Sector (Arabic), Development News newsletter, Ramallah, West Bank and Gaza Strip Office, The World Bank Group, April 2009, p. 10.
- ⁴⁹ Preliminary Report on the Humanitarian and Economic Losses (Arabic), site of Palestinian Ministry of Planning, Gaza, http://www.mop.ps/ar/images/stories/projects/losses_report.pdf
- ⁵⁰ Ibid.; and see <http://www.mop.ps/ar/images/stories/projects/reconstruction.pdf>
- ⁵¹ European Network of Implementing Development Agencies (EUNIDA), Final Report: Damage Assessment and Needs Identification in the Gaza Strip, March 2009, http://ec.europa.eu/europeaid/where/neighbourhood/country-cooperation/occupied_palestinian_territory/tim/documents/final_report_version6_t1.pdf
- ⁵² PalTrade and PFI, op. cit.
- ⁵³ Ibid.
- ⁵⁴ Palestinian Federation of Industries (PFI) and PalInvest for Development & Business Services, A Study on the Impact of the Current Conditions in GS on the Economic Activity (Arabic), December 2009.
- ⁵⁵ The World Bank Group, West Bank and Gaza Update: More than Just Money, World Bank, July 2009, <http://siteresources.worldbank.org/INTWESTBANKGAZA/News%20and%20Events/22290630/WBGUpdateJuly09.pdf>
- ⁵⁶ Proposal on the Development of General National Plan 2011–13, site of Ministry of Planning and Administrative Development (MOPAD), Palestinian National Authority, http://www.mop-gov.ps/web_files/issues_file/Cabinet%20Paper%20on%202011-2013%20National%20Plan-En.pdf
- ⁵⁷ Muhammad Shaqwarah, op. cit.
- ⁵⁸ At the End of 2009, the PCBS Issued a Press Release on the Palestinians in the World, http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/pop_2009-E.pdf
- ⁵⁹ Muhammad Mustafa, *Alroya.com*, 4/5/2009.



This Report

The Palestinian Strategic Report 2009/10 is the fifth in a series of annual resourceful scientific studies. It discusses the developments of the Palestinian issue in this period, in an objective and comprehensive manner. The meticulous analytical reading of events tries also to foresee the future. This Report has become a basic reference in Palestinian studies, it is a must to all those concerned.

An outstanding team of 14 academics and experts contributed to this Report in eight chapters. They covered the internal Palestinian situation, the Israeli scene and the Israeli-Palestinian relations, the Arab, Muslim and international stances toward the Palestinian issue. This Report focuses also on the issue of Jerusalem and the holy sites, whereas, the demographic and economic indicators are studied and analyzed in two separate chapters.

Undoubtedly, this Report is a serious addition to the field of Palestinian studies.

The Palestinian Strategic Report

2009/10



Al-Zaytouna Centre for Studies & Consultations

مركز الزيتونة للدراسات والاستشارات

P.O. Box: 14-5034 Beirut - Lebanon

Tel: +961 1 803 644 | Tel-Fax: +961 1 803 643

info@alzaytouna.net | www.alzaytouna.net

