The Palestinian Strategic Report 2008

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Chapter Eight

The Economic Indicators in the WB and GS

The Economic Indicators in the WB and GS

Introduction

The Palestinian economy in the WB and GS continues to suffer from the Israeli occupation and its policies that aim to tie the Palestinian economy to the Israeli economy, making the former totally dependent on the latter and for its service. The Israeli control of the crossings as well as the export and import operations and its targeting or obstruction to the infrastructure, forms the main obstacle in the path of developing the Palestinian economy. The essence of the Palestinian issue is the national liberation project which aims for independence; and despite the need to work in every way possible to provide a dignified life for the Palestinians, the national project shouldn't be curtailed merely if "luxury under the occupation" is achieved. The economical and life suffering of the Palestinians should be put in the context of the conflict with the occupation, and acts of humiliation and degradation for a morsel or bread or a pill should be refused. The Palestinian people have great potentials and abilities that are not reflected in the figures and reports. In addition, the overall performance and average statistics do not necessarily reflect a similar situation in the WB and GS because of the difference in the ways with which the occupation and the Arab and international communities deal with these two areas; despite the fact that both are suffering because of the occupation, GS is experiencing an unprecedented stifling seige, that led to the paralysis of many aspects of the economy.

First: National Accounts

Preliminary figures released by the PCBS for 2008, has indicated an increase in the value of the GDP at constant prices in 2008 by 2.3% from last year, i.e. from \$4,535.7 million in 2007 to \$4,639.7 million in 2008.

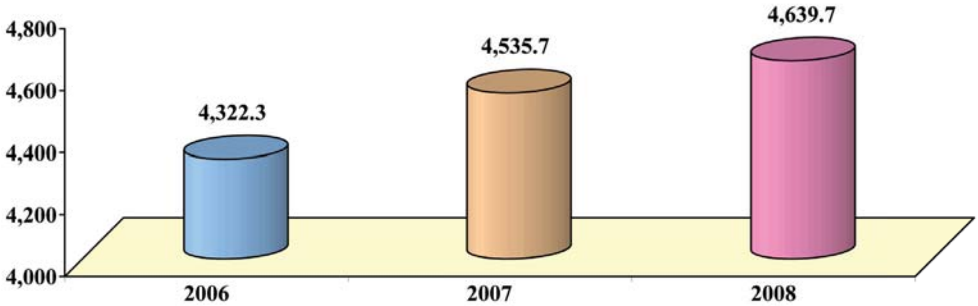
There had been a decline in some economic activities, such as agriculture, fishing, construction, transport, storage, and communications, whereas the size of other sectors has increased, as in the sectors of mining, manufacturing, water, and electricity, wholesale and retail trade, services, financial intermediation, public administration and defense, and household services.

Table 1/8: GDP in WB and GS 2006-2008 at Constant Prices: Base Year is 2004 ($ million)[1]

Year	2006	2007	2008*
GDP	4,322.3	4,535.7	4,639.7

* Preliminary estimates (first release).

GDP in WB and GS 2006-2008 ($ million)



Second: Economic Sectors

The performance of the economic sectors that formed the GDP of the year 2008, has reflected clear signs of confusion and imbalance, due to the difference in situations, occupation conditions, and siege between the WB and GS; the economic situation in the WB has relatively improved, while in GS the seige tightened and the suffering worsened.

1. Agriculture and Fishing

Agriculture is considered an important productive activity in the WB and GS. The agriculture sector plays a major role in the Palestinian economy, where agricultural exports constitute a significant share of foreign trade. In addition, the agriculture sector provides a lot of raw and primary materials to the various other economic sectors.

The area of cultivated land in the WB and GS was estimated by 1.835 million dunums (90.1% in the WB and 9.9% in the GS) in the agricultural year of 2006/2007; compared to 1.826 million dunums in the agricultural year of 2005/2006. The area planted with fruit trees had the largest share in the percentage of cultivated land, estimated by 63.5% in the agricultural year of 2006/2007. Irrigated farming has been prevalent in GS, making up 73.3% of the total cultivated land there; the percentage of irrigated farming in the WB was estimated by 8.3%.[2]

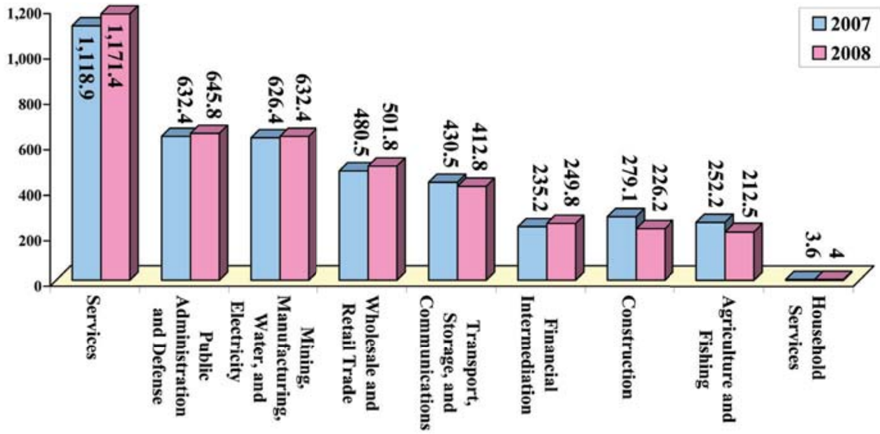
Preliminary estimates of the PCBS point out that the total value added by the agricultural and fishing economic activities in 2008 has dropped by $39.7 million from the estimated $252.2 million in 2007 to $212.5 million in 2008, i.e. by 15.7%. The percentage of the contribution of the agriculture and fishing sector to the GDP was estimated by 4.6% (see table 2/8).

Table 2/8: GDP in WB and GS by Economic Activity 2007-2008 at Constant Prices: Base Year is 2004 ($ million)[3]

Economic Activity	2007	2008*
Agriculture and Fishing	**252.2**	**212.5**
Mining, Manufacturing, Water, and Electricity	**626.4**	**632.4**
-Mining and Quarrying	17.6	15.9
-Manufacturing	450	455.7
-Electricity and Water Supply	158.8	160.8
Construction	**279.1**	**226.2**
Wholesale and Retail Trade	**480.5**	**501.8**
Transport, Storage, and Communications	**430.5**	**412.8**
Financial Intermediation	**235.2**	**249.8**
Services	**1,118.9**	**1,171.4**
- Real estate, Renting, and Commercial Activities	417.5	419.6
- Community, Social, and Personal Services	69.9	74.4
- Restaurants and Hotels	62.4	101.7
- Education	442.9	448.2
- Health and Social Work	126.2	127.5
Public Administration and Defense	**632.4**	**645.8**
Household Services	**3.6**	**4**
Minus: Financial Intermediation Services Indirectly Measured (FISIM)	**-257.1**	**-263.5**
Plus: Custom Duties	**283.9**	**285.4**
Plus: Net Value Added Tax (VAT) on Imports	**450.1**	**561.1**
Gross Domestic Product	**4,535.7**	**4,639.7**

* Preliminary Estimates (first release).

GDP in WB and GS by Economic Activity 2007-2008 ($ million)



2. Mining, Manufacturing, Water, and Electricity

The mining and manufacturing sector in the WB and GS has faced many difficulties and problems concerning the industry's structure and size, the inability to find new markets for its products, in addition to the shortage in the necessary funding, equipment, and industrial needs, lack of raw materials, and irregular receiving of the imported materials. The industrial sector has also suffered from lower productive efficiency rates, higher production costs, a notable deficiency in the specialized technical expertise, and the absence of order and planning within the industrial sector. These problems and obstacles are linked to the Israeli occupation policies and measures of preventing or hindering any development or growth in the WB and GS industrial sectors.

The final results of the 2007 construction census and its updates until 31/12/2008, point out that the number of economic facilities identified in the WB and GS between 20/10/2007 and 10/11/2007 is approximately 132,938 facilities, with the exception of the facilities in eastern areas of Jerusalem that Israel forcefully annexed to its territory in 1967. Among the earlier, 94,270 facilities are located in the WB and 38,668 in the GS. The number of facilities of the private sector, public sector, and government companies' that are active in both the WB and GS was estimated by 109,476 facilities, at which 299,754 workers work.[4]

Preliminary statistical estimates indicate a slight growth in the value added to the mining, manufacturing, water, and electricity sector in the WB and GS during the year 2008, from $626.4 million in 2007 to $632.4 million, which amounts to an approximately 1% growth rate. The manufacturing sector makes up the largest share of this sector's activities, estimated by 72.1% in 2008. The mining, manufacturing, water, and electricity sector has contributed in 2008 approximately 13.6% of the GDP (see table 2/8).

3. Construction

The gross value added to the construction sector in the WB and GS has witnessed a decline in 2008, where it dropped from $279.1 million in 2007 to $226.2 million in 2008, i.e. by 19%. The contribution of the construction sector to the GDP in 2008 amounted to 4.9% (see table 2/8).

It should be noted that this sector has stopped its activities in the second half of 2007 in GS, after Israeli occupational forces imposed a complete closure on GS thus preventing the entrance of various materials required for construction activities, and the termination of all construction projects in GS, which suggests that the set back in this sector in GS was covered up mainly by the WB.

4. Wholesale and Retail Trade

Preliminary estimates indicate an increase by 4.4% in the value added to the retail and wholesale trade activity in the WB and GS in 2008, from $480.5 million in 2007 to $501.8 million. The contribution of this sector to the GDP in 2008 amounted to 10.8% (see table 2/8).

5. Transport, Storage, and Communication

According to the preliminary estimated data of 2008, the transport, storage, and communications sector in the WB and GS has dropped by 4.1%, from $430.5 million in 2007 to $412.8 million in 2008. The contribution of this sector to the GDP in 2008 was 8.9% (see table 2/8).

6. Financial Intermediation

Preliminary estimates indicate the growth of the value added on the financial intermediation in the WB and GS during the year 2008 by 6.2%, as it rose from $235.2 million in 2007 to $249.8 million in 2008. The contribution of this sector to the 2008 GDP was estimated by 5.4% (see table 2/8).

7. Services

The total value added on the services sector has witnessed a 4.7% growth during 2008. The value of these activities rose from $1,118.9 million in 2007 to an estimated $1,171.4 million in 2008. The contribution of this sector to the GDP of 2008 amounted to 25.2%. With regards to the activities that constitute this sector, education made up 38.3% of the total sector activity, which amounts to $448.2 million; followed by real estate, renting, and commercial services which contributed $419.6 million and 35.8% of the total sector activity; the health and social work sector that constituted 10.9% of the total sector's activity i.e. $127.5 million; the restaurants and hotels sector by $101.7 million, and finally the community, social, and personal services activity sector that contributed $74.4 million (see table 2/8).

The PCBS announced the results of the survey of the hotel activity in the WB and GS during the year 2008, that was carried on by comprehensively surveying all the hotel facilities in the WB and GS. The results revealed that the number of hotels operating in the WB and GS was 87 hotels in December 2008, with a total capacity of 4,346 rooms and 9,466 beds. The average number of hotel employees in the WB and GS during the year 2008 was 1,345 employees, 14% of whom were females.

Hotel activities have took up again, following the decline it has witnessed in 2002 when the Israeli measures, raids, and closures climaxed. Since 2003, the number of guests has gradually increased, from 62,812 guests then to 316,866 guests in 2007 and 446,133 in 2008, keeping in mind that the number of guests in 2000 was 355,711. Accompanying the above mentioned gradual increase in the number of guests, was the improvement in all other major hotel activity indicators, such as the number of nights booked and the average room and bed occupation rate of the hotel. Until 2008, the room occupation rate of the hotels in 2000 was the highest since 1995, being 32%; in 2002 this rate dropped to 10%; in 2007, it increased to 25%; in 2008, it rose to 36%.[5]

8. Public Administration and Defense

The value added on the public administration and defense sector has witnessed a 2.1% growth rate between 2007 and 2008, increasing from $632.4 million to $645.8 million. The contribution of this sector to the GDP in 2008 was estimated by 13.9%. Factors behind this growth are believed to be related to the increase in government expenditure in the form of salaries due to the employees in the public sector and security apparatus (see table 2/8).

Third: The GDP per Capita

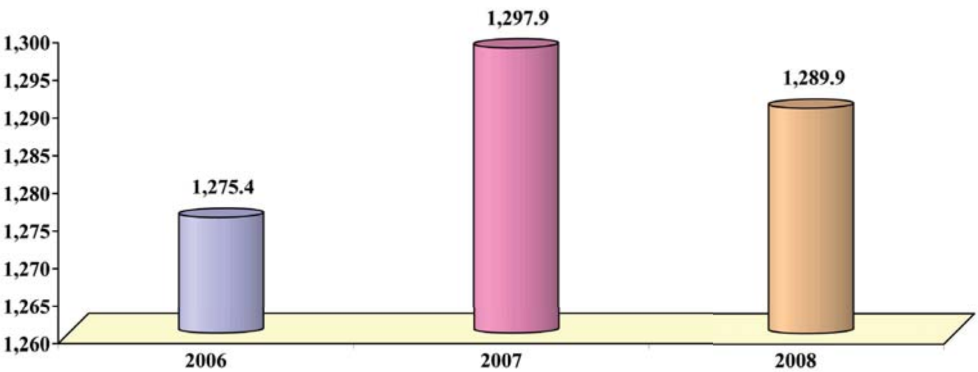
Table 3/8 presents the change in the GDP per capita in the WB and GS during the years 2006-2008 at constant prices. The figures are as indicated by the PCBS preliminary estimates. It is remarkable that the GDP per capita has slightly dropped in 2008 by 0.6%, from $1,297.9 in 2007 to $1,289.9 in 2008. It seems however that the decline in the GDP per capita was in GS because of the choking Israeli siege while in the WB it increased, thus almost balancing the average overall change.

Table 3/8: GDP per Capita in WB and GS 2006-2008 at Constant Prices: Base Year is 2004 (dollars)[6]

Year	2006	2007	2008*
Estimated GDP per capita	1,275.4	1,297.9	1,289.9

* Preliminary estimates (first release).

GDP per Capita in WB and GS 2006-2008 (dollars)



Fourth: Public Finance

Before proceeding to this topic, it is important to state again the exceptional conditions witnessed by the PA in the WB and GS since mid 2007, with the WB under the control of the Presidency and Ramallah's emergency government; and GS under the control of the dismissed government of Hamas headed by Isma'il Haniyyah. In these conditions, any improvement in the financial situation will not necessarily reflect on both regions; while the WB witnessed a relative improvement, GS had been increasingly suffering from the seige, hardships, and poverty.

A statistical report released by PCBS indicated that the process of collecting government revenues has increased according to the Ministry of Finance's data; by 23.2% in 2008 compared to 2007. The revenues collected in 2008 amounted to $1.6 billion. This increase is attributed to the continued flow of the clearance taxes collected by the Israelis, and the improved performance of local tax-collectors, in addition to the increase in non-tax revenues. This increase in government revenues was however accompanied by an increase in public expenditure in 2008 by 11.1% compared to 2007. One of the main reasons for this increase is the payment of all the dues and arrears related to the government sector, especially the employee salaries, where the number of employees in 2008 was estimated by 165 thousands.[7]

1. Public Revenues

The report of the Palestinian Ministry of Finance on the PA's financial operations, in terms of revenues, expenditures and finance resources, that in 2008 the total revenues reached $1.57 billion from an estimated $1.27 billion in 2007, i.e. a growth rate of 23.3%. However, the local revenues in 2008 did not exceed $562 million of the total revenues, $273 million of which were tax revenues and $234 million were non tax revenues. Most of the revenues were clearance revenues (resulting from the Palestinian exports and imports) collected by the Israeli government, as these increased from $896 million in 2007 to an estimated $1.12 billion in 2008, i.e. by 25.2% (see table 4/8).

2. Public Expenditures

In the same report referred to above, the Palestinian Ministry of Finance data estimated the total expenditure for 2008 by $2.83 billion, compared to $2.54 billion in 2007, i.e. an increase rate of 11.1%. Wages and salaries made up 51.4% of the 2008 public expenditure, amounting to $1.45 billion, in comparison to $1.28 billion (50.5%) in 2007.

The deficit in the PA budget was covered by the foreign budgetary support, which amounted to $1.89 billion in 2008 (see table 4/8).

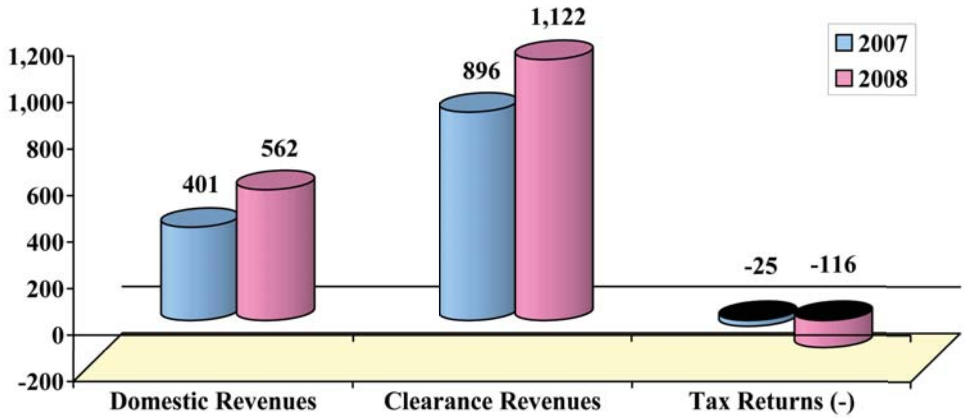
Table 4/8: Report on the Financial Operations of the Palestinian National Authority: Revenues, Expenditures, and Finance Resources 2007-2008 ($ million)[8]

Financial Operations	2007	2008	
	Actual	Budget	Actual
Net Public Revenues	**1,272***	**1,632**	**1,568**
Domestic Revenues	**401***	**564***	**562**
- Tax Revenues	202	253	273
- Non-Tax Revenues	122	166	234
- Profit Distribution**	78	146	55
Clearance Revenues	**896**	**1,087**	**1,122**
Tax Returns (-)	**-25**	**-20**	**-116**
- Value Added Tax	25	20	47
- Petroleum	0	0	69
Total Current Expenditure and Net Lending	**2,543**	**2,845**	**2,825**
Salaries and Wages	**1,283**	**1,481**	**1,453**
Other Current Expenses	**725**	**964**	**925**
- Operating Expenses	239	399	291
- Transfer Expenses	486	565	634
Net Lending	**535**	**400**	**447**
Deficit in Budget before financing	**-1,271**	**-1,213**	**-1,257**
Developmental Costs	**131**	**492**	**250**
Net Change in Arrears	**-23**	**-217**	**-387**
Total Deficit before Finance	**-1,426***	**-1,922**	**-1,894**
Finance	**1,426**	**1,922**	**1,894**
- Budget subsidization	1,011	1,634	1,763
- Finance of Developmental Costs	100	492	250
- Withheld Clearance Revenues that have been released	421		15
- Bank Finance	-106	-204	-134
Exchange Price	4.1	3.6	3.6

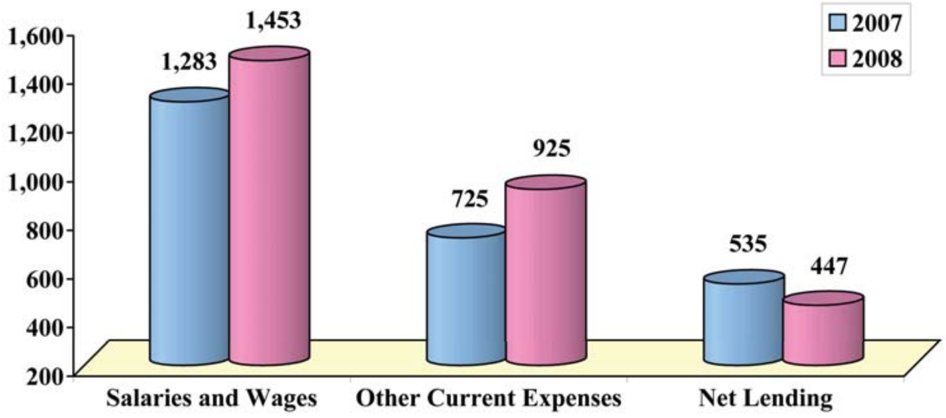
* It seems that some estimation and rounding operations have been done to the numbers presented by the Budget department in the Ministry of Finance; that caused the net revenues in 2007, the domestic revenues in 2007 and the domestic revenues in the budget of 2008, to be less by around one million dollars than the sum of its detailed classifications mentioned below it. This remark also applies to the estimate of total deficit before finance.

** This figure in 2008 does not include the profits of investment fund that amounted to $197 million and were used to pay the PA's debt to the fund.

PA Revenues 2007-2008 ($ million)



PA Expenditures 2007-2008 ($ million)



Fifth: Grants and Foreign Aid

Despite the harsh blockade imposed on the elected Palestinian government since the beginning of 2006, the total aid received by the PA from various donors during 2006 amounted to about $738.2 million. In 2007, foreign aid and grants amounted to $1.416 billion according to the Ministry of Finance data.

It is worth mentioning in this context that a part of this aid was received without coordinating with the government. Instead they were received in unsystematic flows of content, management, or dates; which diminished the possibility of managing, directing, planning or investing this aid on the basis of a unified plan or vision. This weakened the financial system of the PA and weakened its ability to influence the developments of the economy.

We must note also that the flow of aid has resumed directly to the PA from donor countries and organizations, immediately after forming the caretaker government in Ramallah; where earlier the flow took indirect forms.

In this context, 87 countries and international organizations have pledged $7.4 billion in aid to the PA over a period of three years, during the "International Donors' Conference for the Palestinian State" held in Paris on 17/12/2007. The PA had then presented a three-year fiscal framework (the Palestinian Reform and Development Plan - PRDP) that covers the course of 2008-2010. The plan gives off a rescue nature and includes reconstruction of the infrastructure and providing the salaries of the PA employees. It states three major foundations for actual development in the WB and GS; these are:

1. The enforcement of law and order in the WB and GS; and carrying out vital reforms that enable the PA to establish a sustainable economy and active institutions that would form the nucleus of the independent state.
2. The removal of all obstacles put by Israel that hinder the progress of the government and economy, and consequently the establishment of a viable Palestinian state.
3. Requesting the continued support of the international community to the Palestinian people and their steadfastness; and providing coordinated and flexible support to the PA.

The plan promises the donors with achieving real change and development in four areas: good governance, social sector, private sector, and infrastructure. The execution of this plan is based on the implementation of the three aforementioned foundations.

Until the date of writing this report, no specific figures exist of the aid and grants received by the PA during 2008; the prime minister of the PA government in Ramallah, Salam Fayyad, indicated at the end of October 2008 that the total amount received by the PA since the Paris Conference reached $1.6 billion.[9] It appears as though most of the aid goes towards paying off the deficit in the budget (about 95%), whereas the rest goes towards the subsidization of projects, which is the opposite of what was happening in 2000 (before *al-Aqsa Intifadah*), when most of the aid went to the subsidization of projects. [10]

The EU have pledged to contribute 440 million Euros ($631 million) during 2008; the US pledged $550 million and Australia $45 million during the same period; while France, Germany, Britain, Spain, Canada, and Sweden have pledged amounts that totaled $2.036 billion on the course of three years (2008-2010). [11]

It seems as though the PA in Ramallah complained about the fact that the Arab countries had not fulfilled their pledges made at the Beirut Summit, which involved providing annual financial aid amounting to $660 million. According to a report published by *The Washington Post*, then republished in some parts by *al-Ahram* and *al-Quds* newspapers at the end of July 2008, most of the Arab countries had not fully paid what it had pledged; the amounts received by the PA then actually amounted to $1.27 billion less than what was pledged. The report mentioned four countries that did fulfill its pledge or was on the way to, and these were Saudi Arabia, Algeria, the UAE, and Qatar.

Saudi Arabia and Kuwait have pledged to contribute annually $92.4 million each. Saudi Arabia gave $561 million out of $647 million due on the course of seven years (2002-2008), whereas Kuwait gave $199 million. As for Algeria, it gave $274 million out of the $374 million it pledged (i.e. 73.2%). The UAE gave $259 million out of the $301 million it pledged, $43 million annually, i.e. 86%.

Qatar had paid the pledged $180.3 million on the course of the seven years ($25.8 million annually), and added another $52.4 million i.e. a total of 129% of the total amount pledged. Libya however, contributed only $67 million throughout the seven years, out of a total $79 million pledged annually, i.e. the total amount it pledged for the seven years is $469 million and it have only paid 14.3% of it. Similarly, Oman had given only $19 million out of $91 million pledged (i.e. 20.9%), it has pledged to pay $13 million annually. [12]

The UAE later announced that it had fulfilled its pledge by giving $42 million at the beginning of August 2008.[13] Saudi Arabia gave the PA in Ramallah $100 million at the end of August 2008, which made the former's total contribution

$661 million,[14] which exceeds the total amount it pledged by $14 million. As for Kuwait, it presented $80 million at the end of August 2008 via the World Bank, thus increased its actual contribution to 43.1% of the amount pledged for the period 2002-2008.[15]

It seems that the official Arab interaction has increased after the Israeli aggression on GS (27/12/2008-18/1/2009), when the Arab countries pledged about two billion dollars, one billion of which was pledged by Saudi Arabia, $500 million by Kuwait, $250 million by Qatar, and $200 million by Algeria.

Sixth: The Israeli Siege and Closure

Despite the fact that the seige isn't news for the Palestinians, but had been a characteristic of the Israeli occupation and a vital part of the Occupier's policy; the damages and losses inflected on the Palestinian economy, especially in GS during 2008, were unprecedented, as a result of the escalation of this seige and the cruelty of its measures. The situation was made worse with the vicious Israeli aggression on GS at the end of 2008.

1. Economic Losses due to the Israeli Siege on GS

After Hamas gained control of GS on 15/6/2007, Israel intensified its marine, ground, and air seige of GS, declaring it a "hostile entity". The Israeli Defense Minister Ehud Barak, ordered on 18/11/2008 the "closure of all the crossings" into the GS.[16] Israel also totally cut off fuel supplies to GS on 20/1/2008; which made GS totally blockaded (see table 5/8).

The Israeli decision to stop supplying GS with fuel had critical implications on the various economic, social, humanitarian, health, and educational life aspects. All the economic sectors totally collapsed and the Palestinian economy suffered great losses.

Table 5/8: Number of Total Closure, Partial Closure, and Operating Days of GS Crossings until the End of 2008 [17]

Crossing	Total Closure (days)	Partial Closure (days)	Operating (days)	Period
Rafah	159	31	175	26/11/2005-31/12/2006
	308	-	57	1/1/2007-9/1/2008
	102	-	-	9/1/2008-19/4/2008
	163	20	-	19/6/2008-19/12/2008
Al-Mantar (*Karni*)	112	142	111	25/11/2005-24/11/2006
	121	56	188	2007
	114	-	-	10/1/2008-1/4/2008
	149	-	34	19/6/2008-19/12/2008
Beit Hanoun (*Erez*)	254	-	-	25/11/2005-24/11/2006
	365	-	-	2007
	366	-	-	2008
Sufa	186 for imports 365 for workers	-	179 for imports 365 for workers	24/11/2005-25/11/2006
	300	-	65	2007
	42	56	-	26/12/2007-1/4/2008
	45	83	-	26/6/2008-31/10/2008
Karm Abu Salem (*Kerem Shalom*)	314	-	51	24/11/2005-25/11/2006
	186	-	179	2007
	56	-	42	26/12/2007-1/4/2008
	127	-	56	19/6/2008-19/12/2008
Nahal Oz	62	-	303	24/11/2005-25/11/2006
	92	-	273	2007
	78	105	-	19/6/2008-19/12/2008

The Effects of the total closure of GS can be summed up in the following:

- The Private Sector: OCHA mentioned in a report that the private sector in GS, which provides 53% of the total job opportunities, suffered the most as a result of the closure and the lack of raw materials and commercial business opportunities. 75 out of the 110 thousands employees in the private sector were temporarily laid off due to the closing of the crossings, and the majority of private commercial businesses were closed.[18]

The Popular Committee Against Siege (PCAS) issued a report on 9/3/2008, in which it pointed out that the productive capacity of the private sector in GS has dropped to 11% of its full capacity since the complete closure was imposed on GS in mid June 2007. Preliminary estimates indicate that over 43% of private sector organizations have totally stopped their commercial activities and more than 55% of these organizations have decreased their commercial activities by more than 75%.[19]

- The Industrial Sector: The General Union of Palestinian Industries estimated the monthly losses of the industrial sectors in GS by about $15 million since mid June 2007, which amounts to approximately $277.5 million by the end of 2008. The data issued by the economic sectors indicate that the losses have surpassed $200 million, according to the aforementioned report of the PCAS.[20] A following report, issued by the Committee on 25/11/2008, pointed out that around 97% of a total of 3,900 factories and workshops in GS have shut down; the remaining has suspended their activities due to the cutting off of electricity and the lack of gas and fuel. This added approximately 35 thousand more employees to the list of unemployed Gazans.[21]
- The Agricultural Sector: The OCHA has reported on 17/12/2008, among the consequences of the seige of GS, that about 40 thousand temporary and permanent job opportunities in the agriculture and fishing sectors were lost. The report detailed that the lack of necessary equipment parts, the restraints imposed by the Israeli army on the freedom to fish, and the deterioration of the marine life due to the disposal of sewage water in the sea; are some of the main factors affecting the fishing sector. As for the agricultural sector, the report stated that the ban imposed on exports and the lack of the basic inputs has led to the paralysis of huge sectors within the agriculture sector. The reports of the UN Food and Agriculture Organization (FAO) indicate that 70% of the farmlands in Gaza are not irrigated at the present time, which resulted in gradual desertification. Moreover, the recurrent Israeli raids and incursions on GS have resulted in damages in the land, crops, and equipment, as well as in preventing the Palestinians from reaching their vast farmlands close to the buffer zone. The farmers and owners of poultry farms have suffered from a lack of chicken feed and cooking gas, and this caused the death of lots of

birds.[22] According to the data of the Ministry of Agriculture, the daily loss rate due to the inability of farmers to export their products is estimated by $150 thousand daily[23] i.e. $55 million annual losses.

- The Commercial Sector: Figures released by PCAS indicate that the commercial crossings have been generally shut since 15/6/2007, when the seige has been most strictly imposed. Of an estimated 600 truckloads needed daily by the Gazans, only 10-15% is let through the crossings. Moreover, since 4/11/2008, Israel closed the crossings without allowing anything through, not even the 15% that was allowed before.[24] In addition, economic restrictions on cash shipments to Gaza imposed by Israel have created a lack of shekel currency in the local market. As a result, on 19/11/2008, UNRWA was forced to suspend its cash assistance program to support refugee "special hardship cases". [25]

- The Real Estate and Construction Sector: After the Israeli occupation authorities announced the discontinuation of the use of the customs code of GS, and the prohibition of importing raw materials such as cement and steel to the GS, the construction sector in GS has suffered from paralysis; all construction factories (13 tile factories, 30 cement factories, 145 marble factories, and 250 brick factories) were shut down, resulting in the loss of 3,500 jobs. Losses incurred as a result of suspending construction projects are estimated by more than $350 million.

  In addition, the UNDP has suspended all infrastructure construction contracts, such as the rehabilitation of streets, water, and sanitation, which is valued at about $60 million. Yet worse, the UNRWA has suspended its employment programs estimated by $93 million, and from which over 16 thousand people directly had benefited.[26] According to a report by the PCAS, published on 25/11/2008, 97% of real estate agencies in GS closed down as a result of the Israeli seige.[27]

- Unemployment: Reporting about the effects of the seige of GS, the OCHA pointed out that the unemployment rate rose from 32.3% in the second quarter of 2007, to a record breaking 49.1% for the same time period in 2008. It added that the involuntary unemployment of over 100 thousand people, who are able to work, is considered one of the main factors of the crisis faced by the Strip.[28] In this context, the PCAS reported on 25/11/2008 that there are 140 thousand unemployed people in GS due to the closure of the crossings and the continuing seige since two years.[29]

- Poverty: The report of the PCAS, published on 25/11/2008, mentioned that 80% of the inhabitants of Gaza are living below the poverty line.[30]

2. Economic Losses due to the Israeli Aggression on GS (27/12/2008-18/1/2009)

The PCBS revealed that GS has suffered direct economic losses estimated by $1.9 billion as a result of the Israeli violent aggression. The direct losses in the infrastructure reached about $1.2 billion. The report by the PCBS shows that the aggression resulted in the total destruction of 4,100 houses, as well as the partial destruction of 17 thousand houses; government buildings and security forces headquarters were also destroyed.[31] A report by the OCHA brought attention to the fact that 18,035 displaced Palestinians were still homeless in the UNRWA shelters in GS, as the aggression ended.[32] Figures released by the UNDP estimated the number of houses damaged or totally destroyed in GS by 14 thousand houses; additionally indicating that over 60% of the 400 surveyed schools in Gaza had been either partially or totally damaged.[33]

According to the PCBS, losses of the economic activity in GS were estimated by $3.9 million daily (see table 7/8), and $86.7 million during the period of the aggression. Assuming a fixed decrease in the daily loss rate, and projecting the incurred losses in economic activity until the Palestinian economic activity in GS could be regained (estimated to take about a year); the losses of the period 18/1/2009-17/1/2010 are estimated by $717.3 million. All in all, the Palestinian economic activities had lost about $804 million due to the Israeli aggression on GS and its future consequences.[34]

The head of the PCBS, Lu'ay Shabaneh, announced that the wide Israeli aggression has left GS a disaster area on all humanitarian, economic, health, and social levels.[35]

Table 6/8: Direct Losses in the Infrastructure due to the Israeli Aggression on GS, PCBS - Ramallah [36]

Structure	Number	Cost ($ million)
Totally destroyed houses[(1)]	4,100	200
Partially destroyed houses and buildings[(1)]	17,000	82
Number of mosques totally or partially damaged[(1)]	92	12
Number of educational institutions (schools and universities) destroyed[(1)]	29	9.7
Security Centres and Headquarters[(2)]	60	12.2
Ministerial Complex[(2)]	1	25
Ministerial Buildings[(2)]	16	43.5
Bridges[(2)]	2	3
Headquarters of municipalities and local agencies/bodies[(3)]	5	2.3
Gas Stations[(1)]	4	2
Furniture, vehicles, machines, equipments, and miscellaneous items within destroyed buildings[(1)]	-	1
Water and Sanitation lines (unit is line)[(4)]	10	2.4
Farmland and the necessary supplies for its average consumption and infrastructure	-	170
Ambulances and Civil defense vehicles[(1)]	20	1.5
Electrical power stations[(1)]	10	10
Roads (kilometers)	50	2
Factories, money exchange shops, blacksmith workshops, and other commercial establishments	1,500	19
Fences of houses, factories, and workshops[(1)]	-	5
Other direct losses not included in the above[(1)]	-	22
Total sum of direct losses		**624.6**
Cost of rubble removal and worker wages[(1)]	-	600
Total sum of infrastructure and building losses		**1,224.6**

[(1)] Estimates of PCBS.

[(2)] Estimates of PCBS based on preliminary evaluations of contractors.

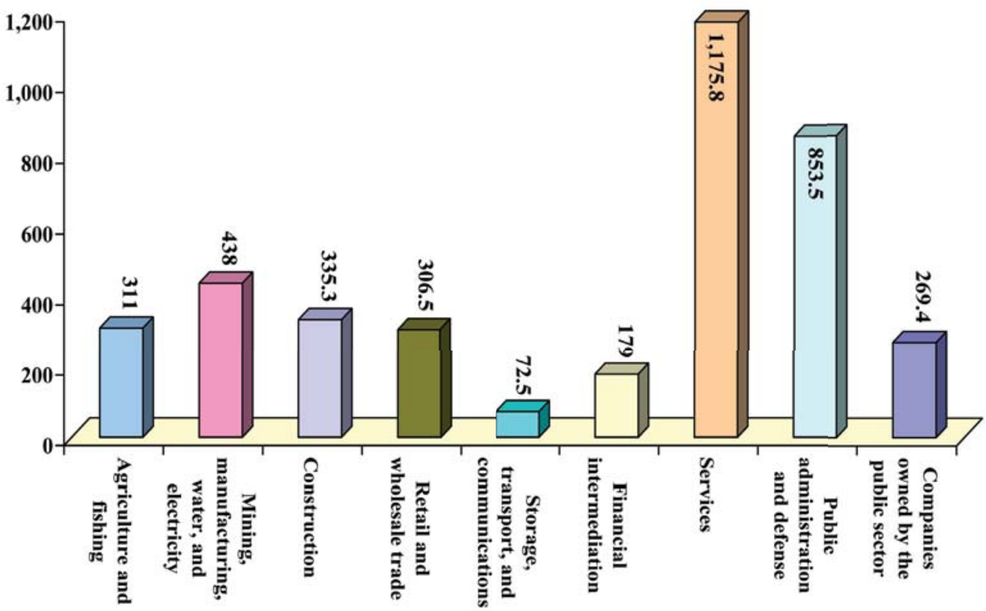
[(3)] Estimates of Ministry of Local Government.

[(4)] Estimates of Water Authority.

Table 7/8: Daily Losses of Economic Activities in GS, PCBS - Ramallah ($ thousand)[37]

Economic Activity	Daily Losses
Agriculture and fishing	311
Mining, manufacturing, water, and electricity	438
Construction	335.3
Retail and wholesale trade	306.5
Storage, transport, and communications	72.5
Financial intermediation	179
Services	1,175.8
Public administration and defense	853.5
Companies owned by the public sector	269.4
Total	**3,941**

Daily Losses of Economic Activities in GS, PCBS - Ramallah ($ thousand)

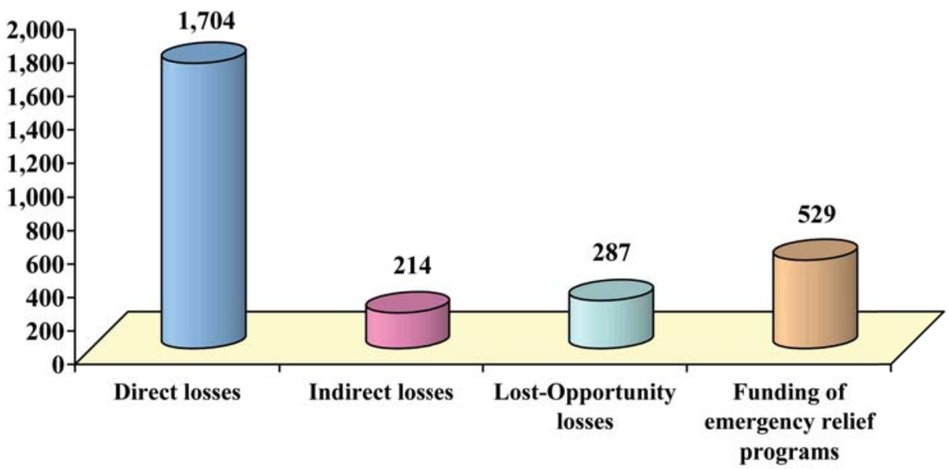


On the other hand, according to the preliminary estimates of specialized committees hired by the Ministry of Planning in GS, the total losses of the Palestinian economy as a result of the Israeli aggression on GS were estimated by $2.734 billion, distributed as in the following table:

Table 8/8: Total Losses of the Palestinian Economy, Ministry of Planning - Gaza ($ million)[38]

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

Total Losses of the Palestinian Economy, Ministry of Planning - Gaza ($ million)

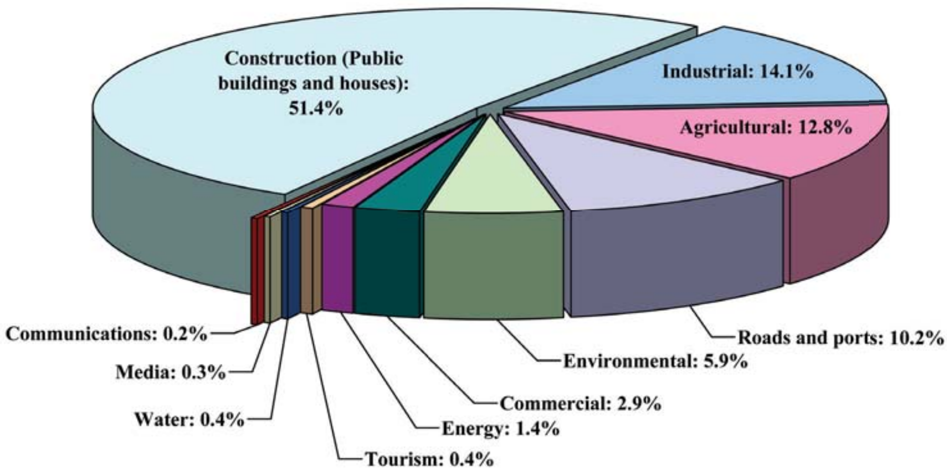


When examining the details of the direct losses, we find that the construction sector suffered the most damage, since its losses amount to 51.4% of the total direct losses, followed by the industrial sector, with 14.1%, and finally the agricultural sector with 12.8% of the total direct losses (see table 9/8).

Table 9/8: Direct Losses Distribution Based on Economic Sector, Ministry of Planning - Gaza[39]

Sector	Losses ($ million)	Percentage %
Industrial	240	14.1
Commercial	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
Communications	3.9	0.2
Environmental	100.5	5.9
Total	**1,703.7**	**100**

Direct Losses Percentage Distribution Based on Economic Sector, Ministry of Planning - Gaza



3. Tunnels: An Exceptional Alternative and a Survival Tool

As the Israeli seige started to tighten on GS in 2006, the tunnel phenomenon in Rafah began to grow and expand as a way of smuggling all sorts of materials and goods. The climaxing intensity of the seige, led to a dramatic increase in the number of these tunnels, from around 20 tunnels in mid 2007 to an estimated 500 tunnels in November 2008; of various forms and purposes, with lengths ranging between 200-1,000 meters, and widths ranging from half a meter to two meters, whereas the height reaches about one and a half meters. The tunnels are dug about 8-15 meters under the ground, and the digging of these tunnels needs at least few weeks and could possibly take few months, and the cost of digging ranges between 20-100 thousand dollars, depending on the length of the tunnel (it costs about $100 per meter). [40]

Tunnels are used in one direction, to smuggle goods and materials into GS and not to export outside to Egypt or abroad which means that the economy of Gaza is purely a consumer economy. Figures estimate the monthly imports through tunnels by 35-40 million dollars. The annual profits made by the merchants, tunnel owners, and those working in the tunnels are estimated between 200-300 million dollars. At the beginning of September 2008, the Rafah municipality began to collect fees from the tunnel owners under the pretext of commercial activity across the borders; each tunnel owner had to pay ten thousand Shekels (equal to $2,700). Those who don't pay are not allowed to continue digging their tunnels, and in case their tunnels were operating they would be closed. Although most of the goods are sold at high prices, some of the strategic goods are sold at half the price when compared to the goods imported from Israel, especially fuel and combustibles (gas oil, gasoline, and kerosene).

Noteworthy is that a large percentage of tunnel owners are young (25-40 years old), and that the number of tunnel workers is estimated by more than 12 thousand workers, excluding those working in related trade, transport, and distribution. Since the beginning of 2008 and until early December 2008, 49 Palestinians died in tunnels due to the lack of necessary security and safety measures and the unavailability of digging equipment and tools needed to remove rubble; not to mention the Israeli and Egyptian security pressures. [41]

The operations of transferring goods and commodities through the tunnels led to the increase of imports from Egypt to GS including “bag trade”, from $30 million annually in the years 1994-2006 to an estimated $650 million annually.[42] This means that the tunnels were able, even if only partially, to alleviate the seige or break it; contributing in the reduction of the GS’s dependence on the Israeli economy, and increasing GS interaction with its Arab neighbors. The tunnels also have acted as an expression of the Gazan’s will to endure and survive, and their refusal to submit to the Israeli will; the tunnels have revealed the ability of the Palestinians to adapt to exceptionally harsh conditions. Their persistence and determination was mostly embodied with their ability to transfer weapons through the tunnels, which enabled the resistance to face the Israeli incursions and raids, especially the wide aggression taken by the Israeli against the Strip between 27/12/2008 and 18/1/2009.

Although the tunnels helped to breathe life into the Strip’s economy and generated work opportunities for thousands of Gazans, they remain a means to serve the consumption needs of GS but not their export needs; in addition, tunnels still involve high risks and instability. Nonetheless, the crucial national role it plays in facing the seige should be the first and foremost standard in evaluating it.

Seventh: Work, Unemployment, and Standard of Living

Estimates of poverty rates, based on the real consumption patterns, among Palestinian families in 2007 reached 34.5% (23.6% in the WB and 55.7% in GS). The monthly income of 57.3% of Palestinian families has been below the national poverty line (47.2% in the WB and 76.9% in GS). This is mainly due to the Israeli occupation and its policies and measures that led to the deformation of the Palestinian economy, the seizure of Palestinian natural resources, and increased dependence on the Israeli economy.

During the year 2008, the percentage of the joint workforce in the WB and GS was estimated by 41.3% (43% in the WB and 38.1% in GS). Rate of unemployment in the WB and GS was estimated by 26% (19% in the WB and 40.6% in GS). In the WB, the service sector employs the largest number of refugees being 30.6%, followed by the commercial sector with 20.8%; whereas in GS, the service sector employs over half of the Strip workers estimated by 52%, followed by the agricultural, forestry, fishing and hunting sector with 28.4%. Average daily wages of hired Palestinians in the WB and GS was estimated by 91 Shekels i.e. approximately $25; where the average wages in the WB was 98.6 Shekels i.e. $27, and in GS 60.9 Shekels i.e. $17. As for the economic dependency rate (the number of inhabitants, including workers, divided by the number of workers) in the WB and GS was estimated by 5.9 in 2008 being 4.9 in the WB and 8.5 in GS.[43]

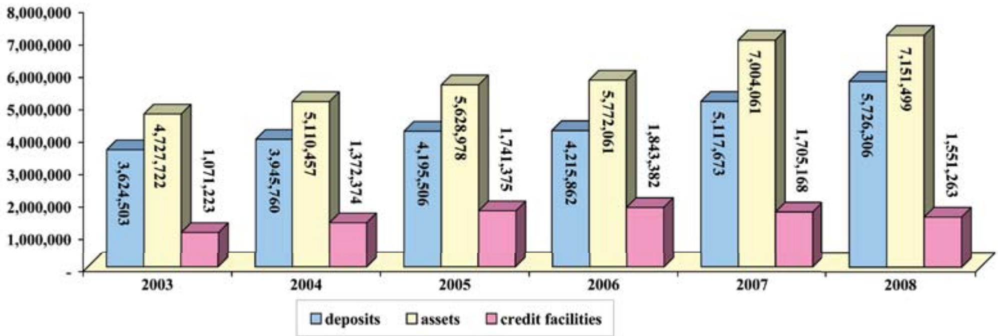
Noteworthy is that tens of thousands of Palestinian workers work illegally within the green line area, and do not have work permits. Some figures estimate the number of Palestinians working within the green line area by more that 50 thousand workers, whose status is in most cases illegal, thus they are abused by their employers, extorted, and sometimes not paid. Moreover, the majority of these workers are living under harsh and inhumane conditions, such as those living in abandoned buildings that lack basic services and installations.

Eighth: The Banking Sector

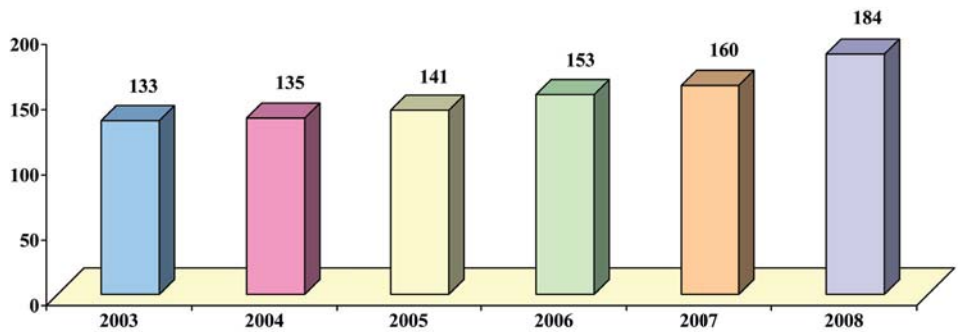
The banking sector has witnessed a huge growth between 2003 and 2008 with regards to the total amount of deposits and assets. Until 31/8/2008, the amount of deposits and assets reached respectively $5.7 billion and $7.15 billion. Despite this, the total amount of credit facilities has dropped to $1.55 billion, i.e. only 27% of the amount of deposits, which is a low percentage compared to neighboring countries, where the percentage of total credit facilities to the total deposits is 68%; in developed countries 76%.

The number of bank branches in Palestine is 184 branches, which is 38.5% more than it was in 2003.[44]

The Growth of the Banking Sector in Palestine 2003-31/8/2008 ($ thousand)



The Number of Bank Branches in Palestine 2003-31/8/2008



Ninth: Consumer Price Index

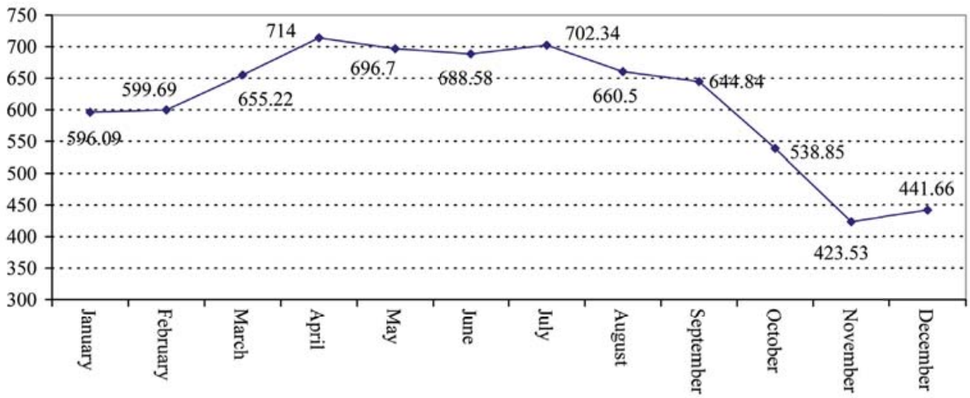
The PCBS announced that the Palestinian Consumer Price Index (CPI) in the WB and GS have increased by 9.89% in 2008 compared to 2007. The overall CPI with its 2004 base year (2004=100) reached 121.01 in 2008 while in 2007 it was 110.12.

The PCBS analysis of consumer price developments for 2008 indicated increases in the major expenditure groups, i.e. food and soft drinks by 17.26%, restaurants and cafés by 12.94%, transportation by 8.01%, housing by 7.64%, alcoholic beverages and tobacco by 7.44%, medical care by 7.25%, and furniture and household goods by 6.49%. Developments in consumer prices of other expenditure groups ranged from a slight decrease to a slight increase.[45]

Tenth: The Palestine Securities Exchange

Figures of the Palestine Securities Exchange has indicated that the value of circulated shares in 2008 reached about $1,200 million, compared to about $800 million in 2007. The market capitalization value at the end of 2008 was about $2.1 billion, whereas the number of transactions was over 152 thousand transactions. The volume of circulated shares was about 339 million. On the performance level, indicated by the major market indices, al-Quds index closed by the end of 2008 at 441.66 points, dropping 85.6 points from 2007 closing, i.e. 16.23%. This decrease is due to the fall of the indices of all the sectors, where the banking sector index fell by 3.41%, the industry sector by 17.73%, the insurance sector by 25.43%, the services sector by 2.78%, and the investment sector by 42.23%.[46]

Al-Quds Index Monthly Closing Figures 2008



Eleventh: Foreign Trade

The Palestinian economy still suffers from structural imbalances due to the Israeli occupation; this economy is still a "dependent economy", reliant on the Israeli political, security, and economic developments. Israel's continued control of the crossings, airports, and borders greatly affects the Palestinian foreign trade. In addition, Israel purposely grants itself preferential and monopolizing privileges through its control, whereby it forces the Palestinian economy to deal with it as a de facto or as an inevitable choice. Accordingly, Israel has been the origin of 86% of the imports of the PA territories in 2007, and the destination of 64% of the Palestinian exports.[47]

As for 2008, Ofir Gendelman, CEO of the Israeli-Palestinian Chamber of Commerce and Industry (IPCC) in Tel Aviv, pointed out that the Israeli-Palestinian trade amounted to 15 billion shekels (about four billion dollars), of which two billion (about half a billion dollars) worth of sales went to GS and 13 billion went to the WB (about $3.5 billion).[48]

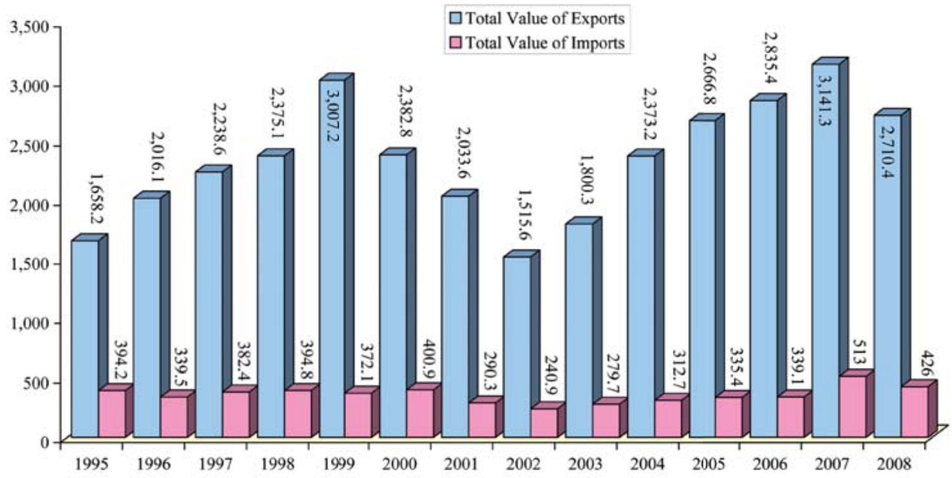
The figures of the PCBS show that the total Palestinian exports of goods in 2008 amounted to $426 million, dropping from $513 million in 2007. Total imports were estimated by $2.71 billion in 2008, also dropping from $3.14 billion in 2007. The following table summarizes the preliminary results of the Palestinian foreign trade statistics with world countries; data according to the PCBS.

Table 10/8: Total Value of Exports, Imports, Net Balance, and Transaction Trade in Goods for WB* and GS 1995-2008 ($ million)[49]

Year	Total value of exports	Total value of imports	Net balance trade	Transaction trade
1995	394.2	1,658.2	-1,264	2,052.4
1996	339.5	2,016.1	-1,676.6	2,355.6
1997	382.4	2,238.6	-1,856.2	2,621
1998	394.8	2,375.1	-1,980.3	2,769.9
1999	372.1	3,007.2	-2,635.1	3,379.3
2000	400.9	2,382.8	-1,981.9	2,783.7
2001	290.3	2,033.6	-1,743.3	2,323.9
2002	240.9	1,515.6	-1,274.7	1,756.5
2003	279.7	1,800.3	-1,520.6	2,080
2004	312.7	2,373.2	-2,060.5	2,685.9
2005	335.4	2,666.8	-2,331.4	3,002.2
2006	339.1	2,835.4	-2,496.3	3,174.5
2007	513	3,141.3	-2,628.3	3,654.3
2008**	426	2,710.4	-2,284.4	3,136.4

* Excluding the areas of East Jerusalem which were annexed by Israel in 1967.
** Estimated data.

Total Value of Exports and Imports of WB and GS 1995-2008 ($ million)



Conclusion

Not much could be expected or even demanded from the Palestinian economy under the measures taken by the occupation; for it is an "imprisoned" economy, totally controlled by the Israelis. Moreover, the Israeli occupation does not only control the economic life, it is also capable of stifling, paralyzing, or destroying it whenever it needs to. Such an occupation is unhesitant to use this fact as a means of pressuring and degrading the Palestinians.

The roots of the increasing Palestinian economic crisis are in the effective absence of a truly sovereign PA, when this authority is incapable of making sovereign decisions regarding the WB and GS areas, or of executing them. Moreover, the 1994 Paris Protocol on Economic Relations was designed to put additional restraints on the Palestinian economy and to consecrate its dependence on the Israeli economy.

The PA should have made plans to free itself from the occupation's restraints and encourage the establishment of a public economic sector that contributes to producing part of the local market's vital needs, and helps the private sector increase its investments in the production sectors rather than building a sagging flaccid bureaucracy that costs the PA a lot more than it brings in revenues, making it subject to the conditions of the donor countries, which only further deepens the dependence of the Palestinian economy in the WB and GS on the Israeli economy.

The mismanagement and corruption that have characterized the PA led to an increased crisis within the Palestinian economy, increasing its subordination to foreign will and dictates. The only way out of this crisis would thus be the adoption of policies that seek economic independence by developing local production, encouraging productive investments, and making the economy open to other Arab economies and markets, also fighting corruption and implementing scientific management policies that are credible and transparent.

Supporting the survival of the Palestinian people in their country is a national, Arab, Islamic and humanitarian duty; breaking the blockade and reconstructing GS is at the heart of that duty. Israel should not be allowed to invest in the Palestinian suffering which it causes through economic measures, to achieve its political goals or to break the Palestinian's will and determination to resist and seek independence.

Endnotes

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List of Publications for al-Zaytouna Centre for Studies and Consultations

Arabic Publications

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5. Mohsen Saleh and Wa’el Sa‘d, editors, *Mukhtarat min al-Watha’iq al-Filastiniyyah li Sanat 2005* (Selected Palestinian Documents for the Year 2005), Beirut, 2006.
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8. Hasan Ibhais and Wa’el Sa‘d, *al-Tatawwurat al-Amniyyah fi al-Sultah al-Filatiniyyah 2006-2007* (Security Developments in the Palestinian Authority 2006-2007), The Security File of the Palestinian Authority (1), Beirut, 2008.
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