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**Development Opportunities in the
Occupied Territories**
(West Bank and Gaza Strip)

Trade

October 1992

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PREFACE

This analysis of the trade sector was prepared by Policy Research Incorporated (PRI) as part of an assessment of development opportunities in the Occupied Territories. That assessment, initiated in December, 1991, included a review of eight sectors: agriculture, education, finance and credit, health, industry, infrastructure, trade, and water and sanitation. The process by which the reports were developed included:

- 1) on-site data collection by two American development experts, Dr. Irene Jillson-Boostrom (Senior Technical Advisor) and Dr. Alan Richards (International Consultant);
- 2) the preparation of literature and information syntheses by Palestinian experts in each of the sectors (see attached list);
- 3) review of extensive documents across the sectors (including more than 300 documents from the Occupied Territories, Israel, donor organizations and relevant general development reports);
- 4) preparation of the draft analyses for each sector, with Dr. Jillson-Boostrom preparing those for health, industry, infrastructure and trade and Dr. Richards preparing those for agriculture, education, finance and water;
- 5) follow-up data collection and analysis by Dr. Jillson-Boostrom (to clarify issues and obtain additional data, when possible); and
- 6) preparation of the final development report for each sector and of the cross-sectoral analyses, by Dr. Jillson-Boostrom.

Each of the eight sectoral reports follows a consistent outline, as follows: executive summary of findings, introduction (including a discussion of the importance of the sector for development and key issues, if any), sectoral status and trends, institutions involved in the sector, constraints to development, and development opportunities. Citations for data and information presented in the reports are included at the end of each report; the Executive Summary does not contain specific citations. In addition, each report includes two appendices: 1) *Context of Development in the Occupied Territories* (background relevant to all sectors), and 2) *Visions of a Sustainable Future*, (a discussion of the overall potential for development in the Occupied Territories). In order to contribute to the discussion of sectoral as well as cross-sectoral needs and development opportunities, a particular effort was made to describe the organization and function of each sector in the Occupied Territories insofar as possible.

The sectoral reports are intended to add to the resources available for those involved in development planning in the Occupied Territories. In reviewing these reports, it should be recognized that circumstances have limited the degree to which preparation of these documents has followed standard sector analysis procedures. Data limitations are discussed in each of the documents; such limitations exceed those that pertain in many developing countries. Curfews and strikes hamper data collection. Thus far the final draft documents have not been

reviewed by those involved in development planning and implementation in the Occupied Territories in order to ensure that the documents accurately reflect the reality of each sector. Nor is it possible to ensure that the complete range of opinion and all available data sources have been included, although every effort was made to do so.

The conclusions and recommendations presented in the sector analyses are intended to serve as examples for Palestinians, donors and others involved in development planning for the Occupied Territories. It is recognized that each entity involved in this process will have its own specific world view and development goals to which these recommendations may or may not relate. The goals included in this report (in Appendix II, Table 2), based on general development goals derived from World Bank documents and other sources, are intended to stimulate ideas and discussion.

Acknowledgments

Preparation of this report on trade in the Occupied Territories would not have been possible without the contributions of many individuals. Dr. Hisham Awartani facilitated access to important data resources in the West Bank; Mr. Fayez Al Wahaidi facilitated access to data resources in the Gaza Strip and prepared a report on non-governmental organizations in the Gaza Strip. Mr. Charles Shamas prepared a report on trade in the Occupied Territories; Dr. Hind Salman provided additional information and resources for this sector. Ms. Monica Awad provided invaluable assistance with respect to identifying and collecting relevant documents, making logistical arrangements and performing other research and administrative tasks.

Cora Gordon and Christine Baluck, both of Policy Research Incorporated, assisted in compiling information resources available in the United States, reviewed and commented on multiple drafts of the reports and assisted in the production of the document. Dr. Mae Thamer, also of PRI, reviewed and commented on the initial draft prepared by Dr. Jillson-Boostrom. Sara Davidson edited the final draft of the report and designed and executed the desktop published version.

I am also most grateful to the representatives of donor organizations and international private voluntary organizations (PVOs), and to the more than 100 Palestinians who agreed to be interviewed. All provided information and ideas necessary for these analyses and engaged in constructive discussion of development opportunities in the Occupied Territories. I trust that this report will be useful to them and to all those involved in efforts to promote sustainable development in the West Bank and Gaza Strip.

Irene Jillson-Boostrom, Ph.D.
Clarksville, Maryland
October, 1992

ACRONYMS

ACC	Agricultural Coordinating Committee
ACCI	Arab Development and Credit Company
ACDI	Agricultural Cooperative Development Institute
ADCC	Arab Development and Credit Company
AGREXCO	Israeli State-owned Agricultural Marketing Company
AID	Agency for International Development
AIE	Arab Insurance Establishment
AMIDEAST	American Mideast Education & Training Services
ANERA	American Near East Refugee Aid
CBS	Central Bureau of Statistics
CCC	Civilian Conservation Corps
CD	Cooperation for Development
CDP	Cooperative Development Project
CIS	Commonwealth of Independent States
CIVAD	Civil Administration
CRS	Catholic Relief Services
CWA	Communications Workers of America
DOA	Department of Agriculture
DOS	Department of State
EC	European Community
ECWA	Economic Commission for Western Asia
EDG	Economic Development Group
FTA	Free Trade Agreement
GCMHC	Gaza Community Mental Health Committee
GDP	Gross Domestic Product
GFTU	General Federation of Trade Unions
GHS	Government Health Services
GNP	Gross National Product
GOI	Government of Israel
ICARDA	International Center for Agricultural Research in the Dry Areas
ICD-9	International Classification of Diseases
ICS	International Christian Society
IDF	Israeli Defense Force
ILO	International Labour Organization
IMR	Infant Mortality Rate
JCO	Jordanian Cooperative Organization
JD	Jordanian Dinar
JFPP	Jordanian Family Planning Program
MAP	Medical Aid to Palestinians
MCH	Maternal and Child Health
MOI	Ministry of Interior

NGO	Non-Governmental Organization
NHI	National Health Insurance
NICU	Neonatal Intensive Care Unit
NIS	New Israeli Shekel
OECD	Organization for Economic Co-Operation and Development
OT	Occupied Territories
PARC	Palestinian Agricultural Relief Committee
PFS	Patients Friends Societies
PFWAC	Palestinian Federation of Women's Action Committees
PHC	Primary Health Care
PLO	Palestinian Liberation Organization
PRCS	Palestinian Red Crescent Society
PVO	Private Voluntary Organization
SAI	Statistical Abstract of Israel
SCF	Save the Children Federation
SCHC	Society for the Care of Handicapped Children
TDC	Technical Development Center
TDG	Technical Development Group
TDP	Trade and Development Program
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UK	United Kingdom
UNESCO	United Nations Educational, Scientific & Cultural Organization
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNRWA	United Nations Relief and Works Agency
UPMRC	Union of Palestinian Medical Relief Committees
USG	United States Government
VAT	Value Added Tax
WHO	World Health Organization
WUB	Workers' Unity Block

I. EXECUTIVE SUMMARY

Necessarily, over the 25 years of the Occupation, Israel has become the most significant trading partner for the Occupied Territories. This is due in part to the elimination of trade barriers for Israeli goods to the Occupied Territories and the imposition of protective measures to hinder the export of certain goods from the Occupied Territories to Israel as well as to other countries. Moreover, Israeli tax and other import regulations result in substantial increases in the cost of goods imported to the Occupied Territories from other countries. In 1984, for example, 90% of goods imported to the Occupied Territories were Israeli, 8% were from other countries via Israel and 2% were directly from Jordan to the West Bank. Conversely, 54% of exports from the West Bank and 83% of those from Gaza went to Israel and 44% of West Bank exports and 13% of Gaza exports went to the Jordanian market.

As a result of these trade relationships, the balance of payments in the Occupied Territories has worsened considerably since 1967, particularly during the period 1980-1987 when the trade deficit increased (in dollar volume) by more than 90% in the West Bank and by 140% in the Gaza Strip, in dollar volume. In 1987, the most recent year for which total balance of payments data are available, the total trade deficit was \$665 million; the trade deficit with Israel was \$657.5 million. In this respect, the situation is worse than it was just prior to the 1967 Occupation, when the trade deficit for the West Bank was Jordanian Dinar (JD) 20 million and that for Gaza was JD 7 million.

In consideration of the disparities in balance of payments with the primary trading partners of the West Bank and Gaza Strip, a key issue has emerged in the discussion of necessary and appropriate economic development strategies for the Occupied Territories. This critical issue, which must be addressed in formulating trade development strategies, is the determination of the appropriate balance between import substitution and export expansion. While not mutually exclusive, they require somewhat different emphases in terms of investment and focus. This issue, which is both economic and political, is being considered by the Palestinian representatives to the Peace Talks as well as by various economic development and research institutions.

Non-parity with respect to preferential trade agreements with potentially significant trading partners (i.e., the U.S. and the European Community (EC)) also hampers the ability of Palestinian industry to compete effectively in the global market. Another competitive disadvantage is the absence or severe inadequacy of economic and physical infrastructures and systems on which free market economies depend (e.g., access to domestic and foreign market pricing data, adequate transportation and storage facilities, ability to participate in trade fairs and deliberations, mechanisms for production and packaging quality control). Moreover, the dependence on the Israeli economy (and to a lesser extent on the Jordanian economy) with respect to production and trade hampers the ability of Palestinian industry to diversify and expand. Finally, the dependence on export of Palestinian labor to Israel and the Gulf States as a means of income generation (both for families and for Palestinian society as a whole) is a volatile proposition, as has been proven since late 1990 in the Occupied Territories.

Table 1, found on page 21 of this report, presents a summary of conclusions and recommendations for trade.

II. INTRODUCTION

For purposes of this paper, "trade" will include those activities and processes through which productive enterprises of any type procure imported inputs and deliver tangible outputs. Goods and services imported for the health and social sectors (e.g., medical equipment) and those imported and exported for private consumption are not considered. Because trade issues are integrally related to both the agricultural and industrial sectors, both of those sector analyses address trade concerns specifically related therein. The reports also discuss in more detail cross-sectional issues, including, for example, the dearth of natural resources, inadequacy of educational and training resources to enhance human resources development, and the scarcity of investments in the productive private sector.

Data and information are inadequate in virtually all public and private sectors in the Occupied Territories. The limited information resources available severely hampers analysis of issues related to trade. Moreover, although many reports have been prepared in the areas of agriculture and health, and fewer in industry and general economic development, only one comprehensive report has been prepared on Palestinian external trade. The primary source of information on exports and imports is derived from the Statistical Abstract of Israel, but that document does not provide disaggregated data and information, and the most recent report presents no trade data with respect to exports/imports to and from Israel since 1987. Therefore, much of the most recent data contained in this report is for 1986.

A. IMPORTANCE OF TRADE FOR DEVELOPMENT IN THE OCCUPIED TERRITORIES

In spite of the fact that just prior to the Occupation the West Bank and Gaza Strip had a negative trade balance (albeit small in comparison with that experienced since the mid-1970s), trade had been an important aspect of the Palestinian economy before 1967, with Palestinians having longstanding linkages with trading partners in the Arab world and Europe.¹ In 1987, the most recent year for which data are available, trade comprised approximately one-third of Gross Domestic Product (GDP) in the Occupied Territories--a moderate decrease from 1968. Export capacity (the ratio of merchandise exports to GDP) has also decreased in the Occupied Territories, from 42% in 1981 to 25% in 1986.² However, in order for the economy of the Occupied Territories to expand, for domestic jobs to be created and for sufficient resources to be available for urgently required physical infrastructure and social services to be supported, it is imperative that trade expand.

B. KEY SECTORAL ISSUES

Palestinian trade is replete with complex issues which are largely related to systemic distortions resulting from the dependence of the Palestinian productive private sector on Israeli policies with respect to import and export of goods to and from the Occupied Territories. Two key issues are addressed here: the dependency on Israel and the non-parity of trade agreements; other constraints on free trade are discussed in Part V of this report.

B.1 Dependency Relationship With Israel

The degree to which Palestinian trade is dependent on trade relationships with Israel is clear, as data in this report will demonstrate. This relationship often is circuitous: pricing and import policies in Israel result in distortions in the local markets. As a result, it is difficult for Palestinian firms to have explicit trade strategies; rather they often have to dispose of surplus goods at the same time that low-priced Israeli surpluses are being "dumped" on the Palestinian market. Israel has not only largely determined the export of goods from the Occupied Territories, but also the function of labor, with low-cost Palestinian laborers serving the Israeli productive sector. Thus, the important link between labor and economic development, for example, in terms of planned development of human resources to meet economic goals and to ensure competitive advantage, is nonexistent in an economy that is oriented primarily to serving the labor needs of a competitor (and competitive) economy.

The dependency on the Israeli economy is expressed further in the fact that the Palestinian productive sector and approach to investment is, necessarily, largely reactive to external forces. For medium- and large-scale Palestinian industry, the volume of exogenous commerce is greater than the volume of endogenous commerce at factor prices. Non-subordinated external trade relations in other countries have been found to stimulate upstream and downstream investment and the formation of internal linkages within the industrial and agro-industrial sectors. This is not, however, the case for the type of external commerce and trade which relates Palestinian points of production primarily to Israeli commercial interests.

The dependency of Palestinian trade on Israel and Jordan is clear from import/export data. In 1987, the most recent year for which data are available, 91% of goods imported to the Occupied Territories--more than \$639 million--were received from Israeli suppliers.³ In fact, since the Occupation, between 85% and 90% of imports have been from Israel.

B.2 Non-parity of Trade Agreements

Exclusion from the U.S. Free Trade Agreement (FTA) preferences and effective non-parity under EC preferential trade arrangements undermines the ability of Palestinian producers to export their products directly in each of those major external markets. Israel enjoys the benefits of the U.S. FTA, having a trade surplus of over \$752 million in 1990.⁴ The proportion of goods produced or finished in Palestinian industries but exported through Israel to the U.S. (and other countries) by Israeli firms (e.g., as a result of subcontracting arrangements) is not known. However, it has been suggested that lifting of U.S. labelling restrictions on Palestinian goods would positively impact on the ability of Palestinians to engage in direct trade with the U.S. At the same time, it would be necessary to ensure that Government of Israel (GOI) export restrictions are removed.

Until 1987, the Occupied Territories' producers had no option to export directly to the EC countries. In that year, a decision was made by the Council of Ministers to establish unilaterally a preferential trading regime for the Occupied Territories. The EC had made that decision in 1986, and the first direct exports under that policy were sent to the United Kingdom (U.K.) in 1987. However, for several technical reasons related to the lack of internal linkages within the economy of the Occupied Territories, the preferential trading policy for the Occupied Territories still does not allow most potential Palestinian exporters to qualify for the preference benefits.

Israel, on the other hand, enjoys the full benefit of both United States Government (USG) and EC preferential trade arrangements, and Israeli companies are able to market products produced in the Occupied Territories under more advantageous terms than the Palestinian firms themselves. As a result, they are deriving the main benefit of the preferences themselves and of Palestinian productive capacity in connection with these international trade preferences. This is of particular significance in consideration of the relative contribution to the economy on the part of Palestinian firms which subcontract to Israeli firms to produce goods for export. For example, the proportion of Palestinians working in subcontracting establishments in textile and shoe factories has been conservatively estimated at 80% of the total employed in that subsector.⁵

If Palestinian firms were eligible for participation in the FTA or EC preferential trade agreements, the Occupied Territories export income currently lost to Israeli firms would likely contribute significantly to an increase in Gross National Product (GNP) for the Occupied Territories. This non-parity also inhibits normal diversification and vertical elaboration of an industrial base established on subcontracting. It is that very process which has stimulated economic growth in countries, in particular those in the Pacific Rim.

B.3 Import Substitution and Export Expansion

In consideration of the disparities in balance of payments with the primary trading partners of the West Bank and Gaza Strip, a key issue has emerged in the discussion of necessary and appropriate economic development strategies for the Occupied Territories. This critical issue, which must be addressed in formulating trade development strategies, is the determination of the appropriate balance

between import substitution and export expansion. While not mutually exclusive, they require somewhat different emphases in terms of investment and focus. This is both an economic and a political issue which is being considered by the Palestinian representatives to the Peace Talks as well as by various economic development and research institutions.

III. SECTORAL STATUS AND TRENDS

A. PROFILE OF EXPORTS, IMPORTS AND BALANCE OF TRADE IN THE OCCUPIED TERRITORIES

Necessarily, over the 25 years of the Occupation, Israel has become the most significant trading partner of the West Bank and Gaza Strip. This is due in part to the elimination of trade barriers for Israeli goods to the Occupied Territories and the imposition of protective measures to hinder the export of certain goods from the Occupied Territories to Israel, as well as to other countries. Moreover, Israeli tax and other import regulations result in substantial increases in the cost of goods from other countries, which must be imported through Israel.

In 1986, a number of factors resulted in the distortion of economic trends, most importantly the price controls introduced by the GOI and the surge in agricultural and industrial ad valorem output fueled by increased product prices in the Occupied Territories. As a result of the price controls, Israeli subsidization of its own production was curtailed, with a corresponding reduction in its supply volumes and surpluses. In turn there was an expansion in Palestinian demand for (and production of) locally produced goods. The "economic" Intifada, which began at the end of 1987 and the beginning of 1988, thus followed (and encouraged) import substitution which had already begun.

The price increases in Israel and the Occupied Territories artificially elevated agricultural and industrial factor costs as well as costs of living for the Palestinian population. Two important effects of the price increases on trade are the following:

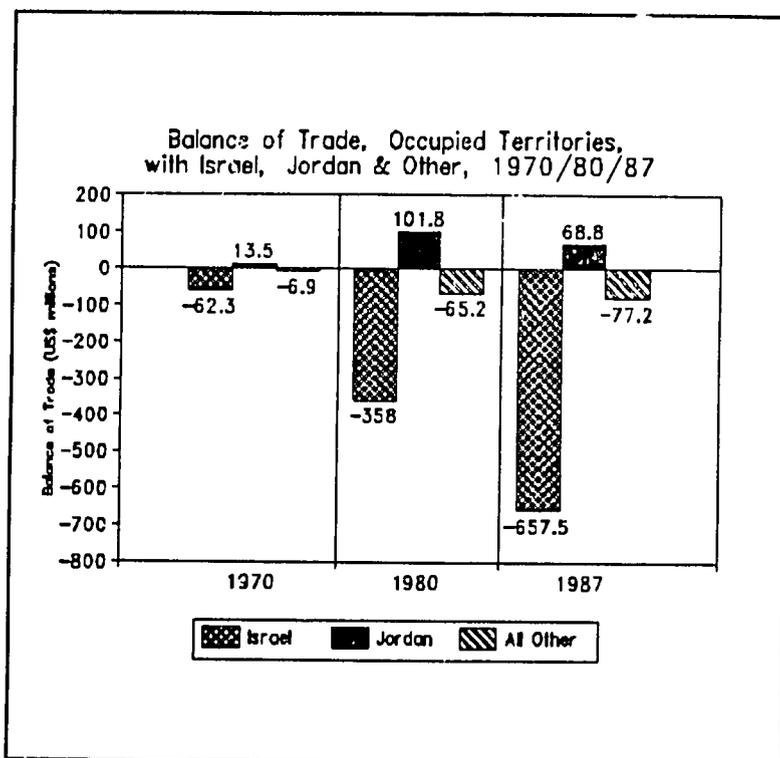
- 1) the competitiveness of industry and labor-intensive agricultural and industrial production for export to markets other than Israel are compromised; and
- 2) opportunity costs, entrepreneurial resources and investment are focused on import substitution rather than on expansion of export.

A.1 Balance of Trade

The balance of payments in the Occupied Territories has worsened considerably since the Occupation. Figure 1 shows balance of trade for 1970, 1980 and 1987 (the most recent year for which data are available). In that year, the total trade deficit was \$665.9 million; the deficit with Israel alone was \$657.5 million. During the period 1980-1987, the trade deficit increased by more than 90% in the West Bank and by 140% in the Gaza Strip, in dollar volume.⁶ The value of exports from Gaza demonstrated no overall growth rate and negative growth in real terms during the

period 1980-1987, while the value of West Bank exports increased only moderately in nominal growth and negative growth in real terms. During this same period, the value of merchandise imports increased by more than 40%.⁷ In nominal dollar terms, the total trade deficit in the West Bank was \$411 million in 1987; it was \$255 million for Gaza in the same year.⁸ By contrast, in 1966, the trade deficit for the West Bank was JD 20 million and that for Gaza was JD 7 million (approximately \$2.8 million, given an exchange rate of JD1 = U.S. \$2.5).⁹

Figure 1



Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics; Jerusalem; Table 27.11.

Since 1987, the balance of trade has deteriorated even further. For example, in one year alone--between 1988 and 1989--the trade deficit increased by 51% in the West Bank; comparable data are not available for the Gaza Strip.¹⁰ Exports of both goods and services decreased an average of 30% per annum during 1988-1990, with the decrease far more dramatic in the Gaza Strip than in the West Bank: 50% versus 16%, respectively.¹¹ Imports of goods and services also declined during this period: 16% in the West Bank and 19% in the Gaza Strip.¹²

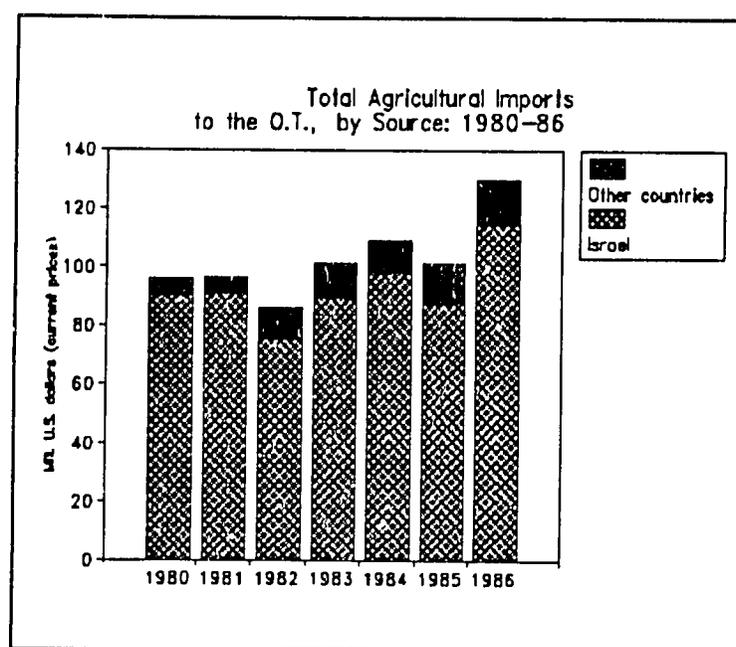
The Gulf War had a significantly negative impact on trade in the Occupied Territories, as on other aspects of the economy. The United Nations Conference on Trade and Development (UNCTAD) has described the impact of the Gulf War on the economies of the West Bank and Gaza as follows:

"The [Gulf War] resulted, *inter alia*, in reduced remittances to the occupied territory, new pressures on the already strained local labor market, the interruption of bilateral and multilateral transfers to the occupied territory and a halt in trade with traditional markets."¹³

Moreover, the external trade sector has not yet shown signs of improvement since the end of the Gulf War, in spite of efforts to re-establish economic relations with traditional trading partners in the region. At least until the end of 1991, regional markets remained largely closed to Palestinian products. The decreased purchasing power of Palestinian consumers, resulting from the continued stagnant economy, resulted in decreased imports and domestic markets for Palestinian products as well.

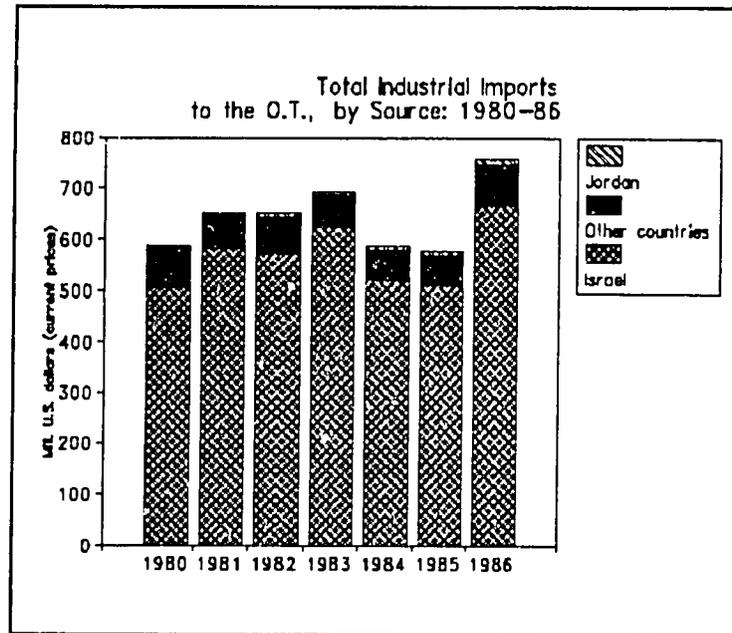
Figures 2 and 3 show total agricultural and industrial imports to the Occupied Territories from Israel, Jordan and other countries for the years 1980-1986. In the West Bank, only 1.5% of imports (valued at \$9.4 million) were received directly from Jordan in 1987;¹⁴ there were no imports to the Gaza Strip directly from Jordan, and information with respect to direct imports from Egypt to Gaza is not available. The West Bank exports fewer goods to Israel than it imports (70% of exports versus 90% of imports in 1987), but Gaza exports to Israel are essentially equal to imports from that country. The situation with respect to Jordan is considerably better: in 1987, 30% of West Bank exports and just over 7% of Gaza exports went to, or through the Jordanian market, in contrast to 1.5% of imports. Significantly, exports to Jordan from the Occupied Territories decreased by 38% from 1982, when they reached a post-occupation high of \$125 million, to 1987, when they were valued at just over \$78 million.¹⁵

Figure 2



Sources: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem and Administered Territories Statistical Quarterly, Vol. IX, No. 2 and Judeaea, Samaria and Gaza Area Statistics, Vol. XVI, No. 1 and Vol. XVII, No. 2.

Figure 3



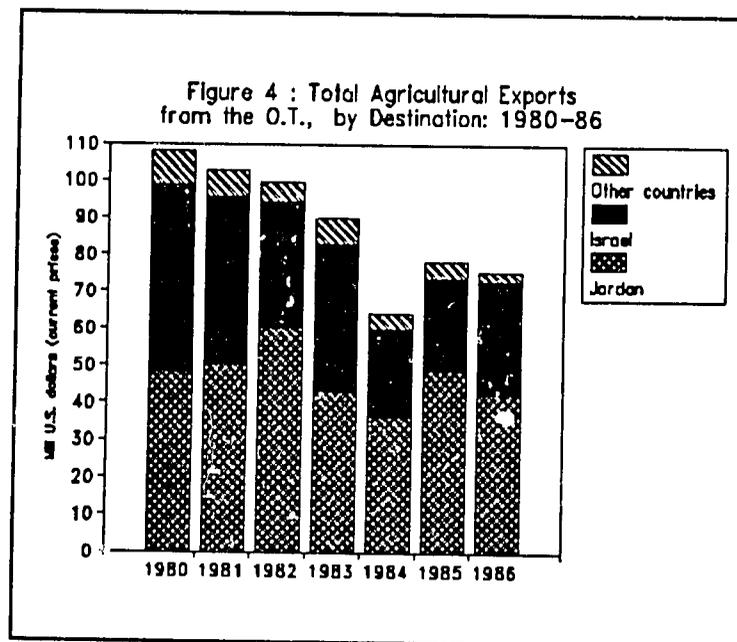
Sources: Israeli Statistical Abstract, 1991. Centrai Bureau of Statistics: Jerusalem and Administered Territories Statistical Quarterly, Vol. IX, No. 2 and Judeae, Samaria and Gaza Area Statistics, Vol. XVI, No. 1 and Vol. XVII, No. 2.

From 1977 to 1986, while the value of imports from abroad to the Occupied Territories via Israel more than doubled, the proportion of these goods relative to total imports remained at approximately 10%. Most of the goods imported from Jordan and a high proportion of those imported from Israel are for use in processing goods which are re-exported to these same countries, while goods imported from other countries are primarily for use in local processing and trade.¹⁶ Moreover, a reportedly significant but undocumented proportion of goods imported to the Occupied Territories from Israel are produced in third-party countries, but imported by Israeli firms for re-export to the Occupied Territories. The cost of such imports to the Palestinian purchaser is thus further inflated by the commissions and profit margins excised by the Israeli importers, who have in many cases enjoyed a monopoly on the export of specific goods, which is protected by the Israeli customs and Ministry of Trade and Industry. A related issue, addressed in the companion reports, Health in the Occupied Territories and Industry and Enterprise in the Occupied Territories, is the fact that the Israeli suppliers often do not provide repair and maintenance agreements for equipment, further adding to the cost to the Palestinian importer. This has been a particular problem for hospitals and other health facilities.

B.2 RELATIVE IMPORTANCE OF AGRICULTURAL AND INDUSTRIAL EXPORTS

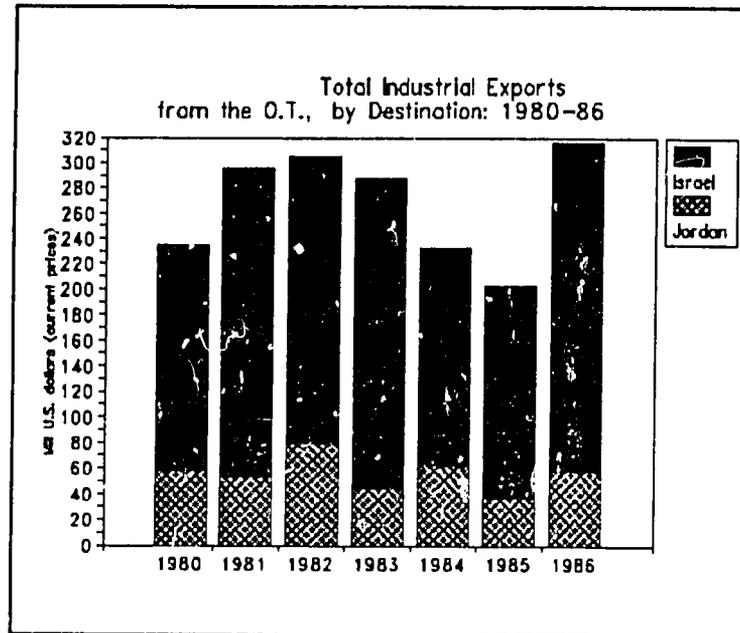
Figures 4 and 5 show total volume (in current U.S. prices) of agricultural and industrial exports from the Occupied Territories to Israel, Jordan and other countries for the years 1980-1986. Exports from the agricultural sector in the Occupied Territories decreased in value by 31% from 1980 to 1986 (from \$108.4 million to \$75.4 million). The decrease in agricultural exports can be seen specifically in the decline of export of citrus to Jordan, from a monetary value of \$37.4 million in 1980 to \$23.1 million in 1986. At the same time, total industrial exports increased in value by 34%, from \$237.3 million in 1980 to \$317.3 million in 1986. In 1986, industrial goods comprised 80.7% of total export volume in the Occupied Territories, while agricultural exports comprised just over 19%.¹⁷

Figure 4



Sources: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem and Administered Territories Statistical Quarterly, Vol. IX, No. 2 and Judeae, Samaria and Gaza Area Statistics, Vol. XVI, No. 1 and Vol. XVII, No. 2.

Figure 5



Sources: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem and Administered Territories Statistical Quarterly, Vol. IX, No. 2 and Judeae, Samaria and Gaza Area Statistics, Vol. XVI, No. 1 and Vol. XVII, No. 2.

Agricultural production in the West Bank (measured in tons of total fruit and vegetables) increased by approximately 10% (from 388,000 tons to 429,000) during the period 1980/81-1985/86, while exports to Jordan increased by 60% during the same period, reaching a level of 161,000 in 1985/86. In Gaza, total fruit production slightly decreased over the same period (from 274,000 to 265,000 tons), with total exports to Jordan declining more substantially, from 131,000 to 82,000.¹⁸ This decrease in the importance of agricultural products vis-a-vis trade comes in spite of efforts on the part of Palestinian and donor organizations to increase production and marketing capacity, including improvements in quality of goods as a means of enhancing competitive advantage. The benefits from these efforts have not yet been seen in improved export volume.

Industrial exports to Jordan have also decreased as a proportion of total industrial exports, from 25% of all exports in 1980 to 18% in 1986. Processed olive and vegetable oil, processed dairy products, stone and soap are the dominant industrial exports to Jordan; the relative contribution of these goods to total exports to that country has not changed substantially since 1980. During the period 1980 to 1986, industrial exports to and through Israel increased from 75% of the total to 81%.

The primary source of export data--the Statistical Abstract of Israel--does not disaggregate agricultural and industrial export and imports to and from Israel by type of agricultural or industrial product. This is unfortunate, because as Israel is the dominant trading partner, it is not possible to identify with any degree of precision the primary goods of trade for the Occupied Territories. However, the data are disaggregated for exports to Jordan, which provide some indication of the relative importance of goods traded.

Although citrus fruit still comprised more than half (54.2%) of all agricultural goods exported to Jordan in 1986, this is a decrease from 1980, when citrus comprised 77.6% of all exports to Jordan. On the other hand, export of other fruits increased substantially, from 15.6% of total agricultural exports to Jordan in 1980 to 31.7% in 1986. With respect to industrial exports to Jordan, olive oil and olives comprised 42.6%, samna and dairy products 27.2% and stone and marble 20.3% of all industrial goods exported to or through Jordan. This represents a shift from 1980, when olive oil and olives comprised more than half (53.1%) and stone and marble only 8.1% of all industrial goods exported to Jordan; the export volume of samna and dairy products remained relatively stable, as did soap exports.¹⁹

The "export" of Palestinian labor, primarily for work in Israel and the Gulf States, plays a significant role in the Palestinian economy. However, while remittances from Palestinian workers have contributed positively to supplementing the decreases in exports of industrial and agricultural products, they demonstrate further the dependence of the Palestinian economy--and perhaps trade in particular--on that of Israel, and to a lesser extent, Jordan. As the developments during and after the Gulf War clearly show, this dependence can result in significant shocks to the Palestinian economy when Israel determines that the Palestinian labor force in Israel should be reduced (or, for reasons of security, barred altogether) from Israel. Other socioeconomic effects of dependence on the exportation of Palestinian labor are described in Appendix I.

IV. INSTITUTIONAL ARRANGEMENTS

A. THE SYSTEM OF DOMESTIC AND EXTERNAL TRADE IN THE OCCUPIED TERRITORIES

External trade in the Occupied Territories is governed by the Department of Trade and Industry, headed by a military officer and organizationally located within the Civil Administration. The department has representatives in three areas of the West Bank (Ramallah, Nablus and Hebron) and in the Gaza Strip. Although extant laws at the time of an occupation are supposed to serve as the basis for trade (as is true with other aspects of life in the territories), the military government has issued hundreds of supplemental regulations and military orders which impact on trade. These orders include, for example, those relating to product labelling, operating licenses, export licenses and taxes, and permits.

The Department of Trade and Industry in the Occupied Territories receives applications for exports and imports and reviews and transmits the applications to the Civil Administration, which then submits them to the Ministry of Trade and Industry in Israel and to the relevant Israeli trade board in the case of applications

for exports to Israel. Potential importers must also obtain permits and clearances from tax and customs' authorities. (This latter requirement does not apply to Israeli importers.)

In December, 1991, an agreement was reached to relax the restrictions on the part of the Arab League by arranging for export of Palestinian goods to Arab countries (as Jordanian products) through a free port in Jordan. Palestinian firms interested in these new opportunities are to request permits from the Ministry of Trade and Industry through the local Chamber of Commerce. They then complete a Certificate of Origin form, which is certified by the local Chamber of Commerce and sent to the Jordanian Ministry of Commerce and Industry (or the Palestinian Liberation Organization (PLO) in Amman) for approval. Once approved, the goods (together with the various documents, including a permit for the transport driver) are taken to the Zarqa Free Port in Jordan, from which they are to be exported to Arab countries (as Jordanian products). The volume of export thus far through this arrangement is not known, but it has important potential for expansion of Palestinian trade with its traditional trading partners.

Few local Palestinian organizations have been involved in trade specifically, although several agricultural institutions, and more recently industrial/enterprise organizations, have undertaken external trade activities related to their sector. The companion sectoral reports, Industry and Enterprise in the Occupied Territories and Agriculture in the Occupied Territories, describe these organizations in detail. Relevant activities with respect to exports to countries other than Israel have been supported largely by donors (including A.I.D., the EC and United Nations Development Program) and have included projects designed to improve quality control, packaging and shipping, marketing techniques (brochures and presentations at trade fairs) and contacts with potential external markets. With respect to agriculture, in 1991 the Union of Agricultural Cooperatives initiated a project to implement an agricultural marketing information system. In early 1992, a broadly-based Palestinian organization operating in the Occupied Territories, but legally domiciled in the Netherlands--the Palestinian Trade Promotion Organization--began to undertake trade promotion activities relative to Palestinian external trade.

B. DONOR INVOLVEMENT IN TRADE

Some of the recent developments which have been supported by donor organizations to develop an adequate infrastructure for Palestinian export include the conduct of trade exhibitions in the West Bank and Gaza Strip and participation in trade fairs in Europe and elsewhere, the establishment of specialized economic development and trading companies, and the development of innovative arrangements for specific exports (e.g., Palestinian olive oil to Italy, which Italy will recycle as commodity aid to developing countries).

V. CONSTRAINTS TO DEVELOPMENT

A. GOVERNMENTAL POLICIES WHICH IMPACT ON PALESTINIAN TRADE

Bahiri has described the symbiotic relationship between Israel and the Palestinian Occupied Territories in a way that addresses the fundamental issue of economic development in the West Bank and Gaza Strip and clarifies the degree to which the Palestinian economy and its trade relationships are dependent on Israel:

"In some ways Israel may be viewed as the core economy, its industry as the core industry, and the Occupied Territories as the colonial or peripheral economy. Both economies may now be viewed on one hand as systems in their own right, and on the other as sub-systems of an increasingly single (system) economy."²⁰

But this relationship is by no means equal, and the Palestinian economy is by no means an integrated "system." A 1989 UNCTAD report pointed to the significance of this relationship for Palestinian trade:

"Complementarities between Palestinian and Israeli manufacturing branches that might appear to be exhibited in the composition of Palestinian-Israeli merchandise trade have been largely manifestations of the ability of the more powerful Israeli economy to selectively import in line with its own industrial development prerequisites. Palestinian manufacturers which have penetrated Israeli markets (e.g., some food products, construction materials and some textile products) have done so by virtue of their relatively low prices rather than through any special ability and/or arrangement to supply materials which cannot be (or are not) produced in Israel. This export has entered the lower end of the Israeli market for such goods, permitting some Israeli manufacturers to shift into branches characterized by greater capital intensity and productivity. ...The roles of domestic Palestinian market demand and non-Israeli export possibilities have become increasingly marginalized after two decades of Israeli occupation."²¹

As has been described previously in this paper, the consequences of the dependence of Palestinian trade on Israeli policies have also been seen in the retarding of a viable industrial base which builds on Palestinian advantages (e.g., a relatively highly educated and industrious population). Several specific Israeli policies which impact negatively on Palestinian trade are described below:

A.1 Fees, Taxes and Price Supports

The high rates of fees and taxes imposed on goods imported into the Occupied Territories from countries other than Israel (including the traditional Arab trading partners) has been a causal factor in the dependence on Israel as a source of

goods. For example, in 1976, the GOI introduced an "Excise Added Tax," corresponding to the Value Added Tax (VAT) introduced in Israel in the same year; the VAT is 18% of the total production revenue.²² In introducing this tax, the GOI stipulated that it was necessary to ensure the provision of adequate social services for the population. However, according to a 1987 UNCTAD report, "Generally speaking, VAT has evolved over the past few years to become one of the most serious fiscal constraints on the development of Palestinian industry and trade."²³

Israeli price supports (and other direct and indirect subsidies) for agricultural and industrial production as well as for exported products, with no comparable supports for Palestinian goods, places West Bank and Gaza Strip productive enterprises at an obvious disadvantage. Such subsidies include a cash subsidy delivered in the form of export currency exchange insurance, direct incentive payments and concession credit, all of which enhance the competitiveness of Israeli firms in international export markets.

While Palestinian goods are price competitive, this is at a cost. Israeli "dumping" of products in the Occupied Territories has had a negative impact on domestic trade and export, with Palestinians often in the position of being forced to sell products at a loss. Thus, having competitive prices may not be an advantage for either the individual farmer, cottage industry producer or factory owner. This is particularly important in view of the price supports Israel (and Jordan and Egypt) provides for basic infrastructure required for agricultural and industrial development, including water, electricity and communications.

A.2 Other Israeli Policies

Israeli restrictions on travel and movement of people and goods have severely restrained both domestic and external trade. In addition to both short-term and extended curfews, the requirements for passes and permits for free movement from one village to another, from one region to another, and between the West Bank and Gaza Strip, have impeded the transfer not only of raw materials and marketable products, but of knowledge, information and skills necessary for economic development and enhancement of trade. Moreover, the procedures used by Israeli security forces to inspect agricultural (and other) products destined for export through Israeli ports have also had severe impact on the marketability of Palestinian goods, as has been discussed in the companion report, *Agriculture in the Occupied Territories*.

The deleterious way in which Israeli policies have driven the utility of Palestinian labor for economic growth in general, and for external trade in particular, cannot be overemphasized. The International Labor Organization (ILO) has, since 1978, been conducting an assessment of the situation of Palestinian workers in the Israeli occupied West Bank and Gaza Strip. The assessment is based on site visits to the Occupied Territories, Israel and neighboring Arab countries. The 1991 report found that Israel is "firmly in control of the keys to production and income: capital, labor, land and water, knowledge and skills".⁴ The use of such labor in Israel for the Israeli productive sector encourages export of Israeli goods to the Occupied Territories and encourages the decrease in reverse trade, with "the deficit being

covered by wages earned in Israel," a fact which increases the dependency relationship.²⁵

A.3 Arab Country Policies and Practices

The policies of Jordan and other Arab countries have also severely restricted external Palestinian trade, although these policies have recently been relaxed (see Section III.) The policy which has had the most significant impact has been the prohibition on the importation to Arab countries of goods produced from raw materials or by means of equipment brought from Israel or imported through it. Because Israel requires that most raw materials and all equipment be brought through Israel to the Occupied Territories, Palestinian companies are placed in an effective vice: they are prohibited by their former trading partners from trading in goods which are produced in a manner over which they have no control. For materials imported through Jordan, the Palestinian firm must pay both Jordanian and Israeli duties and import taxes; as a result, raw materials' imports from Jordan are essentially confined to those necessary to produce products for re-export to Jordan.

Ahiram and others²⁶ have described the policies of Jordan and other Arab states which have impeded industrial development in the Occupied Territories, including:

- * restricting goods "produced from raw materials or by means of equipment brought from Israel or imported through it" (a restriction which is reportedly being lifted);
- * restricting exports to Jordan from Palestinian firms established after 1967;
- * restricting exports of Palestinian firms to no more than 50% of their total output; and
- * discouraging Palestinian companies from expanding or establishing manufacturing companies in the West Bank, while at the same time encouraging the expansion of Palestinian companies in the East Bank (Jordan).

B. OTHER FACTORS WHICH IMPACT ON PALESTINIAN TRADE

Palestinians must surmount many obstacles to improve their balance of trade deficits, not the least of which is the scarcity of natural resources on which a firm foundation can be based. The relative scarcity of water resources (particularly in the Gaza Strip) and the lack of mineral resources (except stone) directly and indirectly affect the ability of the agricultural and industrial sectors to enhance their competitive advantage. The decrease in free and open trade with former trading partners has all but eliminated the ability of the Palestinians to utilize complementarities in trading ventures. The scarcity (or maldistribution) of water resources is of particular concern to both agriculture and industry. Issues concerning the water and agricultural development are addressed in the companion sectoral reports on those sectors.

Palestinians also lag significantly behind other countries (including lower income countries) with respect to technological advances. Such advances can and have been used to make the maximum possible use of existing resources while at the same time conserving those resources. Technological advances are also used in industry and agriculture to improve the output and quality of production and to successfully engage in domestic and international marketing. Few Palestinian industries have modern equipment, including adequate, computer-based accounting and management systems and production technologies; fewer have access to the data and information required to compete in an "open" market.

With the exception of some limited developments in individual companies, there is no research or development capacity in the Occupied Territories; such capacity is essential in the design and adaptation of new technologies for appropriate and effective use and has been the foundation of economic progress in the rapidly progressing Asian countries. The use of newer technologies is limited in part as a result of Israeli restrictions on importation of equipment, import costs of equipment and lack of awareness of new technological developments. Recent visits by Palestinian economists to Japan, European countries and elsewhere may improve this awareness, but economic and business interchange is still minimal.

B.1 Investment and Marketing Systems

Investment in new technologies, human resource development and expansion of capacity is a sine qua non of external trade--enhancing the competitive advantage of local producers. In the Occupied Territories, while some donors have invested in agricultural programs, these investments have been uncoordinated, non-directed and largely unplanned. In the industrial sector, scarce funds have been invested. Those which have been available are largely from the family-owners, and there has been little donor interest and few sources of credit. While donors have expressed increasing interest in the productive private sector (reflecting recent international interest in privatization and market economies), few have expressed a willingness to take steps to ensure that the Palestinian agricultural and industrial sectors have access to financial resources required to stimulate growth and enhance competitive advantage. Furthermore, the economic and political instability of the Occupied Territories is a serious deterrent to external private investment in manufacturing or in agriculture. Given the recent global financial shifts and recessions in many countries, these private investments are even more ephemeral. In fact, according to UNCTAD, the period 1988-1990 witnessed a 4% annual decrease in private investment.²⁷

The absence of marketing systems, including for example, logistical planning for the transport of agricultural and industrial goods, severely impedes both domestic and external trade. Systems that most countries take for granted (e.g., private regional trucking companies and associations or a Ministry of Transportation which can help to coordinate and regulate trucking and other forms of transport) are simply non-existent. Security regulations further impede transport of goods across Israeli and Jordanian borders. For example, no Palestinian refrigerated trucks exist, because trucks must be open for inspection at checkpoints and borders. There are also no "national," regional or local computer-based marketing or other information systems, although there are some embryonic developments in this area (in agriculture, specifically). Because virtually every country with

which Palestinians are competing has such systems, Palestinian firms are at a severe disadvantage. The investments which are now being provided to the newly emerging Commonwealth of Independent States (CIS) and other East European countries will likely further diminish the potential for the Palestinian productive sector to be competitive unless marketing systems are rapidly developed and implemented in the Occupied Territories.

Public, quasi-public and private systems which enhance and regulate quality control, which are taken for granted in other countries (even in many lower income and most middle income countries), either do not exist in the West Bank or Gaza Strip or are in embryonic stages. Such systems include, for example, regulatory mechanisms for ensuring quality of pharmaceuticals, processed food products, and other Palestinian products. Quality control in trade is of concern in two respects:

- 1) ensuring that Palestinian products meet the requirements of their domestic and export markets with respect to safety and efficacy (e.g., the EC), which has both societal benefits and an economic dividend in promoting consumer confidence and acceptance in both the domestic and export markets; and
- 2) ensuring that Palestinian products can compete on the basis of value for money, thereby maximizing the value added and return on investment achieved by individual firms.

In the past few years, there have been efforts on the part of the Palestinian private sector to develop the capacity for quality control in both respects. However, these efforts have received minimal support from donors and cannot currently be sustained through fee-for-service from the Palestinian private sector. One example of developments in the area of quality control for social protection is the environmental laboratory which has been established at Beir Zeit University. It has no authority to test products (and is thus somewhat controversial) but has established linkages with private industry in an effort to encourage improvements in quality control. An example of efforts to improve quality control with respect to value added maximization is the experiment of Mattin, a Palestinian clothing manufacturing enterprise. This company endeavored to experiment in the utilization of modern modes of production, including training of quality controllers and the development of a formal system of quality control in relation to an upscale export market penetration exercise. In spite of severe bureaucratic (GOI) impediments, the company successfully marketed to U.S. firms, but was forced to reduce operations to a minimum. Significant improvements are needed in the area of quality control if Palestinian private entities (including for profit and cooperative organizations) are to be competitive.

Since the Occupation, the structures and mechanisms which enable free domestic and international trade in a normal economy (whatever the structure of the economy) have been all but nonexistent in the West Bank and Gaza Strip. These include, for example,

- 1) investment from sources in addition to equity capital (family-owners and friends);
- 2) fiscal and monetary arrangements for credit and financial intermediaries;
- 3) the ability to adjust production cycles and pricing of goods according to principles of demand and supply and internal capacity of the firm;
- 4) mechanisms to withstand economic "shocks" such as natural disasters and global economic recession;
- 5) participation in regional and international trade fairs and conferences;
- 6) the ability to develop and adapt new technologies which enhance competitive advantage;
- 7) institutional support organizations (to enhance human resources capacity and ensure quality control, for example).

As a consequence, the scope and nature of Palestinian exports are determined largely by external forces. For example, both Israel and Jordan adjust their import/export policies consistent with their own needs for certain goods and pricing conditions. This makes it virtually impossible for Palestinian farmers to adequately plan for crop production vis-a-vis their primary trading partners, with resultant waste and economic loss. Similarly, the industrial sector has largely focused on either production for domestic use or served as a subcontracting mechanism (that is, a low-cost source of labor) for Israeli companies.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. DEVELOPMENT OPPORTUNITIES

In spite of the impediments to domestic and external trade in the Occupied Territories, there are opportunities for improvement even in the current political context. Such developments should:

- * build on recent efforts to develop trade in the Occupied Territories,
- * take advantage of those factors which are likely to enhance competitive advantage (e.g., an educated and industrious work force),
- * take into account the competitive advantages of their trading partners and likely competitors in both agriculture and industry, and
- * insofar as possible, take steps to ameliorate the conditions which impede free trade and open competition, particularly between Palestinian and Israeli firms.

A recent report prepared for A.I.D.²⁸ suggests that USG investment in export is successful only if export policies of the beneficiary country are non-protectionist.

Given that trade policies are not now within the control of Palestinians (government export policies), somewhat lower expectations should apply to the Occupied Territories. Fortunately, the EC and other donors have begun to provide support in this area as well, albeit in limited amounts and without clear linkages among the economic sectors.

In order for Palestinian trade to expand, there is a need for policy dialogue between the USG and Israel and between the USG and the Arab states with respect to the policies which impede free trade. In its 1989 report, UNCTAD recommended specific measures which are needed to "contribute to a more secure and less hostile economic environment," including permitting the free movement of goods and people at all times within and between the two regions of the Occupied Territories (the West Bank and Gaza Strip), a comprehensive reform and streamlining of trade policies and procedures and the reform of the fiscal system.²⁹ However, free movement of goods is a necessary but insufficient prerequisite to free trade. In the absence of parity with the preferences accorded Israel under the Free Trade Agreement and the EC preferential trading policies, the Palestinian productive sector cannot exploit their potential to contribute as exporters to economic growth in the Occupied Territories.

It is also imperative that the Palestinian productive sector, as well as the supporting infrastructure including economic development institutions, cooperatives and universities, have free access to the data and information which is required for adequate planning and management of trade relations. Data and information which is held by the GOI but not made available to Palestinians is a prerequisite for development planning for both Palestinians and the various donor agencies.

B. RECOMMENDATIONS

Table 1 summarizes conclusions with respect to trade sector development in the West Bank and Gaza Strip, as well as related recommendations. The recommendations are intended as preliminary ideas for those involved in development planning for the Occupied Territories. They should be considered in light of the discussion on overall development opportunities in the Occupied Territories which is included in *Visions of a Sustainable Future*--Appendix II to this report.

TABLE 1

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

1. There is a paucity of data and information on which appropriate and effective trade strategies and specific projects for the Occupied Territories can be based.

2. There is only a minimal support system and infrastructure for domestic and international trade in the Occupied Territories, along with a dearth of trained personnel, in particular with respect to product development, productivity enhancement and operations management.

Recommendations

1.1 In addition to the development of agricultural and industrial information systems (see companion reports), computer-based market and trade information systems need to be developed and expanded or accessed, utilizing existing software as appropriate and including on-line linkages with regional and international marketing and trade information systems.

1.2 Marketing studies and surveys are required in order to generate data and information necessary for expansion of exports and improvements in domestic markets.

2.1 Training of personnel in the productive private sector as well as in the newly emerging support infrastructure (e.g., Chambers of Commerce and Union of Industrialists) is critically needed, as is technical assistance to these entities. Such training would include, for example, short-term local, regional and overseas training in management of production, new product development, quality control, environmental control requirements on the part of trading partners (e.g., use of pesticides with fruits and vegetables and environmental impact of soap products), packaging, marketing techniques, international trade and adaptation and use of new production technologies. Technical assistance should also focus on these issues.

2.2 Linkages between American, European and other business and trade institutions, technology research and development centers, and comparable groups in the Occupied Territories are imperative. Such linkages could both enhance the potential for bilateral trade and facilitate Palestinians' access to sources of technical assistance and training.

2.3 Economic infrastructures which improve domestic and export markets must be enhanced. These include, for example, 1) capital projects such as cold storage and refrigerated transport of agricultural products and 2) economic and regulatory infrastructure projects such as systems and standards for monitoring and/or enhancing the quality control of manufactured products.

3. Quality control is a problem in both agricultural and industrial products, diminishing the ability for Palestinians to compete on the open market.

3. Training and technical assistance to both private productive entities and the emerging support organizations with respect to quality control is urgently required. (Support for implementation of improvements in quality control also is presented as a recommendation in the companion agricultural and industrial papers.)

4. The Palestinian productive private sector is at a severe disadvantage in terms of the adaptation, development and use of new technologies, particularly those that absorb skilled labor and enhance labor productivity.

4. Small scale research and development projects designed to encourage the adaptation and use of appropriate new technologies in both agricultural and industrial production would improve the competitive advantage of Palestinian firms. In this context, donors should also encourage the expansion of credit to those firms which are interested in the use of appropriate new technologies and which have demonstrated an understanding of such use. (See also recommendations in agriculture and industry papers.)

5. Palestinians have minimal contact with their competitors in other countries, regional and international trading partners, trade or industry/agricultural associations and potential markets. This lack of contact severely impedes the ability of Palestinians to engage in free trade.

6. In large part as a result of their isolation from regional and international markets, Palestinians have lagged behind their competitors in the development and production of newer and/or more marketable goods.

7. Private firms in the Occupied Territories do not enjoy the same trade benefits as do their competitors in Israel and other countries. This places them at a severe disadvantage and effectively isolates them from the global economy.

5.1 Donors should support specialized marketing missions by representatives of the Palestinian private sector and support organizations to comparable firms and groups elsewhere. They should also encourage foreign buying missions to the Occupied Territories.

They could also support Palestinians' attendance at regional and international trade fairs and topical meetings.

6. Demonstration projects should be designed and implemented as soon as possible. They should be designed to encourage the development and production of agricultural and industrial products which make the most effective and appropriate use of Palestinian resources, have market potential and require minimal investment. This can include, for example, production of alternative varieties of crops, support for organic farming projects, apparel and other commercial design and product development projects aimed at identifying areas of opportunity for local producers.

7.1 Donors and trading partners should negotiate changes in trade policies with respect to direct import of Palestinian goods, including, for example, labelling and other requirements.

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APPENDIX I

CONTEXT OF DEVELOPMENT IN THE OCCUPIED TERRITORIES

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CONTEXT OF DEVELOPMENT IN THE OCCUPIED TERRITORIES

This appendix describes the overall context in which development opportunities exist in the Occupied Territories, including land size and population data, governance, recent economic trends and the role of donors in development activities. As necessary, these factors are discussed in more detail in each of the reports included in the full set of sector analyses for the Occupied Territories. For example, population data are discussed more fully in the companion report on Health, and economic trends are described in the separate reports on Finance and Credit and on Trade.

Several parameters of this report should be clarified. The term "Occupied Territories" is used to describe the geographic area of the West Bank and Gaza Strip as it is the accepted term for the U.S. government and U.N. agencies. It refers only to the West Bank and Gaza Strip, not to the Golan Heights or the Israeli security zone in Lebanon. The term Judea and Samaria is used when quoting Israeli statistics or other references, as this is the designation used by the GOI for the West Bank area. Unless otherwise stated, the West Bank statistics, information and recommendations presented in this report include East Jerusalem. Where necessary, East Jerusalem is referenced separately, for example in cases where data have clearly excluded East Jerusalem. It must be noted at the outset that the statistical data available from the GOI (i.e., those published in the Statistical Abstracts and other governmental sources) which can be used to numerically describe the sectors do not include East Jerusalem. This significantly skews the data and inhibits analysis of trend data which could be used for economic planning. Moreover, as Benvenisti has suggested,

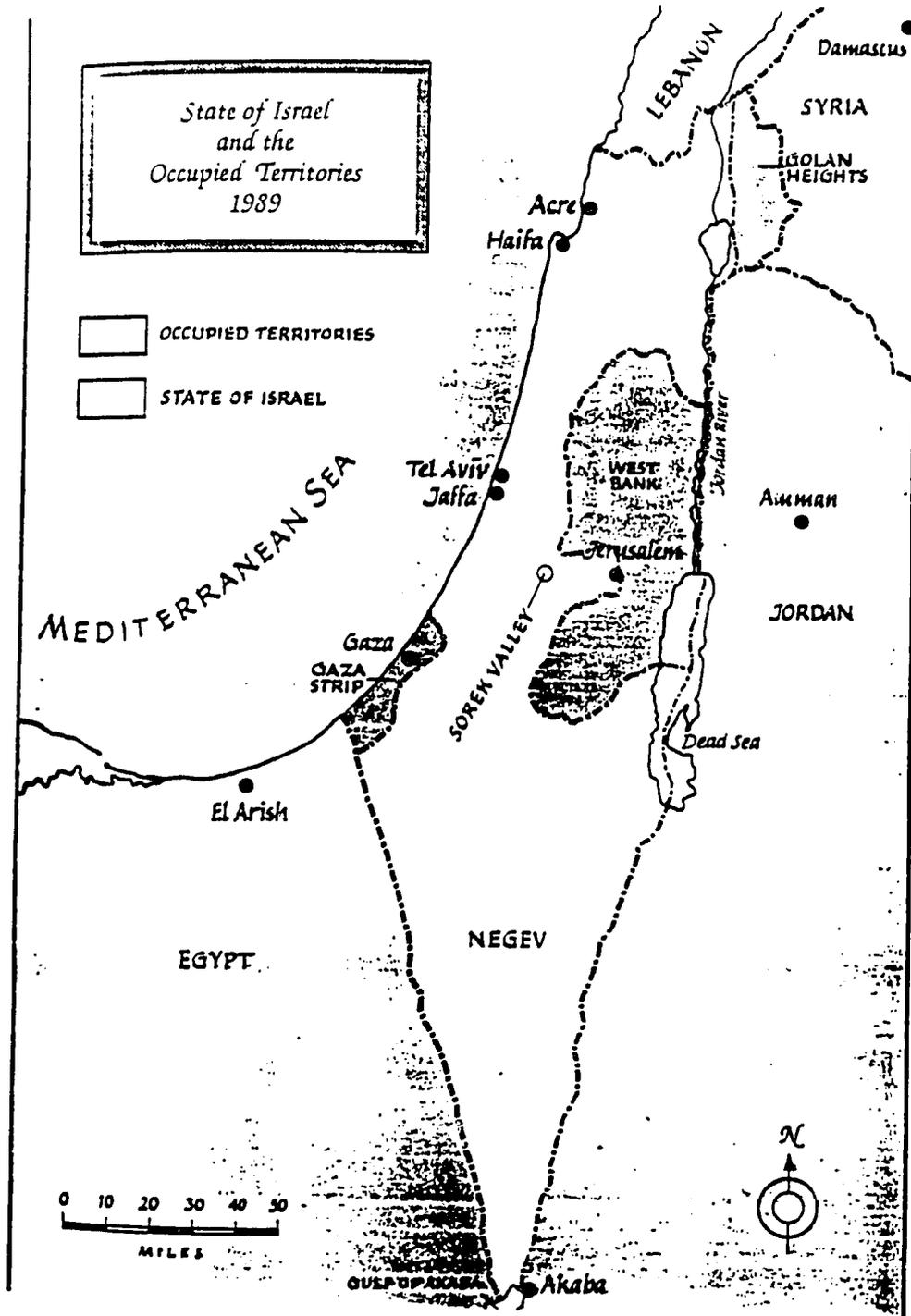
"For statistical purposes the West Bank and Gaza Strip are considered by Israel's Central Bureau of Statistics to be units independent of Israel. Economic activity there is investigated and reported as though it constitutes a 'national economy' united with Israel in a 'common market.' The official reporting of GDP, GNP, exports and imports and balance of payments of the territories is, however, inaccurate at best and misleading at worst. The daily, complex, economic interaction over the nonexistent 'green line', lacking any effective monitoring and control, calls the reliability of the statistics into question."¹

Unfortunately, because of the serious impediments faced by Palestinians and others in conducting empirical studies in the West Bank and Gaza Strip, most studies of the Occupied Territories depend primarily--and necessarily--on GOI statistics, notwithstanding their limitations.

Finally, although Israeli settlements in the Occupied Territories have considerable impact on economic and social development in the area, only minimal data and information are available with respect to either plans for settlements or specific factors pertaining to individual sectors (e.g., infrastructure and industry).

A. THE LAND AND THE PEOPLE

The West Bank and Gaza Strip are bordered by Israel, Jordan and Egypt as shown in Figure 1. The total land area of the Israeli-occupied West Bank and Gaza Strip (as defined by pre-1967 borders) is 5,939,000 million dunums (one dunum = .23 acres) of which 5,572,000 are in the West Bank and 367,000 are in the Gaza Strip.²



Source: M. Kunstel and J. Albright, Their Promised Land. Crown Publishers, Inc., New York; 1990.

According to the U.N., as of 1985, approximately 52% of this land was under Israeli control—that is, within the jurisdiction of the GOI or of Israeli citizens (settlers). Estimates of Israeli control of land as of early 1992 are shown below:³

Source of Estimate	West Bank	Gaza Strip
Al Haq	65%	50%
Land and Water	67%	50%
PHRIC	70%	52%

Because the most recent census was conducted twenty-five years ago (in 1967),⁴ accurate demographic data for the Occupied Territories are virtually impossible to obtain. Thus, all population data have been estimated for the period after the 1967 census. The three primary sources of information regarding population are the Central Bureau of Statistics (CBS), the Ministry of the Interior (MOI) and estimates prepared by the Jordanian Medical Association in 1986. In the summary of demographic and other data published by Benvenisti and Khayat in 1988, it was noted that the Palestinian population data presented by the CBS and by the MOI for the Occupied Territories differ. For example, the data for 1987 showed CBS estimates of a total Palestinian population of 858,000 for the West Bank, while the MOI estimated the population to be 1,252,000.⁵ The CBS estimates exclude East Jerusalem, which has a Palestinian population generally considered to be approximately 150,000.

Using the Statistical Abstract of Israel for 1990 as a basis, and assuming a 3.5% annual growth rate in the West Bank and a 4.5% annual growth rate in Gaza, the following estimates were calculated for 1991:⁶

West Bank (including East Jerusalem)	1,104,799
Gaza Strip	<u>1,010,640</u>
Total:	2,115,439

More than 35% of the Palestinian population is rural (see Figures 2-4), with 15% living in villages with populations of 2,500 or less. The Palestinian population is also a youthful one; nearly half (47.4%) of the Palestinian population in the West Bank is under the age of 15, as is 49.5% of the population of the Gaza Strip.⁷ This age distribution and the high birth rates have important implications for social service needs as well as for labor force concerns.

Figure 2

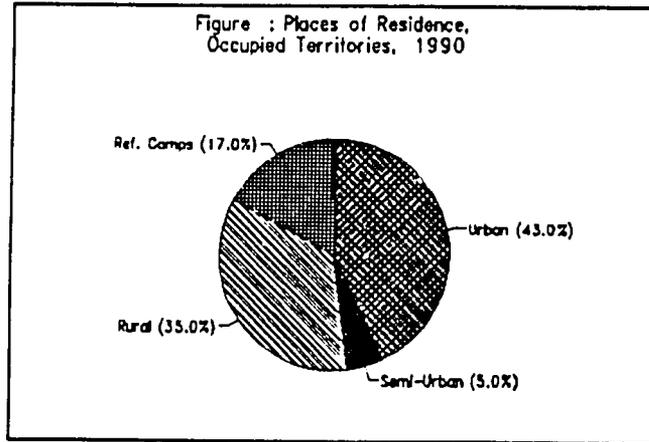


Figure 3

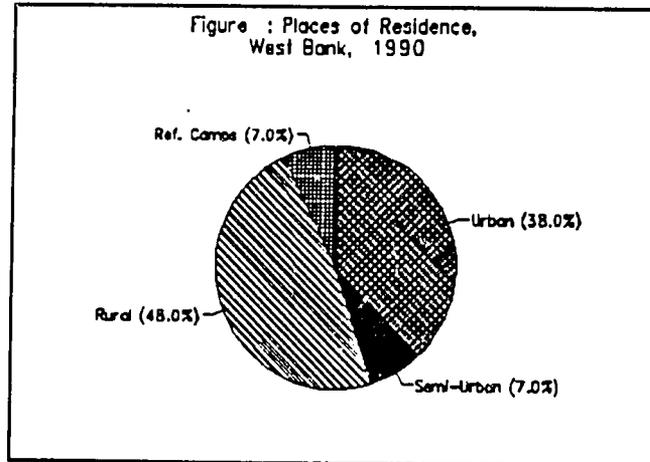
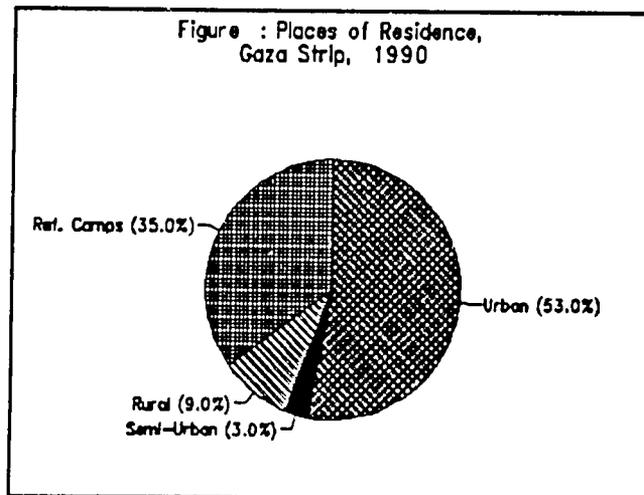


Figure 4



Source: Calculated from Statistical Abstract of Israel 1990. Central Bureau of Statistics: Jerusalem; 1990.

As of January, 1992, 451,695 individuals (or approximately 40% of the population) in the West Bank were registered as refugees. Of these, 119,172 (26%) lived in UNRWA camps. In the Gaza Strip, 549,675 Palestinians were registered refugees (approximately 80% of the population); of these, 302,977 (55%) lived in UNRWA camps.⁸

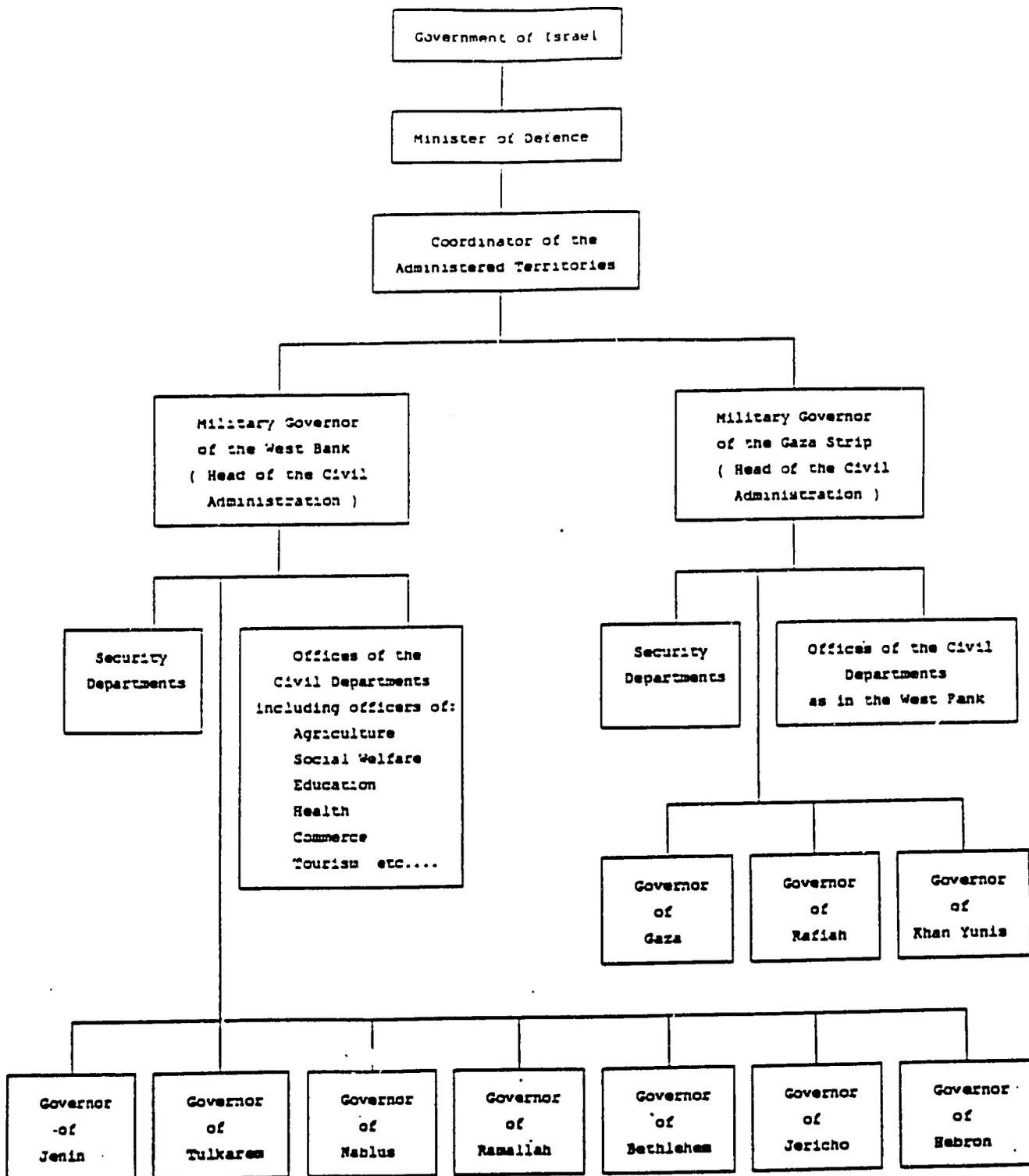
In spite of the high natural rate of increase, until 1991 the population had a relatively low rate of population growth. This resulted from emigration to Jordan, the Gulf States and outside the region, primarily for job opportunities. Even prior to the Gulf War and the influx of Palestinians from the Gulf States, an important population variable in the Occupied Territories, and particularly in Gaza, was the number of residents who returned from the Gulf States annually for summer vacation. It is reported that approximately 100,000 were doing so in the Gaza area for 2-3 months each year; no estimates of similar temporary residents were available for the West Bank. Since the Gulf War, an estimated 25,000 to 35,000 Palestinians have returned to the Occupied Territories from the Gulf States; an estimated 40% of them are currently residing in the Gaza Strip.⁹ Most are university graduates but are unemployed or underemployed. However, those who are unemployed reportedly are not eligible for social benefits from the GOI. Some are eligible for services through UNRWA.

B. GOVERNANCE IN THE OCCUPIED TERRITORIES

From 1950 to 1967, the West Bank was under the authority of the Jordanian government, which in 1955 devolved public administration authority to elected municipal governments. From 1948 to 1967, Gaza was under Egyptian control, with appointed municipal governments. Subsequent to the 1967 War, the Israeli military authorities assumed control of the Palestinian population in the occupied West Bank and Gaza Strip. Since 1967, no local elections have been held in Gaza; no municipal elections have been held in the West Bank since 1977.

In 1981, the Israeli government initiated a system of civil administration (CIVAD). Figure 5 on the following page shows the organizational structure of the CIVAD. The CIVAD's "jurisdiction includes all the civil powers of the military government but not the authority to enact primary legislation, which has remained in the hands of the Military Commander."¹⁰ In virtually all CIVAD offices, a military officer directs the departments, but Palestinians comprise most of the technical and administrative staff. According to the Fourth Geneva Convention, the GOI is responsible for the provision of public services for the Occupied Territories, based on tax and other remittances from the Palestinians residing in the West Bank and Gaza Strip and from the GOI budget. These governmental functions are carried out by the CIVAD, with specific responsibility for sectoral programs being coordinated with the relevant Israeli ministry or regulatory body.

FIGURE 5: ORGANIZATIONAL STRUCTURE OF THE CIVIL ADMINISTRATION (CIVAD)



Source: "Food Security in the West Bank and Gaza Strip," Oct 1985, p.4
 Arab Scientific Institute for Research and Transfer of Technology (ASIR);
 El-Bireh, West Bank.

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The CIVAD currently serves as the "authority" in most municipalities in both the West Bank and Gaza Strip--no municipal elections have been held since a military order suspended elections in December, 1977.¹¹ Some municipalities have Palestinian officials appointed by the CIVAD, but their authority is limited. Local municipalities carry out activities which in other circumstances would be either public or private sector responsibilities. These range from wholesale produce markets to operating slaughterhouses. In doing so, they liaise with both the CIVAD and Palestinian private sector organizations as appropriate and necessary. For all intents and purposes, both CIVAD and the municipalities therefore constitute "public" agencies in the Occupied Territories. Village councils, of which there are approximately 75 in the West Bank and eight in the Gaza Strip, have even less authority than municipal councils. As with the municipalities, no elections have been held for village councils since December, 1977.¹²

Chambers of Commerce also perform services which in other contexts would be within the purview of governmental or quasi-governmental bodies. For example, they are involved in expediting approval of exports to Jordan (see the companion Trade report for further discussion of their role in export). Elections for Chambers of Commerce were not held from December, 1977 until early 1992, when the GOI allowed such elections in six areas in the Occupied Territories.¹³

C. RECENT TRENDS IN THE ECONOMY OF THE OCCUPIED TERRITORIES

According to some reports, the economies of the Occupied Territories began to decline in the early 1980s. This decline resulted from stagnation in the Israeli and Jordanian economies.¹⁴ The economy further declined in the late 1980s, even prior to the Gulf War. UNCTAD reported in 1991 that their review of Israeli and Palestinian data indicated "a rapid deterioration in the performance of the economy of the Occupied Territories during 1988-1990."¹⁵ According to that report, the gross domestic product (GDP) for the Occupied Territories decreased by 12%/annum during that period, to just over \$1.2 billion in 1990. Consistent with previous patterns, the decline in the Gaza Strip was more severe than in the West Bank: 17% versus 11%, respectively.¹⁶ Gross national product (GNP) decreased by a comparable amount annually (11%), to approximately \$1.8 billion. Per capita GNP was estimated to be \$1,400 in the West Bank and \$780 in Gaza in 1990.¹⁷ By comparison, the GNP in Jordan for 1989 was \$1,730.¹⁸ In Israel it was \$10,920 in 1990.¹⁹

With the exception of agriculture, all sectors exhibited significant decline in the period 1988-1990; for example, according to the 1991 UNCTAD report, industrial output decreased by an annual average of 14%, and construction decreased by an annual average of 23%. Other sectors combined (public and personal services, trade, transport and communications) declined by 17%.²⁰ As a consequence, the contribution of the agricultural sector to the GDP increased from 25% to 31% from 1988-1990, while construction decreased from 17% to 14%; industry has remained at 9% of GDP (although output had decreased). The UNCTAD reports that the decline in the industrial sector "bodes ill for the future of the Palestinian economy."²¹ It should be pointed out, however, that several researchers have suggested that traditional economic indicators (e.g., GNP, per capita GNP, GDP)

are not appropriate for the Occupied Territories as they have been devised to study productive economies. Given that the West Bank and Gaza Strip depend largely on transferred resources, the limitations of these indicators should be considered.²²

The New Israeli Shekel (NIS) is the currency used predominantly in Occupied Territories, although the Jordanian dinar (JD) is still used by some in the West Bank. As of January, 1992, the rate of exchange was NIS 2.3/US \$1 for the Shekel and JD 1/US \$0.68 for the Jordanian dinar. Given the inextricable ties between the economies of the West Bank and Gaza and those of Israel and Jordan, pricing and inflation in these two countries have a significant and deleterious impact on the Occupied Territories. Several key examples of recent impacts are:

- * increased prices for goods imported through Israel, which accounted for 91% of goods imported into the West Bank and 92% of goods imported into the Gaza Strip in 1986, the most recent year for which data are available;²³
- * decline in the wages of Palestinians working in Israel and a decline in real disposable income of most income groups in the Occupied Territories (an example of the deleterious impact of Palestinian wages' being tied to the Israeli economy); and
- * the differential in the consumer price indices of the Occupied Territories and Israel, which has led to both 1) a decrease in value of sales of Palestinian goods to Israeli buyers, and 2) an increase in purchase by Palestinians of consumer and durable goods from Israel (until the economic boycott of the Intifada, when this practice decreased considerably).

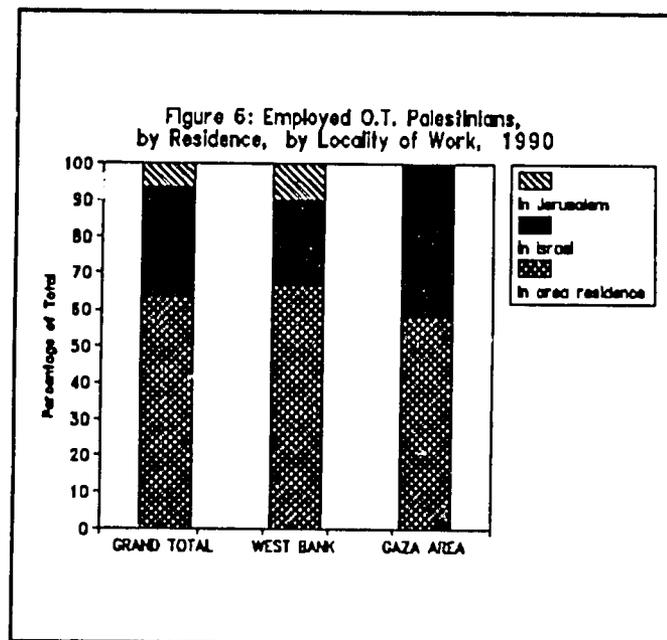
The economic impact of the Gulf Crisis on the Occupied Territories was--and continues to be--significant in all sectors. As the 1991 UNCTAD report noted, the economic impact resulted from both external and internal pressures; these are summarized below:²⁴

- * reduction in private remittances from Palestinians working in the Gulf states, estimated at \$120 million to \$340 million annually prior to the Gulf War;
- * involuntary return of Palestinians working in the Gulf states to the Occupied Territories resulting in increased pressure on an already distressed job market;
- * decreases in both public and private financial support from the region for Palestinian private sector development in both social services and productive enterprises (this support was estimated to be \$150 million in 1989); and
- * disruptions in traditional export and import markets (note: the market share in Jordan had begun to decline prior to 1991²⁵).

The total estimated economic impact of the Gulf War (based primarily on lost remittances, transfers and exports) was between \$250 and \$750 million in 1990 alone (55% to 80% of the total generated by these three sources in 1989), or approximately 10% of gross national disposal income.²⁶ Few knowledgeable individuals believe that there have been substantial moves toward an improvement in the economy of the Occupied Territories since the end of the Gulf War.

Estimates of current unemployment rates vary considerably. Israeli statistics for 1990 show a 13%-15% unemployment rate (including both those officially registered at the CIVAD labor exchanges and those defined by the Central Bureau of Statistics as "employed persons, temporarily absent from work"). Other estimates of unemployment in both the West Bank and Gaza Strip range between 30% and 40% of the work force.²⁷ While Palestinians now have regained minimal access to the Gulf States as a source of employment (and remittances), they are still dependent on employment in Israel (see Figure 6 below), although this alternative for export of labor capital is also highly volatile. As a result of reduced personal income, there has been a concomitant reduction in consumer demand (estimated 20-30% reduction)²⁸ and reduced funding available for investment.

Figure 6



Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem; 1991.

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Reductions in local funding available for investment are particularly critical for economic development in the Occupied Territories because between 70% and 95% of capital investment in industry in the Occupied Territories is provided by the individual owners or their families. Importantly for economic development, the period 1988-1990 saw a 4% annual decrease in private investment.²⁹ Moreover, the external trade sector has not yet shown signs of improvement since the end of the Gulf War, in spite of efforts to re-establish economic relations with traditional trading partners in the region. Exports of both goods and services decreased an average of 30% per annum during 1988-1990, with the decrease far more dramatic in the Gaza Strip (50%) than in the West Bank (16%).³⁰ Imports of goods and services also declined during this period: 16% in the West Bank and 19% in the Gaza Strip.³¹ As of the beginning of 1992, markets outside of Israel remained largely closed to Palestinian products, and the decreased purchasing power of Palestinian consumers continues to result in decreased imports available for Palestinians and decreased internal markets for Palestinian products as well.

D. DONOR ASSISTANCE

In addition to remittances from Palestinians working abroad, the economies of the West Bank and Gaza Strip depend to a large extent on donor countries and organizations, each of which has its own particular interest in the Occupied Territories and therefore directs the aid in a particular way. In 1991 alone, \$69 million in funding was allocated by donors for projects in the Occupied Territories.³² This figure does not include funds provided by Arab states, as these data are difficult to obtain. A large proportion of donor funds are allocated through international private voluntary organizations (PVOs). Therefore, while the amount of donor funds allocated to the Occupied Territories appears large in proportion to the GNP (in 1991, the UNRWA budget alone accounted for 6% of GNP), a relatively large percentage of the funds do not directly enter the economy of the Occupied Territories. Much of the bilateral and multilateral funding remains in the country of origin to purchase goods and supplies which are donated to beneficiary groups in the Occupied Territories, or to pay for training and technical assistance. Similarly, while the "overhead" rate of the international agencies (e.g., UNRWA) and the international PVOs is relatively low (usually representing 20% - 45% of the total project budget), this does represent funds which are not part of the economy of the Occupied Territories. It should be emphasized that, in this respect, the West Bank and Gaza Strip do not differ from most other recipients of donor funds. However, in view of the fact that such funding is crucial for operation of basic human services and support of infrastructure in the Occupied Territories, it becomes a more critical issue. Moreover, there is little flexibility in the allocation of funds within the Occupied Territories: donor funding and other types of development assistance by international and bilateral agencies such as the World Health Organization (WHO), the UNDP and A.I.D., must be carried out by the donors and agencies with the approval of the GOI.

The importance of the economic role of UNRWA cannot be overlooked. In 1990, its annual budget for the West Bank and Gaza Strip was \$98.6 million. In 1991, the UNRWA budget was \$98.3 million; the approved 1992/1993 budget is \$217.8 million (roughly \$109 million per year).³³ In addition, from 1988 to 1991, approximately \$949.9 million has been contributed to UNRWA, primarily by the

U.S. and European governments, to operate refugee camps and to provide services to the refugees under its aegis. Approximately 40% of these funds are utilized for the West Bank and Gaza Strip.³⁴ Until recently, UNRWA has expended only minimal funds for economic development projects. However, the agency plans to raise \$20 million over the next five years for income-generating projects in the Near East.

It is important to distinguish between the ultimate source of external funds (e.g., governments and private donors to non-profit organizations) and the vehicles through which such funds are disbursed. The most important sources of external aid have been:

- * individual Palestinians in the diaspora, who contribute to a variety of organizations and institutions (as distinct from the remittances sent by individuals to their families in the Occupied Territories);
- * Arab governments and individual Arabs, contributing to:
 - individual Palestinian organizations and institutions, including municipalities;
 - the Joint Jordanian-Palestinian Committee for the Steadfastness of the Palestinian People in the Occupied Homeland;
 - the Palestinian Liberation Organization (PLO); and
 - various U.N. agencies operating in the Territories, including the UNRWA and UNDP.
- * the U.S. Government, which disburses funds through:
 - various U.N. agencies operating in the Territories, including the UNRWA and UNDP;
 - the Agency for International Development (A.I.D.) Jordanian Development Program (until 1989); and
 - U.S. private voluntary organizations (PVOs) operating in the West Bank and Gaza Strip and one Palestinian PVO.
- * private U.S. individual donors and foundations, providing funds to:
 - individual Palestinian organizations and institutions; and
 - U.S. private voluntary organizations operating in the West Bank and Gaza Strip.

- * European, Canadian, Japanese and other governments, which provide contributions to:
 - individual Palestinian organizations and institutions;
 - the European Community (EC); and
 - various U.N. agencies operating in the Occupied Territories, including the UNRWA and UNDP.
- * European individual donors and foundations, which provide contributions primarily to individual Palestinian organizations and institutions.

Understanding the nature of the sources of external funds is important to an understanding of the dependency of the Palestinian economy on the vagaries of external conditions. Ultimately, the U.S. and European governments and Arab states (and, increasingly Japan) are the major sources of funding. The major funding vehicles, including the several U.N. agencies and the U.S. PVOs, derive their funds from the same sources, governments and a few foundations and individuals.

For the most part, external funds have been provided for:

- * construction of health and social service infrastructure projects and some housing,
- * operating costs for health and social service programs (and lately for rehabilitation services, more popular during the height of the Intifada),
- * agricultural cooperatives,
- * municipalities (for construction and operating costs),
- * human resources development and training, including local and overseas long-term and short-term education, and
- * infrastructure and public works.

With the exception of agriculture, minimal donor funds have been provided for the productive private sector.

It is hoped that this sector analyses, and the others which comprise the cross-sectoral assessment of development opportunities in the Occupied Territories, will contribute to the efforts of Palestinians to be more proactively involved in planning for and implementing donor-funded projects. The reports may also contribute to donors' plans for more appropriate--as well as more effective and efficient--use of the resources they allocate for the Occupied Territories.

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APPENDIX II

VISIONS OF A SUSTAINABLE FUTURE

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APPENDIX II: VISIONS OF A SUSTAINABLE FUTURE

This appendix to the sectoral analysis presents a summary assessment of the overall potential for development opportunities in the Occupied Territories. The analysis was conducted within sectors, and, insofar as possible, across sectors. This assessment is based on the analyses and conclusions presented in each of the individual sector reports prepared by Policy Research Incorporated (PRI). The eight individual sector reports include agriculture, education, finance and credit, health, industry and enterprise, infrastructure, trade, and water and sanitation.

Appendix II includes 1) a discussion of alternative assumptions under which economic and social planning will likely occur in the Occupied Territories; 2) a summary of the factors which constrain development across the sectors; 3) a summary of recommendations within and across the sectors; and 4) a list of issues that warrant discussion in the process of considering development alternatives for the Occupied Territories. Brief summaries of the findings of each of the sector reports are included as Executive Summaries with those reports.

A. DEVELOPMENT IN THE CONTEXT OF ALTERNATIVE SCENARIOS

The move toward Palestinian economic self-reliance expanded considerably with the advent of the Intifada in 1987. Generally, the intent of this movement has been to promote a more productive allocation of investments, both internally (Palestinian) and externally (from donors). Specifically, Palestinians involved in development planning have sought to "enhance self-reliance in production, lessen dependence on external financial sources, diversify, rationalize and integrate domestic production branches, [and] reorient consumption patterns towards less conspicuous modes."¹ To this end, Palestinians have begun to 1) develop sectoral and regional plans; 2) design and implement experimental projects and new institutional forms and entrepreneurial initiatives; and 3) initiate a range of popular 'participatory development' efforts involving families, communities, regions, cooperatives, enterprises and professional associations.

In order to ensure that these sectoral analyses are as useful as possible for development planning, the recommendations summary recommendations presented in this appendix are listed assuming one of two alternative political scenarios:

- 1) no change in the current political status (with perhaps some relaxation of constraints), including programs and activities that could have short-, medium- and long-term impact without respect to a change in governance; and
- 2) a change in governance (e.g., interim self-government or autonomy).

There are, of course, many shades within this spectrum, but it is hoped that presenting the recommendations in this way will provide an option for discussion of development in the Occupied Territories. The development recommendations that assume the status quo are intended to meet immediate needs identified in the conclusions to which they are linked as well as to provide a foundation for

development under whatever political solutions are realized. They are thus building blocks toward a sustainable future under alternative political scenarios. It should be emphasized that the recommendations listed under "assuming political change" could also be carried out within a status quo scenario, but would likely necessitate elimination or significant amelioration of existing bureaucratic and other constraints.

Under the present circumstances, it is all too easy to assume that little can be accomplished other than minimal support for existing projects; this approach defeats the intention to promote sustainable development. On the other hand, to assume independence (statehood) as the only basis for planning economic and social development negates the reality of the present political situation (that is, of the Occupation) as well as the possibility of an interim self-government. It also does not take into account that, even in the event of autonomy, it will be necessary to design phased implementation of policies and programs. For example, it will be necessary to ensure that:

- * a Palestinian tax system as well as an organized health system are in place before assumption of responsibility for financially burdensome public hospitals;
- * economic support structures are in place prior to significant expansion of industrial capacity;
- * cross-regional planning is in process, including the consideration of issues such as the trade-offs necessary between agricultural and industrial development in the water-poor Gaza Strip; and
- * Palestinian planners and donors develop effective plans for physical infrastructure and other projects, ensuring that they will be used by their intended beneficiaries (i.e., Palestinians) given the possibility that such projects could be established within settlement areas in the future.

In any case, donors should accept the possibility that their medium-term and long-term (and even many short-term) development expectations could be considerably diminished under the present circumstances, even in the event of autonomy. In this most abnormal political situation, the traditional indicators of change--difficult to obtain, verify and attribute to donor programs under any circumstances--are of questionable validity and utility.

B. CONSTRAINTS TO DEVELOPMENT IN THE OCCUPIED TERRITORIES

Sustainable economic development is proving to be an elusive goal even under "normal" circumstances in developing countries, and increasingly so for countries of all income levels. As this and the companion sectoral analysis reports demonstrate, the socioeconomic situation in the Occupied Territories do not approximate normal circumstances. Given the status of the various sectors of Palestinian economy and society, and in particular given bureaucratic and other impediments, what are the opportunities for economic and social growth and

development in the West Bank and Gaza Strip? The technical and managerial issues are myriad and complex, both within and across sectors.

While this is true in any country or jurisdiction; however in the Occupied Territories these issues are complicated by the volatile and fluid political realities and by the significant dependence on external donors for support for any type of development. Donor investment and support are, in turn, complicated by the fact that the traditional role and involvement of donors in developing countries has been severely limited in the Occupied Territories. The normal mechanisms for rational allocation of donor assistance (e.g., donor negotiations with a ministerial level planning agency or external donors' department within a Ministry of Finance) do not exist, while constraints to planning effective use of donor funds are apparent.

It is important that those involved in planning for development in the Occupied Territories be aware of the constraints under which the various sectors operate and within which development occurs. The constraints which pertain to each of the sectors are described in the corresponding section of each sectoral analysis, with a discussion of the manner in which the constraints impact on development in that specific sector. However, several types of constraints have especially broad impacts on development; these are summarized below.

B.1 Bureaucratic constraints

Bureaucratic constraints include GOI regulations which discriminate against Palestinians and their public (municipal) and private sector institutions and organizations. These regulations are subject to change (sometimes without notice) and to enforcement by individual members of CIVAD without approval (or knowledge) of their superiors. Examples include:

- curfews (sometimes imposed for extended periods of time),
- barriers to physical mobility constituted by pass requirements and other factors,
- onerous procedures for obtaining building and other permits and arbitrary application of such procedures,
- taxation policies and enforcement which have been perceived by the International Jurists Commission and others as inappropriate and a violation of Geneva Conventions,
- restrictive labelling and export requirements on Palestinian products, and
- control of and restrictive policies with respect to basic physical infrastructure including electrification, communications and transportation, water use, and land use.

An important impediment to effective planning and implementation of development programs and projects is the fact that all those involved in development planning, including Palestinians and donors, lack access to critical fiscal, economic and technical information which is collected, processed and maintained by the CIVAD (or the GOI). While some information is available to Palestinians and others through the Central Bureau of Statistics (and other sources), other critical information is not. This includes, for example, revenue and expenditure information which is critical for an understanding of operating costs and cost recovery possibilities within the health and education sectors. Palestinians (and donors supporting projects in the Occupied Territories) also have no information with respect to plans for settlement areas, including plans for physical infrastructures to support the settlements.

The complex mixture of residual laws (in force at the time of the Occupation), Israeli civil laws and regulations and military regulations vastly complicate development planning and implementation of specific projects and general sectoral programs. Virtually all court cases involving Palestinians are adjudicated in the military courts, including all civil cases (e.g., with respect to contracts and taxes). The effective absence of a civil court system makes it all but impossible to formulate and enforce contractual arrangements.

Palestinians have no adequate mechanism to generate revenues and provide public services. As a result, Palestinian NGOs and municipalities operating health and social programs or public infrastructure systems (e.g., water and sanitation, road networks, electrification) face unusual obstacles in attempting to cover their operating costs and adequately maintain physical plants and equipment.

There have been some positive indicators that GOI constraints have relaxed since 1991. In late 1991 the GOI initiated relaxation of restrictive policies which impede economic development, including: approval of licenses for a number of new small- and medium- scale manufacturing, agricultural and commercial projects and relaxation of restrictions on the inflow of external financial resources by raising the limits on such inflow per person entering the Occupied Territories--from \$400 to \$3,000.²

It may well be that international organizations (e.g., the U.N.) and bilateral and other donors can convince the GOI that relaxation of other bureaucratic constraints is beneficial to the economies and social structures of both Israel and the Occupied Territories. Simultaneously and independently, the international organizations and donors should work with the Palestinians (and Arab states) to ensure that, insofar as possible, constraints that result from Palestinian practices and the policies of Arab states are ameliorated or eliminated. Finally, the U.S., and other countries should remove constraints imposed by their governments or apply policies which would encourage development (e.g., labelling and most favored nation status). These governments should also ensure that their investment policies and programs are consistent both internally--that is, within the bilateral program--and externally--that is, between and among the various donor agencies and organizations. Donor investment policies should also be consistent, insofar as possible, with available development plans generated within the Occupied Territories.

B.2 Economic and other constraints

Given the inextricable linkage with the Israeli economy, from which the Occupied Territories derive questionable benefit, there is, effectively, no free external market, and a severely limited free internal market. Moreover, the public (GOI) and private (Israeli and Palestinian) environment is not, to say the least, conducive to sustained economic development. The economic and physical infrastructures and systems on which development normally depends range from grossly inadequate to nonexistent. In addition, the Occupied Territories have few natural resources, a shortage of water and an increasingly diminishing land area.

The local work force, which in the past served as an important source of income (through export of labor to the Gulf States and other countries) is unbalanced with respect to education and training. That is, a large (though not specifically defined) proportion of Palestinians are highly educated but underemployed professionals or skilled and semi-skilled workers who have only minimal access to training that would enable them to become updated on technological advances.

Since the onset of the Gulf crisis, the "safety-valve" of Palestinian emigration to the Arab Gulf has been closed, and Palestinians have returned to the Occupied Territories or to Jordan. As a consequence, remittances from the Arab Gulf, on which the Palestinian economy was heavily dependent, have been significantly reduced. As a result of the extremely limited opportunity to engage in external trade and the virtual absence of support structures for economic and social development (e.g., marketing systems for agricultural and industrial trade), Palestinians have little competitive advantage, with the exception of their low-scale wages, which have some negative socioeconomic consequences as well.

Development and implementation of potentially effective national and regional level plans require a governmental base through which to link sectors and public/private sector initiatives and programs. It also requires data and information as well as experience in the selection and application of planning techniques. However, neither the CIVAD nor the municipalities (which together constitute the de facto public systems in the Occupied Territories) plan and implement programs and projects across sectors. Nor do most Palestinians working in these entities have substantial experience in such cross-sectoral planning and program and project management. Not only have they been minimally involved in the design, use and application of data and information systems, they have also had little access to data and information required for planning and managing public and private sector organizational structures and functions.

Physical infrastructure (communications, electrification, and transportation networks) and water and sanitation systems are in poor repair and wholly inadequate. This severely impedes operation and expansion of the public and social service sectors and the productive private sector. Moreover, political and economic factors impede the efficient linkage of critical physical infrastructure such as electrical, communications, and road networks.

Unfortunately, as discussed in the individual sector reports, the political situation in the Occupied Territories militates against investment in private sector economic activities which may have the greatest potential for economic impact, as well as in social or physical infrastructure projects which take into consideration economies of scale. With respect to the latter (which include, for example, telecommunications, electrification and health services), this limitation has fostered wasteful and costly duplication. It has also hindered the ability of Palestinian institutions and donors to provide adequate basic services for the population as a whole and for the industrial sector in particular. For example, Palestinians are prohibited (for security reasons) from using much of the extensive road network which serves settlers, although access to these roads would facilitate access to markets. Similarly, electrification projects (largely funded by donors) have focused on electrification of the smaller villages, rather than on ensuring that industries have access to services adequate to meet their production needs.

The present economic outlook. The worsening economic situation in the Occupied Territories bodes ill for development opportunities. Extensive development is difficult for projects that rely on private sector initiative, as well as those that rely on public (municipal) initiative. At the same time, the relatively young, disaffected (and unemployed) youth can potentially both participate in social unrest and contribute to social and economic change.

C. DEVELOPMENT OPPORTUNITIES

Even given these constraints, however, substantial improvement can and should be made in economic and social development in the Occupied Territories. It is critical that Palestinians and donor agencies rationalize the existing scattered projects within and across sectors. This rationalization must include identifying linkages across sectors that can improve the likelihood of development under both the status quo and potentially changed political and administrative circumstances.

Table 1 presents a summary of recommended programs by sector for both the status quo and political change scenarios. The recommendations for the political change option are in addition to those for the status quo, which are intended as building blocks for development, whether or not positive political change is achieved. The recommendations were devised based on the needs identified in each of the sectors independently. It should be noted that because detailed recommendations are included in each sector analysis report (e.g., education, health, industry), the recommendations in Table 1 are abbreviated in order to present them in a tabular format. Also, the term "public" or "quasi-public", as used in Tables 1 and 2 and in the following discussion, refers to municipalities and to other entities that undertake activities that under normal circumstances would fall within the purview of public (or quasi-public) entities (e.g., local water authorities). The recommendations are not presented in priority order.

An assumption supporting all recommendations is that donors would utilize local (Palestinian) resources wherever possible, as well as appropriate and cost-effective resources from the region (including Israel and Jordan, for example) and from donor countries (e.g., the U.S., Japan and Europe). Donors are encouraged to include a wide range of community-based and other organizations in order to

provide them with the opportunity to participate in comprehensive development across sectors and to promote broad-based support for such development among these groups.

To prepare for specific plans within and across sectors, to derive maximum benefits from available resources, in the Occupied Territories, and to promote sustainable development, Palestinians and donors involved in supporting development in the Occupied Territories should: 1) identify overall development goals and specific objectives, 2) assess the relative utility of alternative development approaches, 3) consider the cross-impacts of the development goals and specific programmatic foci and projects within and across sectors, and 4) set priorities for projects within and across sectors. Whenever possible and appropriate, donors should assist Palestinian organizations in this planning process.

To provide an example of how the interrelationships among project proposals and objectives can be considered, Table 2 presents each specific sector recommendation identified in Table 1 and indicates the specific objectives for development to which the project or activity would contribute. These general and generic development objectives were identified from two sources: the most recent World Bank reports.³

A review of the recommendations presented in Table 2 makes it clear that there is a consistent pattern across the sectors and across the objectives. Review of this pattern might be useful for those involved in considering a rationalized development approach for the Occupied Territories. The principal foci of recommendations across sectors are:

strengthen the capacity of Palestinian quasi-public and private sector institutions and organizations to plan, manage and evaluate policies, programs and projects at the national, regional and local level through:

- selecting and improving access to and use of information resources both internally (within the Occupied Territories) and externally;
- providing technical assistance, training (for managerial and technical staff) and other support for the enhancement or development of quasi-public and private sector institutions and organizations that are responsible for or are involved in economic and social infrastructure support systems (e.g., water and sanitation, quality control, marketing systems, civil courts, tax collection and social welfare. This would include, for example, assisting in the definition and adaptation of standardized procedures; and
- improving education and training at the primary through university levels, including vocational/technical training, and literacy, self-instruction and distance (remote) learning programs.

- * improve the development, diffusion, use and assessment of technology in the quasi-public and private service and productive sectors through:
 - providing technical assistance and training to enhance the selection and use of equipment and of new procedures (technologies) in agriculture, industry, health and education and physical infrastructure, including assessment of the economic, social and environmental impacts of new technologies and procedures;
 - providing grants and loans (as appropriate) for the purchase of equipment which has been demonstrated to be useful and appropriate for enhancing productivity or effectiveness in the sector to which it applies (e.g., new technologies in crop production, cardiovascular disease prevention and treatment or alternative energy sources); and
 - providing grants and loans (as appropriate) to enhance the capacity of Palestinian universities and research institutions to develop and/or adapt appropriate technologies for use in the West Bank and Gaza Strip and for export (including, for example, computer software).

- * improve management of, access to and use of credit and financial resources, through:
 - training of existing personnel in banks and credit institutions;
 - technical assistance and other support to improve management of bank and credit institutions;
 - facilitating loans through international and regional development banks and private sector financial institutions; and
 - supporting the development of credit circles and other locally based organizations which foster savings and loan arrangements for local development.

- * improve the collection, analysis and distribution of data and information for use in quasi-public and private sector programs and projects, through:
 - training in data and information management;
 - technical assistance and other support for the development of clearinghouses and information systems in each primary economic and social sector (e.g., agriculture, industry, water and sanitation); and

encouraging the provision of relevant data sets from the GOI to Palestinian public and private institutions.

- * improving the physical infrastructure which supports both quasi-public and private sector services and productive enterprises, including, for example, communications, electrification and transportation networks;
- * strengthen health and social welfare services which are critical for human growth, development, welfare and performance and are linked to a society's economic development; and
- * encourage effective and efficient use of energy resources and prospective protection of the environment in the process of economic, and particularly industrial expansion.

D. DEVELOPMENT ISSUES IN THE OCCUPIED TERRITORIES

A number of complex issues must be faced by those involved in development planning for the Occupied Territories. This section of the appendix briefly summarizes several of those issues.

Linkages Across Sectors. While it is true that devising plans for economic and social development in the Occupied Territories is difficult under the present circumstances, the opportunity nonetheless exists for the design and enhancement of public and private sector systems which avoid the problems of entrenched bureaucracies and make the most effective use of Palestinian entrepreneurship and community and support networks. All too often it is necessary to prepare development plans in the context of bureaucratic structures which are not disposed to interact with one another (e.g., the Ministry of Health with the Ministry of Agriculture) or with the private sector (e.g., industry with public environmental agencies). In the virtual absence of such bureaucratic structures at the regional (i.e., West Bank or Gaza Strip) level, the potential exists to plan for the most effective and appropriate use of limited resources for Palestinian development. Moreover, donors and Palestinians have a unique opportunity to establish incremental programs and projects on which broader or more extensive development can be based both within and across sectors. For example:

- educational and training programs can be devised in light of short-, medium-, and long-term economic development plans in general and industrial expansion and agricultural trade specifically;
- innovative approaches to expansion of health services and to health promotion and disease prevention can be devised in recognition of and in cooperation with the productive private sector (e.g., workplace-based PHC and prevention activities); and
- support for industrial expansion and infrastructure development can be linked to appropriate and efficient use of natural resources and designed to promote protection of the environment.

Benefiting from Israeli Experience. The factors of development in the Occupied Territories place them at a significant disadvantage with their primary trading partners--Israel and Jordan--and this has been seen primarily as negative with regard to development. However, opportunities exist for the Occupied Territories to learn from the experience of their most successful trading partner, Israel, as well as to learn from their specific economic interaction with that country. For example, educational and training opportunities in the Occupied Territories stand in stark contrast to those available in Israel. As the Israeli economist Aharoni has noted, human resource development in Israel has been a foundation of economic development. He states that "The long-term competitive advantage of Israeli firms is largely a function of their ability to exploit unique human capital capabilities."⁴ Israeli investment in the educating and training its population is exemplary. Palestinians and donor organizations which support development in the Occupied Territories should consider adaptation of applicable Israeli educational and training policies and programs to their development plans.

Addressing development policy questions. The current situation in the Occupied Territories also provides the opportunity for consideration of broad-based policy issues which entrenched bureaucracies often avoid facing. The policy questions that should be considered by Palestinians, donors and other involved in planning for development in the Occupied Territories include, for example:

1. Given that there no mechanism exists to ensure coordinated planning across sectors, what are the opportunities to ensure (insofar as possible) intra- and inter-sectoral linkages and decision-making for sustainable development? Such linkages include, for example, investment in productive industries which are not environmentally hazardous and in crop and livestock production which places minimum burden on land and water resources. A related consideration is that given the importance of integrated planning and the inherent difficulties in achieving it under the current circumstances, what should be the priority projects for the immediate (1-3 years), medium (3-5 years) and long-term (5-8 years)?
2. What will/should be the relative priority of public social and economic infrastructure systems (e.g., unemployment insurance, welfare, public health, social security/pensions as well as quality control and testing of medicines, protection of the environment, etc.) vis-a-vis investments in the productive private sector (e.g., tax benefits for private investment, public support for physical infrastructure for industrial zones)?
3. What contributions should donor agencies (bilateral, multilateral and private) make to improve the capacity of public services (e.g., health, education, physical infrastructure), pending a political resolution? Should such contribution include, for example, training the existing or an emerging cadre of municipally-based physical infrastructure employees (communications, electrification, transportation and water and sanitation) and/or investment in physical infrastructure projects themselves? What should be the relative priorities of investment in education and investment in improvements in technologies in the public and private sectors? While human resources development (education and training) is necessary (and a traditional investment role by itself), it is simply insufficient and could

lead to problems of social and/or economic instability if the economy does not soon rebound. Moreover, focusing exclusively on human resource development (in particular on degree training) has the disadvantage of requiring a long lead time before impact on economic development is realized.

4. What is the most appropriate and feasible degree of centralization/decentralization of public and quasi-public services, given cultural/geographical realities and practical economic and administrative considerations? What role could/should donors play in planning and preparing for centralization or decentralization of such services?
5. What is the most appropriate role for donors with respect to investment in the productive private sector? Given that the mechanisms used in both market and mixed economies to encourage investment and jobs creation are minimal (at best) in the Occupied Territories, what should donors do to assist in "jump starting" the economy in the Occupied Territories? What investments should be made in the cooperatives, which have (for all intents and purposes) assumed the role of quasi-shareholding for-profit companies, competing with privately held companies? Donors have supported the cooperatives extensively but have provided little support to the private sector. Should donors now provide financial support to privately-held, productive private sector companies comparable to such support provided to private companies in the U.S., Europe and the Pacific Rim (e.g., the U.S. government's Small Business Innovation Program)? Should donors work with the international banking community to facilitate loan guarantees to the private sector in the Occupied Territories for industrial development? To what degree should donors encourage or discourage small-scale enterprise in lieu of investments in medium- and large-scale industrial enterprises?
6. What should be the role of donors in preparing for assumption of certain public services (e.g., health, education, tax, regulatory and court systems)? On the one hand, there is considerable pressure for the Palestinians to assume responsibility for the social systems (e.g., health and education) in spite of the fact that they are not now responsible for the governmental systems with which those social service systems are inextricably linked (e.g., tax and regulatory systems). On the other hand, creating the basic (non-physical) infrastructure required for assumption of these responsibilities could consume a large proportion of the current donor allocation for the Occupied Territories.
7. Given that current policies of many donors, including the European Community and A.I.D. (as well as the World Bank, which has had representatives at the multilateral economic discussions), encourage privatization of services which are currently owned or managed by the public sector in some countries (e.g., electrification, transportation, communications, health), what investment should be made in municipal control of such services in the Occupied Territories? What rationale is there for such investment versus investment in encouraging private sector ownership/management of such services? Donors should be consistent in

their policies--if they support private sector development in the Occupied Territories, they should be prepared to invest in, or facilitate such development.

8. Given the current deteriorating economic situation what is the realistic potential for donors to consider immediate support for a large-scale public works program? Such a program--which could be comparable to that of the Civilian Conservation Corps (CCC) in the U.S. in the 1930s (and presently under consideration for adaptation by the incoming U.S. administration) focus on small- and medium-scale physical infrastructure projects (e.g., farm to market roads and environmental clean-up or protection). Moreover, the economic crisis would seem to call to developing a formalized social safety net--the absence of which helps to foster social disequilibrium in the Occupied Territories. Such a safety net could be comparable to those being designed by the World Bank for several developing countries; however, such programs require large infusions of financing--are donors prepared to provide such financing?

E. TOWARD SUSTAINABLE DEVELOPMENT

The small population base of the Occupied Territories and other factors suggest that economic growth depends on export-oriented industry and domestic service enterprises (e.g., tourism); this builds on the historical mercantile tradition of Palestinians. In any case, such development must be as diversified as possible (and as practical), in order to lessen the dependence on one or another source of financing for economic development. It must also be based on improvements in the capacity of Palestinians to compete in the increasingly competitive and dramatically changing global economy and to manage their domestic quasi-public and private institutions.

Development planning in the Occupied Territories is taking place in the context of a dynamic and shifting political environment. When the preparation of these sectoral analyses was initiated in December, 1991, the Peace Talks had only just begun, and a different political party was in office in Israel. Since then, several sessions of the Peace Talks have taken place (with some progress, at least at the technical level), and elections in Israel and the United States (a co-sponsor of the Peace Talks) have resulted in changes in government in both countries.

In order to ensure that they are contributing most positively to the process of economic and social development in the Occupied Territories, donors should increasingly turn their attention to support of policies, programs and projects which are linked across sectors in ways which most effectively make use of the resources available. Moreover, in the event of political change, it will be necessary for donors and international private voluntary organizations (PVOs) currently operating projects in the West Bank and Gaza Strip (and most importantly for UNRWA) to recognize that they most likely will have different roles in the process of planning and implementing economic development and social programs in the area.

In the long run donors will need to recognize that the eventual fulfillment of great expectations of economic growth in the Occupied Territories will require infusion of sufficient funds for operating costs and capital investment, as well as technical assistance and training help create jobs and develop a healthy, competitive economy. If donors cannot provide a sufficient quantity of such funds directly, then facilitating access to funds from other appropriate sources should become a priority. Donors should also encourage cooperation--economic and otherwise--within the Middle East region, and in particular between Israel and the Occupied Territories. Such cooperation would strengthen the capacity of the countries in the region (and of the Occupied Territories) to compete in the changing global marketplace. It may also contribute to political and social stability in the area and in the Occupied Territories specifically.

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Table 1

Summary of Recommendations by Sector

Agriculture	Education & Training	Finance & Credit	Health	Industry & Enterprise	Infrastructure (Communications, Electrification, Transportation)	Trade	Water & Sanitation
ASSUMES STATUS QUO							
Short-term relief program including agricultural feeds, roads, land reclamation	Improve computer, laboratory & library facilities at public & private K-12 level & post-secondary educational & training institutions	Expand community-based savings & credit institutions (e.g., credit circles)	Strengthen health systems' planning & management at all levels of the health care system	(See finance & credit for related recommendations)	(See education for related recommendations)	(See agriculture & industry for related recommendations)	Design & implement small-scale water & sanitation projects, in the West Bank & Gaza Strip, using the most appropriate technologies
Improve capacity of Palestinian institutions to plan, manage & evaluate programs & projects	Expand & improve private sector initiatives in literacy & distance learning	Improve capacity of banks, credit institutions & insurance companies to plan, manage & evaluate their activities	Improve financial management capacity & potential for cost recovery at all levels & types of facilities	Enhance capacity of industry & enterprise in terms of productivity, quality control, management (financial, personnel, etc.)	Improve managerial & planning of Palestinians currently or potentially responsible for infrastructure projects	Conduct marketing studies & surveys to generate require trade-related data	Immediate design & implementation of wastewater recycling, large-scale water-catchment & other related projects in the Gaza Strip
Improve & expand marketing information & support systems, coordinate with other sectors, (e.g., industry for food processing)	Physically rehabilitate existing K-12 schools & construct new schools as necessary; include facilities for recreation & community-based education in rehabilitated & new schools	Develop finance & credit data and information clearinghouse	Expand facility, regional and inter-regional health planning & needs assessment activities	Develop & expand linkages between Palestinian industry & enterprise foreign universities & research institutions	Upgrade capacity of skilled and semi-skilled workers in infrastructure (focusing on skills in new technologies)	Expand & improve linkages between Palestinian firms and trade inst. & foreign business & trade and related institutions	Design & implement small- and medium-scale sanitation projects
Expand use of improved irrigation systems making better use of scarce water resources	Revise K-12 and post-secondary curriculum, including ensuring linkage of curriculum to development needs and employment opportunities	Expand credit for the productive private sector (e.g., loan guarantees)	Expand & improve capacity of institutions to collect, analyze & disseminate data & information for expanded health educational programs	Conduct comprehensive industry/enterprise inter- and intra-regional planning (including A/T feasibility/appropriateness of industrial zones)	Develop computer-based information systems for planning & management of infrastructure projects	Expand & improve economic infrastructures which improve domestic & import markets (e.g., capital projects & systems for monitoring quality control of products)	Upgrade capacity of Palestinian institutions to conduct water quality & other environmental studies
Expand and improve crop varieties & livestock production (to enhance marketing potential, improve land & water use)	Expand & improve teacher training in educational theory & practice & in grade levels & subject areas for which they are responsible	Conduct study of capacity of existing inst. to manage larger loans to the productive sector	Conduct an assessment of existing health research studies & data bases, disseminate results	Strengthen institutions which support industry & enterprise (e.g., Industrial Union(s), Chambers of Commerce, economic development institutions)	Upgrade & expand road networks, particularly key market access roads & roads in villages with little or no access to areas having basic services	Expand Palestinian trade missions & related short-term visits to foreign countries	Conduct water, air and other environmental studies, focusing initially on high risk areas
Develop industrial sector in Gaza, in lieu of expansion of agricultural sector, in view of water shortage	Expand availability of new educational technologies at K-12 & post-secondary levels & train teachers in use of same	Conduct study of & plan for broad-based insurance needs	Develop & implement facility and cross-facility health management & information systems	Develop/expand industry/enterprise data & information systems & clearinghouses (e.g., marketing information systems)	Develop regional infrastructure plans, by subsector (e.g., electrification), focusing on most cost-effective systems, & expand community involvement in infrastructure planning	Develop trade-related data & information systems & clearinghouses (linked to regional & international information systems)	Improve capacity of municipal & private companies to plan, manage & evaluate water & sanitation services & systems, including improving their capacity to recover costs of service
Expand capacity of Palestinian research & extension services	Improve management of educational & training institutions at all levels	Improve capacity of Palestinian institutions to carry out planning & devise policies & programs at the macroeconomic and microeconomic levels	Expand continuing education for health care providers to help ensure quality of care	Expand capacity for and conduct applied research studies of productivity & quality control, including directly & indirectly related factors (e.g., labor/management relations, occupational & environmental health practices, quality control mechanisms)	Conduct demonstration projects on alternative energy sources	Upgrade capacity of Palestinian firms to have competitive advantages (e.g., in new product development, quality control requirements of trading partners, marketing techniques)	Improve capacity of skilled & semi-skilled employees, focusing on new technologies & processes
Expand & improve linkages between Palestinian institutions and foreign public & private sector agricultural research & development institutions	Expand capacity of post-secondary institutions to provide short-term training in marketable skill areas		Develop/adapt practice guidelines for all provider categories & levels of care		Improve capacity of public, quasi-public & private organizations to design/adapt & manage infrastructure financial systems & to recover costs on related services	The U.S. should explore relaxation of any trade barriers on Palestinian products & implementation of favorable trade regulations	Conduct study of water pricing & utilization
Develop/expand an agricultural data & information clearinghouse	Expand capacity of post-secondary institutions to conduct applied research & development projects for the private sector (including expanding facilities & training of faculty)		Expand primary & secondary level care, community-based rehabilitation services, & mental health services to underserved areas		Expand electrification to villages without services & upgrade existing equipment		Develop/improve water & sanitation information systems
	Develop/expand an education & training data and information clearinghouse		Plan and implement regional systems care, to make the most effective and efficient use of scarce resources & improve care delivery	Design & expand support systems for industry/enterprise (e.g., quality control, product testing, consultation for environmental & occupational health & safety, trade)	Develop/adapt certification & standards for physical infrastructure personnel (e.g., electrification), for use in initial and on-going assessment of skills among municipal & quasi-public employees		Develop a water and sanitation data & information clearinghouse
	Develop & improve the design & use of educational assessment materials for use with teachers and students		Improve existing health data & clearinghouses	Improve ergonomics and productive capacity of existing and selected new industries/enterprises			
	Conduct an assessment of university programs to identify potential areas for regional coordination and resource sharing		Develop capacity of Palestinian facilities & health care providers to provide services which are not available in the O.T., if doing so would improve effectiveness & efficiency				
ASSUMES POLITICAL CHANGE							
Expand support for graduate training	Expand construction of new public schools, as necessary	Expand credit for productive private sector through loan guarantees, etc. through donor agencies, international, regional and national banking institutions	Support integrated health systems	Design & develop industrial zones, determined to be appropriate (see above)	Expand communications systems, using appropriate, low-cost technologies	Develop multi-national trade data & information systems	Plan & implement large-scale water & sanitation projects, as necessary
Expand support for improved buildings & laboratories for educational institutions	Expand research & development related to the productive private sector	Expand banking & credit services (branches of existing banks or institutions or new banks or institutions) to geographic areas in which no such services exist	Support public & private health financing mechanisms	Adapt/develop new products through loans or small grants	Expand integrated electrification system, using low-cost appropriate technologies	Develop/expand free trade zones	Expand support for multi-national water & sanitation projects in Middle East
					Expand road network & link with Israeli & Jordanian road networks		

NOTE: This table does not include recommendations concerning donor coordination, nor those related to removal of bureaucratic or other constraints to development.

Table 2.
Linkage Between Sectoral Recommendations & Development Goals & Objectives

Recommended Sectoral Activities	GOAL		Objectives		Improved use of renewable resources
	Improved economic & social well-being of the population	Increased productivity & marketing of agricultural & manufactured goods	Strengthened capacity of both public & private sector institutions to plan & manage on-going & development policies, programs & projects	Improved educational attainment, health, and participation in the workforce on the part of the population	
Across Sectors					
Elimination or alleviation of bureaucratic and other constraints	x	x	x	x	x
Strengthening the capacity of Palestinian public and private sector institutions to plan, manage & evaluate policies, programs & projects at the national, regional and local level	x	x	x	x	x
Improving the development, diffusion, use access to, evaluation & acquisition of technology in the public and private sectors	x	x	x	x	x
Improving management of and access to use of credit and financial services.	x	x	x		x
Improving the collection, analysis & distribution of data & information for use in public and private sector programs & projects, as well as access to relevant GOI and other data and information	x	x	x	x	x
Improving physical infrastructure & water & sanitation systems which support the public & private sectors & meet basic human needs	x	x	x		x
Agriculture					
Short-term relief program, including agricultural feeder roads and land reclamation	x	x		x	x
Improve capacity of Palestinian institutions to plan, manage & evaluate programs & projects	x	x	x	x	
Improve & expand marketing information & support systems	x	x	x	x	x
Expand use of improved irrigation systems, better use of scarce water resources	x	x	x	x	x
Expand and improve crop varieties & livestock production (to enhance marketing potential, improve land and water use)	x	x		x	x
Develop industrial sector in Gaza, in lieu of expansion of agricultural sector, in view of water shortage	x	x		x	x
Expand capacity of Palestinian research & extension services	x	x	x	x	
Expand & improve linkages between Palestinian institutions and foreign public & private sector agricultural research & development institutions	x	x	x	x	x
Develop/expand an agricultural data & information clearinghouse	x	x	x	x	x
Expand support for improved buildings & laboratories for agricultural training	x	x		x	
Expand support for graduate training	x	x	x	x	x

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Table 2, continued

Linkage Between Sectoral Recommendations & Development Goals & Objectives

Recommended Sectoral Activities	GOAL		Objectives		
	Improved economic & social well-being of the population	Increased productivity & marketing of agricultural & manufactured goods	Strengthen the capacity of public & private sector institutions to plan & manage on-going & development policies, programs & projects	Improved educational attainment, health, and participation in the workforce on the part of the population	Improved use of renewable resources
Education					
Improve computer, laboratory & library facilities at public & private K-12 level & post-secondary education & training institutions	x	x	x	x	
Expand & improve private sector initiatives in literacy & distance learning	x	x	x	x	
Physically rehabilitate existing K-12 schools & construct new schools as necessary; include facilities for recreation & community-based education in rehabilitated & new schools	x	x	x	x	
Revise K-12 and post-secondary curriculum, including ensuring linkage of curriculum to development needs & employment opportunities	x	x	x	x	
Expand & improve teacher training in educational theory & practice & in grade levels & subject areas for which they are responsible	x	x	x	x	
Expand availability of new educational technologies at K-12 & post-secondary levels & train teachers in use of same	x	x	x	x	
Improve management of educational & training institutions at all levels	x	x	x	x	
Expand capacity of post-secondary institutions to provide short-term training in marketable skill areas	x	x	x	x	
Expand capacity of post-secondary institutions to conduct applied research & development projects for the private sector (including expanding facilities & training of faculty)	x	x	x	x	
Develop/expand an education & training data and information clearinghouse	x	x	x	x	
Develop & improve the design & use of educational assessment materials for use with teachers and students	x	x	x	x	
Conduct an assessment of university programs to identify potential areas for regional coordination and resource sharing	x	x	x	x	
Expand construction of new public schools, as necessary	x			x	
Expand research & development related to the productive private sector	x	x	x	x	

Table 2, continued
 Linkage Between Sectoral Recommendations & Development Objectives

Recommended Sectoral Activities	GOAL		Objectives		Improved use of renewable resources
	Improved economic & social well-being of the population	Increased productivity & marketing of agricultural & manufactured goods	Strengthened capacity of both public & private sector institutions to plan & manage on-going & development policies, programs & projects	Improved educational attainment, health, and participation in the workforce on the part of the population	
Finance & Credit					
Expand community-based savings & credit institutions (e.g., credit circles)	x	x		x	
Improve capacity of banks, credit institutions & insurance companies to plan, manage & evaluate their activities	x	x			
Develop finance & credit data and information clearinghouse	x	x	x	x	
Expand credit for the productive private sector (e.g., loan guarantees)	x	x	x	x	
Develop the management infrastructure for the finance & credit sector (e.g., policy instruments for financial regulation & standardized credit applications)	x	x	x	x	
Conduct study of capacity of existing institutions to manage larger loans to the productive sector	x	x	x	x	
Conduct study of & plan for broad-based insurance needs	x	x	x	x	
Improve capacity of Palestinian institutions to carry out planning & devise policies & programs at the macroeconomic & microeconomic levels	x	x	x	x	
Expand credit for productive private sector through loan guarantees, etc., through donor agencies, and international, regional and national banking institutions	x	x	x	x	
Expand banking & credit services (branches of existing banks or credit unions or new banks or credit institutions to geographic areas in which no such services exist)	x	x	x	x	

Table 2, continued

Linkage Between Sectoral Recommendations & Development Objectives

Recommended Sectoral Activities	GOAL		Objectives		
	Improved economic & social well-being of the population	Increased productivity & marketing of agricultural & manufactured goods	Strengthened capacity of both public & private sector institutions to plan & manage on-going & development policies, programs & projects	Improved educational attainment, health, and participation in the workforce on the part of the population	Improved use of renewable resources
Health					
Strengthen health systems' planning & management at all levels of the health care system	x		x	x	x
Improve financial management capacity & potential for cost recovery at all facility levels	x		x	x	
Expand facility, regional and inter-regional health planning & needs assessment activities	x		x	x	
Expand & improve capacity of institutions to collect, analyze & disseminate data & information for expanded health education programs (incl. disease prevention & occupational and environmental health, for example)	x		x	x	
Conduct an assessment of existing health research studies & data bases; disseminate results	x		x	x	x
Develop & implement facility & cross-facility health management & information systems	x		x	x	
Expand continuing education for health care providers to help ensure quality of care	x		x	x	x
Develop/adapt practice guidelines for all provider categories & levels of care	x		x	x	x
Expand primary & secondary level care, community-based rehabilitation & mental health services to underserved areas	x		x	x	x
Plan and implement regional systems care, to make the most effective & efficient use of scarce resources & improve care delivery	x		x	x	x
Improve existing health data & clearinghouses	x		x	x	x
Develop capacity of Palestinian health facilities & to offer diagnostic & treatment services not available in the O.T., IF doing so would improve effectiveness efficiency of the system	x		x	x	
Support integrated health systems	x		x	x	
Support public & private health financing mechanisms	x		x	x	

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Table 2, continued

Linkage Between Sectoral Recommendations & Development Objectives

Recommended Sectoral Activities	GOAL	Objectives	public & private sector institutions to plan & manage on-going & development policies, programs & projects	Improved educational attainment, health, and participation in the workforce on the part of the population	Improved use of renewable resources
	Improved economic & social well-being of the population	Increased productivity & marketing of agricultural & manufactured goods			
Industry & Enterprise					
Enhance capacity of industry & enterprises in terms of productivity, quality control, management (financial, personnel, etc.) & research	x	x	x	x	
Develop & expand linkages between Palestinian industry & enterprise & foreign universities research institutions	x	x	x	x	7.
Conduct comprehensive industry/enterprise inter- and intra-regional planning (including for feasibility/appropriateness of industrial zones)	x	x	x	x	x
Strengthen institutions which support industry & enterprise (e.g., Industrial Unions, Chambers of Commerce, & economic development institutions)	x	x	x	x	
Develop/expand industry/enterprise data & information systems & clearinghouses (e.g., marketing information systems)	x	x	x	x	x
Expand capacity for and conduct productivity & quality control, including directly & indirectly related factors (e.g., labor/management relations, occupational & environmental health practices & quality control mechanisms)	x	x	x	x	
Design & expand support systems for industry/enterprise (e.g., quality control, product testing, consultation for occupational health, trade)	x	x	x	x	x
Improve ergonomics and productive capacity of existing and selected new industries/enterprises	x	x	x	x	
Design & develop industrial zones, if determined to be appropriate (see above)	x	x	x	x	x
Adapt/develop new products through loans or small grants	x	x	x	x	x

Table 2, continued

Linkage Between Sectoral Recommendations & Development Objectives

Recommended Sectoral Activities	GOAL	Objectives			
	Improved economic & social well-being of the population	Increased productivity & marketing of agricultural & manufactured goods	public & private sector institutions to plan & manage on-going & development policies, programs & projects	Improved educational attainment, health, and participation in the workforce on the part of the population	Improved use of renewable resources
Infrastructure (Communications, Electrification, Transportation)					
Improve managerial & planning capacity of Palestinians currently or potentially responsible for infrastructure projects	x		x	x	x
Upgrade capacity of skilled and semi-skilled workers in infrastructure	x		x	x	x
Develop computer-based information systems for planning & management of infrastructure projects	x		x	x	x
Upgrade & expand road networks, particularly key market access roads & roads in villages with little or no access to areas having basic services	x		x	x	x
Develop regional infrastructure plans, by subsector, focusing on most cost-effective systems, and expand community involvement in infrastructure planning	x		x	x	x
Conduct demonstration projects on alternative energy sources	x		x	x	x
Improve capacity of public, quasi-public & private organizations to design/adapt & manage infrastructure financial systems & to recover costs of related services	x		x	x	x
Expand electrification to villages without services & upgrade existing equipment	x		x	x	x
Develop/adapt certification & standards for standards for physical infrastructure personnel for use in initial and on-going assessment of skills among municipal & quasi-public employees	x		x	x	x
Expand communications systems, using appropriate, low-cost technologies	x		x	x	x
Expand integrated electrification systems, using low-cost, appropriate technologies	x		x	x	x
Expand road network & link with Israeli & Jordanian road networks	x		x	x	x

Table 2, continued
Linkage Between Sectoral Recommendations & Development Objectives

Recommended Sectoral Activities	GOAL		Objectives		
	Improved economic & social well-being of the population	Increased productivity & marketing of agricultural & manufactured goods	public & private sector institutions to plan & manage on-going & development policies, programs & projects	Improved educational attainment, health, and participation in the workforce on the part of the population	Improved use of renewable resources
Trade					
Conduct marketing studies & surveys to generate require trade-related data	x	x	x	x	
Expand & improve linkages between Palestinian firms and trade institutions & foreign institutions, firms, & business & trade institutions	x	x	x	x	
Expand & improve economic infrastructures which improve domestic & import markets (e.g., capital projects & systems for monitoring quality control)	x	x	x	x	
Expand Palestinian trade missions & related short-term visits to foreign countries	x	x	x	x	
Develop trade-related data & information systems & clearinghouses (linked to regional & international information systems)	x	x	x	x	
Upgrade capacity of Palestinian firms to have competitive advantages (e.g., in new product development, quality control requirements of trading partners, marketing techniques)	x	x	x	x	
Develop multi-national trade data & information systems	x	x	x	x	
Develop/expand free trade zones	x	x	x	x	
Water & Sanitation					
Design & implement small-scale water & sanitation projects in the West Bank & Gaza Strip, using the most appropriate technologies	x	x	x	x	x
Immediate design & implementation of wastewater recycling, large-scale water-catchment & other related projects in the Gaza Strip	x	x	x	x	x
Design & implement small- and medium-scale sanitation projects	x	x	x	x	x
Upgrade capacity of Palestinian institutions to conduct water quality & other environmental studies	x	x	x	x	x
Conduct water, air and other environmental studies, focusing initially on high risk areas	x	x	x	x	x
Improve capacity of municipal & private companies to plan, manage & evaluate water & sanitation services & systems, including improving their capacity to recover costs of services	x		x	x	x
Improve capacity of skilled & semi-skilled employees, focusing on technologies & processes	x		x	x	x
Conduct study of water pricing & utilization	x		x	x	x
Develop/improve water & sanitation information systems	x		x	x	x
Develop a water and sanitation data & information clearinghouses	x		x	x	x
Plan & implement large-scale water & sanitation projects, as necessary	x		x	x	x
Expand support for multi-national water & sanitation projects in Middle East	x		x	x	x